

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center**

Accountants' Report and Financial Statements

September 30, 2011 and 2010



**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center  
September 30, 2011 and 2010**

**Contents**

<b>Independent Accountants' Report on Financial Statements and Supplementary Information .....</b>	<b>1</b>
<b>Management's Discussion and Analysis .....</b>	<b>3</b>
<b>Financial Statements</b>	
Balance Sheets .....	7
St. Luke Hospital Foundation – Statements of Financial Position .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	9
St. Luke Hospital Foundation – Statements of Activities.....	10
Statements of Cash Flows .....	11
Notes to Financial Statements .....	13
<b>Supplementary Information</b>	
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget.....	27
Insurance Coverage .....	28

## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors  
Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center  
Marion, Kansas

We have audited the accompanying balance sheets of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center and its discretely presented component unit as of September 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center and its discretely presented component unit as of September 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors  
Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center  
Page 2

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, including the comparison of revenues and expenses (cash basis) – actual to tax budget required by the Kansas Municipal Audit Guide and schedule of insurance coverage, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of insurance coverage has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The comparison of revenues and expenses (cash basis) – actual to tax budget has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*BKD, LLP*

February 27, 2012

# **Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center**

## **Management's Discussion and Analysis Years Ended September 30, 2011 and 2010**

### ***Introduction***

This management's discussion and analysis of the financial performance of St. Luke Hospital and Living Center (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

### ***Financial Highlights***

- Cash and cash equivalents and short-term certificates of deposit increased in 2011 by \$589,690 or 28% and decreased by \$398,896 or 16% in 2010.
- Accounts receivable decreased by \$68,278 or 7% in 2011 and increased by \$161,229 or 21% in 2010.
- The Hospital's net assets increased by \$513,866 or 12% and \$170,791 or 4% in 2011 and 2010, respectively.
- The Hospital reported operating losses in both 2011 (\$366,715) and 2010 (\$567,667). The operating loss in 2011 decreased by \$200,952 or 35% over the operating loss reported in 2010. The operating loss in 2010 increased by \$364,718 or 180% from the operating loss reported in 2009.

### ***Using This Annual Report***

The Hospital's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets – the difference between assets and liabilities – are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of

whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

### ***The Hospital's Net Assets***

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets increased by \$513,866 or 12% in 2011 over 2010, and increased by \$170,791 or 4% in 2010 over 2009, as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Assets</b>			
Cash and short-term certificate of deposits	\$ 2,704,038	\$ 2,114,348	\$ 2,513,244
Restricted cash - held under bond indenture	978,871	5,838,777	-
Patient accounts receivable, net	878,950	947,228	785,999
Estimated amounts due from Medicare and Medicaid	130,000	325,000	185,000
Other current assets	326,357	200,134	205,824
Other noncurrent assets	169,180	177,024	-
Capital assets, net	7,085,154	1,880,057	1,713,154
Total assets	<u>\$ 12,272,550</u>	<u>\$ 11,482,568</u>	<u>\$ 5,403,221</u>
<b>Liabilities</b>			
Long-term debt, including current portion	\$ 6,181,278	\$ 6,148,290	\$ 430,392
Accounts payable and accrued expenses	524,125	277,455	189,550
Accrued interest expense	154,363	180,090	-
Accrued wages and benefits	442,234	420,049	497,386
Total liabilities	<u>7,302,000</u>	<u>7,025,884</u>	<u>1,117,328</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	1,272,833	1,208,075	1,282,762
Restricted expendable	626,874	610,747	-
Unrestricted	3,070,843	2,637,862	3,003,131
Total net assets	<u>4,970,550</u>	<u>4,456,684</u>	<u>4,285,893</u>
Total liabilities and net assets	<u>\$ 12,272,550</u>	<u>\$ 11,482,568</u>	<u>\$ 5,403,221</u>

Significant changes in the Hospital's assets in 2011 include a decrease in restricted cash and an increase in capital assets, net. Restricted cash balances declined and capital assets, net increased due to the release of restriction placed on the bond funds which were utilized for construction purchases in the current year. The project and bonds will be discussed in greater detail below.

Significant changes in the Hospital's assets in 2010 were the decrease in cash and increase in accounts receivable.

### ***Operating Results and Changes in the Hospital's Net Assets***

In 2011, the Hospital's net assets increased by \$513,866 or 12%, as shown in Table 2. This increase is made up of several different components. The Hospital's change in net assets increased by \$170,791 or 4% in 2010.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 7,074,466	\$ 6,649,047	\$ 6,817,715
Other operating revenues	110,403	122,352	106,536
Total operating revenues	<u>7,184,869</u>	<u>6,771,399</u>	<u>6,924,251</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	3,804,066	3,685,200	3,723,956
Purchased services and professional fees	1,852,456	1,749,531	1,575,993
Depreciation	314,929	399,488	412,737
Other operating expenses	1,580,133	1,504,847	1,414,514
Total operating expenses	<u>7,551,584</u>	<u>7,339,066</u>	<u>7,127,200</u>
<b>Operating Loss</b>	<u>(366,715)</u>	<u>(567,667)</u>	<u>(202,949)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	696,157	703,061	711,086
Interest income	21,163	24,199	35,385
Noncapital grants and gifts	187,151	23,386	47,319
Interest expense	(23,890)	(12,188)	(26,015)
Total nonoperating revenues	<u>880,581</u>	<u>738,458</u>	<u>767,775</u>
<b>Increase in Net Assets</b>	<u>\$ 513,866</u>	<u>\$ 170,791</u>	<u>\$ 564,826</u>

