

**Rawlins County Health Center
A Component Unit of Rawlins County, Kansas**

Accountants' Report and Financial Statements

June 30, 2010 and 2009



Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
June 30, 2010 and 2009

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Independent Accountants' Report

Board of Directors
Rawlins County Health Center
Atwood, Kansas

We have audited the accompanying balance sheet of Rawlins County Health Center (Health Center), a component unit of Rawlins County, Kansas, as of June 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Rawlins County Health Center as of and for the year ended June 30, 2009, were audited by other accountants whose report dated February 2, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of Rawlins County Health Center as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Health Center has not presented a management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

BKD LLP

January 19, 2011

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas

Balance Sheets
June 30, 2010 and 2009

Assets

	2010	2009
Current Assets		
Cash	\$ 462,845	\$ 610,139
Patient accounts receivable, net	798,799	503,412
Estimated amounts due from third-party payers	-	235,000
Property taxes receivable	39,180	35,888
Supplies	130,506	86,279
Prepaid expenses and other	48,299	48,322
Total current assets	1,479,629	1,519,040
 Noncurrent Cash and Investments		
Designated by Board of Directors for capital acquisitions	177,077	96,877
Held by Foundation	346,723	237,289
Held by trustee for debt service and capital acquisitions	989,847	185,702
Time restricted trust assets	43,152	43,637
Irrevocable trust	289,763	267,685
	1,846,562	831,190
 Capital Assets, Net	 2,101,405	 1,633,931
 Deferred Financing Costs, Net	 29,461	 11,708
Total assets	\$ 5,457,057	\$ 3,995,869

Liabilities and Net Assets

	2010	2009
Current Liabilities		
Current maturities of long-term debt	\$ 1,138,959	\$ 129,174
Accounts payable	355,104	196,471
Salaries payable	169,844	153,089
Payroll taxes payable	36,000	29,418
Vacation benefits payable	117,960	101,125
Estimated amounts due to third-party payers	40,000	-
Deferred property tax revenue	204,438	221,182
	<hr/>	<hr/>
Total current liabilities	2,062,305	830,459
Long-term Debt	<hr/>	<hr/>
	685,330	759,153
Total liabilities	<hr/>	<hr/>
	2,747,635	1,589,612
Net Assets		
Invested in capital assets, net of related debt	1,127,893	745,604
Restricted		
Expendable for debt service	97,301	185,702
Expendable for capital acquisitions	388,492	237,289
Nonexpendable irrevocable trust	289,763	267,685
Nonexpendable time restricted trust	43,152	43,637
Unrestricted	762,821	926,340
	<hr/>	<hr/>
Total net assets	2,709,422	2,406,257
Total liabilities and net assets	<hr/>	<hr/>
	\$ 5,457,057	\$ 3,995,869

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue	\$ 4,255,613	\$ 4,065,272
Assisted living	131,464	115,553
Other	33,083	24,425
	4,420,160	4,205,250
Operating Expenses		
Salaries and wages	2,507,006	2,444,698
Supplies and other	2,078,607	2,198,500
Depreciation and amortization	226,507	205,727
	4,812,120	4,848,925
Operating Loss	(391,960)	(643,675)
Nonoperating Revenues (Expenses)		
Property taxes	432,175	476,157
Interest income (loss)	31,936	(21,695)
Interest expense	(48,307)	(57,303)
Noncapital grants and gifts	76,719	61,135
	492,523	458,294
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts	100,563	(185,381)
Capital Grants and Gifts	202,602	298,922
Increase in Net Assets	303,165	113,541
Net Assets, Beginning of Year	2,406,257	2,292,716
Net Assets, End of Year	\$ 2,709,422	\$ 2,406,257

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows
Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 4,235,226	\$ 3,971,152
Payments to suppliers and contractors	(2,051,862)	(2,144,366)
Payments to employees	(2,473,416)	(2,507,172)
Other receipts	164,547	139,978
	<u>(125,505)</u>	<u>(540,408)</u>
Noncapital Financing Activities		
Property taxes supporting operations	412,139	461,366
Noncapital grants and gifts	76,719	61,135
	<u>488,858</u>	<u>522,501</u>
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	1,530,000	-
Payment of deferred financing costs	(20,798)	-
Purchase of capital assets	(560,900)	(304,020)
Principal paid on long-term debt	(629,808)	(109,345)
Interest paid on long-term debt	(48,307)	(57,303)
Capital grants and gifts	93,168	61,633
	<u>363,355</u>	<u>(409,035)</u>
Investing Activities		
Interest income received	10,343	17,922
Purchase of certificate of deposit	(50,000)	-
Proceeds from disposition of certificate of deposit	100,000	-
	<u>60,343</u>	<u>17,922</u>
Increase (Decrease) in Cash	787,051	(409,020)
Cash , Beginning of Year	<u>792,718</u>	<u>1,201,738</u>
Cash, End of Year	<u>\$ 1,579,769</u>	<u>\$ 792,718</u>
Reconciliation of Cash		
Cash in current assets	\$ 462,845	\$ 610,139
Noncurrent cash and investments	1,116,924	182,579
	<u>\$ 1,579,769</u>	<u>\$ 792,718</u>