### ***Operating Loss***

The first component of the overall change in the Hospital's net assets is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2011 decreased by \$200,952 or 35% as compared to 2010. The primary components of the decreased operating loss are:

- An increase in net patient service of \$425,419 or 5%
- An increase in salaries and wages and employee benefits of \$118,866 or 3%
- An increase in purchased services and professional fees of \$102,925 or 6%

The operating loss for 2010 increased by \$364,718 or 180% as compared to 2009. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$168,668 or 2%
- An increase in purchased services and professional fees of \$173,538 or 11%
- An increase in other operating expenses of \$90,333 or 6%

### ***Nonoperating Revenues***

Nonoperating revenues consist principally of property taxes and noncapital grants and gifts. Property tax revenue remained relatively stable in all three years. The Hospital receives noncapital grants and gifts from various state and federal agencies and individuals. Noncapital grants and gifts received in 2011 totaled \$187,151 as compared to \$23,386 in 2010 and \$47,319 in 2009.

### ***The Hospital's Cash Flows***

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues, discussed earlier.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2011, the Hospital had \$7,085,154 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. The Hospital purchased new equipment costing \$5,526,998 and \$566,391 in 2011 and 2010, respectively. The majority of the capital purchases made in both 2011 and 2010 were related to the building project that was started in August 2010. The \$6.2 million dollar renovation was completed in December 2011.

#### **Debt**

At September 30, 2011, the Hospital had \$6,181,278 in bond and capital lease obligations outstanding, as detailed in *Note 7* to the financial statements. The Hospital issued bonds in May 2010 to fund the building project that was started in August 2010 and is scheduled to be completed late fall 2011.

### ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 620.382.2177.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Balance Sheets

September 30, 2011 and 2010

### Assets

	2011	2010
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,245,928	\$ 1,662,491
Short-term certificates of deposit	458,110	451,857
Restricted cash - held under bond indenture	196,030	180,090
Patient accounts receivable, net of allowance; 2011 - \$317,300; 2010 - \$295,000	878,950	947,228
Estimated amounts due from third-party payers	130,000	325,000
Supplies	120,715	112,815
Prepaid expenses and other	205,642	87,319
Total current assets	4,235,375	3,766,800
<b>Noncurrent Cash and Investments</b>		
Held under bond indenture for capital acquisitions	351,997	5,228,030
Held under bond indenture for debt service	430,844	430,657
	782,841	5,658,687
<b>Capital Assets, Net</b>	7,085,154	1,880,057
<b>Deferred Bond Costs</b>	169,180	177,024
Total assets	\$ 12,272,550	\$ 11,482,568

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 84,143	\$ 148,290
Accounts payable	524,125	277,455
Accrued expenses	<u>596,597</u>	<u>600,139</u>
Total current liabilities	1,204,865	1,025,884
<b>Long-term Debt</b>	<u>6,097,135</u>	<u>6,000,000</u>
Total liabilities	<u>7,302,000</u>	<u>7,025,884</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,272,833	1,208,075
Restricted - expendable for		
Debt service	626,874	610,747
Unrestricted	<u>3,070,843</u>	<u>2,637,862</u>
Total net assets	<u>4,970,550</u>	<u>4,456,684</u>
Total liabilities and net assets	<u>\$ 12,272,550</u>	<u>\$ 11,482,568</u>

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center  
St. Luke Hospital Foundation  
Statements of Financial Position  
Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010 (Restated - Note 11)</b>
<b>Assets</b>		
Cash	\$ 631,876	\$ 443,198
Short-term certificates of deposit	56,359	55,954
Long-term certificates of deposit	59,306	58,523
Contributions receivable	281,074	415,093
Total assets	\$ 1,028,615	\$ 972,768
 <b>Unrestricted Net Assets</b>	 \$ 1,028,615	 \$ 972,768

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center**

**Statements of Revenues, Expenses and Changes in Net Assets  
Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$278,000, 2010 – \$229,000	\$ 7,074,466	\$ 6,649,047
Other	110,403	122,352
Total operating revenues	7,184,869	6,771,399
<b>Operating Expenses</b>		
Salaries and wages	3,170,092	3,079,243
Employee benefits	633,974	605,957
Purchased services and professional fees	1,852,456	1,749,531
Supplies and other	1,580,133	1,504,847
Depreciation	314,929	399,488
Total operating expenses	7,551,584	7,339,066
<b>Operating Loss</b>	(366,715)	(567,667)
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	696,157	703,061
Interest income	21,163	24,199
Interest expense	(23,890)	(12,188)
Noncapital grants and gifts	187,151	23,386
Total nonoperating revenues	880,581	738,458
<b>Increase in Net Assets</b>	513,866	170,791
<b>Net Assets, Beginning of Year</b>	4,456,684	4,285,893
<b>Net Assets, End of Year</b>	\$ 4,970,550	\$ 4,456,684