Rawlins County Health Center
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Statements of Cash Flows (Continued)
Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (391,960)	\$ (643,675)
Depreciation and amortization	226,507	205,727
Provision for uncollectible accounts	113,627	95,747
Changes in operating assets and liabilities		
Patient accounts receivable, net	(409,014)	45,133
Estimated amounts due from and to third-party payers	275,000	(235,000)
Inventories	(44,227)	40,499
Other current assets	23	(4,501)
Accounts payable and accrued expenses	104,539	(44,338)
	<u>\$ (125,505)</u>	<u>\$ (540,408)</u>

Supplement Cash Flows Information

The increase (decrease) in fair value of the irrevocable trust and the time restricted trust totaled \$21,593 and \$(39,617) for 2010 and 2009, respectively.

The Health Center entered into capital lease obligations of \$35,770 and \$63,300 in 2010 and 2009, respectively.

Capital assets acquisitions included in accounts payable totaled \$94,266 at June 30, 2010.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2010 and 2009

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Rawlins County Health Center (Health Center) is owned by Rawlins County (County) and governed by an elected Board of Directors. The Health Center is considered to be a component unit of the County. The Health Center provides health care services and is located in Atwood, Kansas.

Basis of Accounting and Presentation

The financial statements of the Health Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Health Center first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Health Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Health Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Health Center considers all highly liquid investments with original maturities of three months or less (other than noncurrent cash and investments) to be cash equivalents. There are no cash equivalents at June 30, 2010 and 2009, respectively.

Rawlins County Health Center
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Notes to Financial Statements
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Budgetary Principles

The Health Center is required by state statutes to adopt an annual budget for the unrestricted funds on or before August 25 for the ensuing year. The Health Center's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of expenditures of the fund which is prepared on a calendar year basis.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted unrestricted funds, representing purchase orders, contracts and other commitments, are reported as a charge to the current budget year. All unencumbered appropriations lapse at the end of the year.

Patient Accounts Receivable, Net

The Health Center reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Health Center provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Health Center bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Noncurrent Cash and Investments

Noncurrent cash and investments include designated assets set aside by the Board of Directors for capital acquisitions, over which the Board retains control and may at its discretion subsequently use for other purposes. Also included in noncurrent cash and investments are assets restricted for operating purposes, restricted for capital purposes, restricted for debt service, funds held by the Foundation, time restricted trust assets and an irrevocable trust. The funds are invested in certificates of deposits totaling \$50,000 and \$100,000 at June 30, 2010 and 2009, respectively. The remaining funds are cash.

Rawlins County Health Center
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June 30, 2010 and 2009

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Health Center:

Land improvements	20 years
Buildings	10-50 years
Fixed equipment	10-20 years
Moveable equipment	5-20 years

Deferred Financing Costs, Net

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Compensated Absences

Health Center policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Health Center are classified in six components. Net assets invested in capital assets net of related debt, consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital net assets that must be used for a particular purpose, as specified by grantors external to the Health Center, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net assets equal the

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Notes to Financial Statements
June 30, 2010 and 2009

principal portions of an irrevocable trust and time restricted trust assets. The time restricted trust assets have a time restriction that expires in year 2026. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted. Of the unrestricted net assets reported in 2010 and 2009, \$177,077 and \$96,877, respectively, has been designated by the Board of Directors for capital acquisitions.

Charity Care

The Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Health Center's charity care policy were \$14,999 and \$12,316 for June 30, 2010 and 2009, respectively.

Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the calendar year are not due and receivable until the ensuing year. At June 30, such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies. Also, an amount has been recorded as deferred revenue on the balance sheet representing unearned revenue.

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June 30, 2010 and 2009

Risk Management

The Health Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through January 19, 2011, which is the date the financial statements were available to be issued (see *Note 15*).

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Health Center's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

	2010	2009
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Health Center's name	\$ 819,483	\$ -

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2010 and 2009

Note 3: Net Patient Service Revenue

The Health Center has agreements with third-party payers that provide for payments to the Health Center at amounts different from its established rates. These payment arrangements include:

Medicare. The Health Center is licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Health Center and audit thereof by the Medicare administrative contractor.

Medicaid. The Medicaid state plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Health Center is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Health Center and reviews thereof by the Kansas Health Policy Authority. The Health Center is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 79% and 81% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Health Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue is computed as follows for the years ending June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 4,389,989	\$ 3,822,466
Less contractual adjustments		
Medicare	350,346	579,614
Medicaid	(97,300)	(21,518)
Other contractals and adjustments	(273,795)	(219,543)
Provision for uncollectible accounts	(113,627)	(95,747)
	<u> </u>	<u> </u>
Net patient service revenue	<u>\$ 4,255,613</u>	<u>\$ 4,065,272</u>

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2010 and 2009

Note 4: Patient Accounts Receivable

Patient accounts receivable are recorded net of the allowance for contractual adjustments and the allowance for uncollectible accounts at June 30 as follows:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 428,865	\$ 221,730
Medicaid	11,593	66,128
Blue Cross	119,206	118,235
Other third-party payers	72,106	51,211
Self-pay	112,263	125,341
	<u>744,033</u>	<u>582,645</u>
Allowance for contractual adjustments	87,438	(10,223)
Allowance for uncollectible accounts	<u>(32,672)</u>	<u>(69,010)</u>
	<u><u>\$ 798,799</u></u>	<u><u>\$ 503,412</u></u>

The change in the Health Center's allowance for uncollectible accounts is as follows for the years ending June 30:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 69,010	\$ 45,619
Provision for uncollectible accounts	113,627	95,747
Accounts written off	(285,023)	(224,716)
Recoveries	135,058	152,360
	<u>135,058</u>	<u>152,360</u>
Ending balance	<u><u>\$ 32,672</u></u>	<u><u>\$ 69,010</u></u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2010 and 2009

Note 6: Noncurrent Cash and Investments – Held by Foundation

Rawlins County Health Foundation (Foundation) was established to improve medical, hospital or other health care services in Rawlins County, Kansas. The Health Center does not have control over the Foundation and the Foundation has not been included into the Health Center's financial statements. The Health Center was awarded tax credits during 2010 and 2009, and the contributions from donors related to these tax credit awards were deposited in the bank account of an affiliate, Area Community Enrichment Foundation (ACE). Tax credits held by the Foundation total \$307,421 and \$201,128 at June 30, 2010 and 2009, respectively. Additional balances held by the Foundation are restricted by donor for Health Center capital acquisitions and total \$39,302 and \$36,161 at June 30, 2010 and 2009, respectively.

Note 7: Long-term Debt

In March 2010, the County issued 2% to 4.25% Kansas Hospital Refunding and Improvement Revenue Bonds, Series 2010, totaling \$1,530,000 with varying maturities through March 1, 2016, secured solely by a pledge of gross revenue on behalf of the Health Center. The Series 2010 Revenue Bonds were used to provide funds for renovation projects to the Health Center and for redemption of the Series 1996 Revenue Bonds. See *Note 15* for the subsequent event which included the retirement of the Series 2010 Revenue Bonds.

In July 1996, the County issued 6% to 7% Limited Care Residential Facility Revenue Bonds, Series 1996, totaling \$1,105,000 with varying maturities through July 1, 2016, secured solely by a pledge of gross revenue on behalf of the Health Center. The Series 1996 Revenue Bonds were used to provide funds to construct a 20-unit limited care residential retirement facility. The Series 1996 Revenue Bonds are special obligations of the County, payable solely from and secured by a pledge of gross revenue derived from the operation of the Health Center. The Series 1996 Revenue Bonds do not constitute a general obligation of the County. During 2010, the Series 1996 Revenue Bonds were retired from the proceeds of the Series 2010 Revenue Bonds.

The Health Center is obligated under leases for equipment at various interest rates with maturities ranging from 2010 to 2022.

The following is a summary of long-term debt transactions for the Health Center for the years ended June 30:

	2010					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2010 Revenue Bonds payable	\$ -	\$1,530,000	\$ -	\$1,530,000	\$1,100,000	\$ 430,000
Series 1996 Revenue Bonds payable	565,000	-	565,000	-	-	-
Capital lease obligations	323,327	35,770	64,808	294,289	38,959	255,330
	<u>\$ 888,327</u>	<u>\$1,565,770</u>	<u>\$ 629,808</u>	<u>\$1,824,289</u>	<u>\$1,138,959</u>	<u>\$ 685,330</u>

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2010 and 2009

	2009					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 1996 Revenue						
Bonds payable	\$ 625,000	\$ -	\$ 60,000	\$ 565,000	\$ 65,000	\$ 500,000
Capital lease obligations	309,372	63,300	49,345	323,327	64,174	259,153
	\$ 934,372	\$ 63,300	\$ 109,345	\$ 888,327	\$ 129,174	\$ 759,153

Under the terms of the bond indentures, the Health Center is required to maintain certain revenue bond funds. These funds are included in noncurrent cash and investments – held by trustee for debt service and capital acquisitions in the accompanying balance sheets and consist of the following at June 30:

	2010	2009
Debt service	\$ 47,301	\$ 185,702
Bond reserve funds	50,000	100,000
Project funds	892,546	-
	\$ 989,847	\$ 285,702

Scheduled principal and interest payments on long-term debt are as follows:

	Revenue Bonds Payable		Capital Leases	
	Principal	Interest	Principal	Interest
Year Ending June 30,				
2011	\$ 1,100,000	\$ 27,063	\$ 38,959	\$ 12,828
2012	85,000	14,681	33,323	11,409
2013	90,000	11,725	34,782	9,950
2014	90,000	8,463	35,457	8,401
2015	95,000	4,875	13,872	7,300
2016-2020	70,000	1,488	80,034	25,826
2021-2025	-	-	57,862	5,654
	\$ 1,530,000	\$ 68,295	\$ 294,289	\$ 81,368

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The following is an analysis of the financial presentation of the capitalized leases at June 30:

	2010	2009
Equipment	\$ 514,235	\$ 478,464
Less accumulated depreciation	270,374	189,079
	\$ 243,861	\$ 289,385

Note 8: Concentration of Credit Risk

The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. The mix of gross accounts receivables from patients and third-party payers at June 30, 2010 and 2009, are as follows:

	2010	2009
Medicare	58%	41%
Medicaid	2%	12%
Blue Cross	15%	15%
Other third-party payers	10%	9%
Self-pay	15%	23%
	100%	100%

Note 9: Pension Plan

The Health Center maintains a contributory pension plan which requires mandatory contributions from all participating employees. Benefits are funded by a money purchase annuity with an insurance company. Employee and employer contributions are computed at 8% of annual eligible compensation respectively. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan (March 1, 1976) to the employee's normal retirement date. All employer contributions made before January 1, 1996, are 100% vested. After January 1, 1996, employer contributions up to the social security taxable wage base are 100% vested. Additional employer contributions will vest after three years of service with 100% vesting after five years of service. Contributions actually made by plan members and the Health Center each aggregated \$199,904 and \$202,852 during 2010 and 2009, respectively.

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Note 10: Compliance with Kansas Law

Kansas statutes require that fixed budgets be legally adopted for the unrestricted funds. As more fully described in *Note 1*, the unrestricted funds budget is prepared utilizing the modified accrual basis of accounting. Actual expenditures compared to budgeted expenditures for the Health Center's unrestricted funds on a calendar year basis are as follows:

	Unrestricted Funds
Budgeted expenditures	\$ 5,752,751
Actual expenditures	4,667,211
Under budget	\$ 1,085,540

Note 11: Management Agreement

The Board of Directors of the Health Center has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Health Center. Fees incurred under the management agreement were \$84,451 and \$81,203 for 2010 and 2009, respectively. Additional fees paid to GPHA for services provided under this agreement were \$15,974 and \$18,011 for 2010 and 2009, respectively.

The Health Center entered into an agreement with Midwest Health Systems, Inc. (MHS) for data processing services. MHS was a wholly-owned subsidiary of GPHA until it was dissolved effective October 2008. GPHA assumed the agreement which was amended for a five-year term set to expire August 2010 with annual renewal options thereafter. Fees incurred under this agreement totaled \$89,874 and \$100,906 in 2010 and 2009, respectively. Additional fees paid to GPHA for services provided under this agreement were \$16,550 and \$18,524 for 2010 and 2009, respectively.

Note 12: Medical Malpractice Coverage and Claims

The Health Center purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Health Center's claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
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Note 13: Commitments

The Health Center signed several commitments for the Health Center's addition and renovation project. An agreement was signed with an architect for a fee of 8.25% of the total project cost (estimated to be \$7,300,000). As of June 30, 2010, \$302,649 has been paid and is capitalized in construction in progress in relation to this commitment.

The Health Center has also signed a commitment with two general contractors. The aggregate estimated cost of these commitments is \$1,662,651 and as of June 30, 2010, \$179,700 has been paid and is capitalized in construction in progress in relation to these commitments.

Note 14: Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Health Center.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Health Center's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Health Center's ability to maintain sufficient liquidity.

Note 15: Subsequent Events

Subsequent to year-end on November 12, 2010, the County issued Hospital Revenue Bond Anticipation Refunding and Improvement Bonds Series 2010-B (Series 2010-B Bonds). The Series 2010-B Bonds were issued in the amount of \$7,000,000 at an interest rate of 1.75% and have a stated maturity of November 1, 2012. \$1,100,000 of the proceeds from the Series 2010-B bonds was used to refund a portion of the Series 2010 Revenue Bonds. The Health Center's intent is to use the proceeds from the Series 2010-B Bonds to fund the Health Center's addition and renovation project until the project is completed. The Health Center received notification on August 27, 2010, that loan funds in the amount of \$7,000,000 have been reserved for the community facility project under the American Recovery and Reinvestment Act.