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center  
St. Luke Hospital Foundation  
Statements of Activities  
Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010 (Restated - Note 11)</b>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Contributions	\$ 166,953	\$ 951,828
Interest income	3,439	2,497
Total revenues, gains and other support	170,392	954,325
<b>Unrestricted Expenses</b>		
Support to St. Luke Hospital and Living Center	114,545	164,683
Total expenses	114,545	164,683
<b>Change in Unrestricted Net Assets</b>	55,847	789,642
<b>Unrestricted Net Assets, Beginning of Year</b>	972,768	183,126
<b>Unrestricted Net Assets, End of Year</b>	\$ 1,028,615	\$ 972,768

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Statements of Cash Flows Years Ended September 30, 2011 and 2010

	2011	2010
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 7,337,744	\$ 6,347,818
Payments to suppliers and contractors	(3,589,736)	(3,230,857)
Payments to and on behalf of employees	(3,807,608)	(3,582,447)
Other receipts (payments), net	116,375	122,352
Net cash provided by (used in) operating activities	56,775	(343,134)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	696,157	703,061
Noncapital grants and gifts	187,151	23,386
Net cash provided by noncapital financing activities	883,308	726,447
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(161,737)	(282,102)
Proceeds from issuance of long-term debt	-	6,000,000
Payment of bond issuance costs	7,844	(177,024)
Interest paid on long-term debt	(23,890)	(12,188)
Purchase of capital assets	(5,054,679)	(496,317)
Proceeds from disposal of capital assets	1,000	-
Net cash provided by (used in) capital and related financing activities	(5,231,462)	5,032,369
<b>Investing Activities</b>		
Interest income	21,163	24,199
Purchase of certificates of deposit	(356,488)	(900,893)
Maturities of certificates of deposit	350,235	1,115,808
Net change in construction escrow and debt-related accounts	4,859,906	(5,838,777)
Net cash provided by (used in) investing activities	4,874,816	(5,599,663)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	583,437	(183,981)
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,662,491	1,846,472
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,245,928	\$ 1,662,491

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center**

**Statements of Cash Flows (Continued)  
Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Net Operating Loss to Cash Used in Operating Activities</b>		
Operating loss	\$ (366,715)	\$ (567,667)
Depreciation	314,929	399,488
Loss on disposal of capital assets	5,972	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	68,278	(161,229)
Estimated amounts due from and to Medicare	195,000	(140,000)
Accounts payable and accrued expenses	(34,466)	120,584
Other assets and liabilities	(126,223)	5,690
Net cash provided by (used in) operating activities	\$ 56,775	\$ (343,134)
<b>Supplemental Cash Flows Information</b>		
Capital lease obligation incurred for capital assets	\$ 194,725	\$ -
Capital assets additions included in accounts payable	\$ 277,594	\$ 70,074

# **Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center**

## **Notes to Financial Statements**

**September 30, 2011 and 2010**

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

#### ***Nature of Operations and Reporting Entity***

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (Hospital) owns and operates an acute care hospital located in Marion, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency and residential long-term care services in the Marion County area. It also operates a home health agency in the same geographic area.

#### ***Basis of Accounting and Presentation***

The financial statements of the Hospital 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. Operating revenues and expenses include exchange transactions. Property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital 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 Hospital 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 Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and 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 Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

### ***Property Taxes***

The Hospital received approximately 9% of its financial support from property taxes in both 2011 and 2010. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

### ***Risk Management***

The Hospital 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.

### ***Investments and Investment Income***

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income.

### ***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

### ***Supplies***

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

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

### **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 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 Hospital:

Land improvements	10 years
Buildings	10 – 50 years
Fixed equipment	3 – 20 years
Major moveable equipment	3 – 20 years

### **Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. 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 Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

### **Net Patient Service Revenue**

The Hospital has agreements with third-party payers that provide for payments to the Hospital 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.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

### **Charity Care**

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

### **Income Taxes**

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

### **Foundation**

St. Luke Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the Foundation's by-laws restrict its resources and related income to be used for the benefit of the Hospital. Because these resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the fiscal years ended September 30, 2011 and 2010, the Foundation provided \$114,545 and \$164,683 of support to the Hospital, respectively. Complete financial statements of the Foundation may be obtained from its administrative office at the following address: P.O. Box 12, Marion, Kansas 66861.

### **Subsequent Events**

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

## **Note 2: Net Patient Service Revenue**

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

*Medicare.* The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

*Medicaid.* The Hospital is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid rural health clinic services are reimbursed under a cost-based methodology. The Hospital and rural health clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$70,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 54% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2011 and 2010. 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 Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

### **Note 3: Deposits, Investments and Investment Income**

#### ***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 Hospital'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.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

At September 30, 2011 and 2010, respectively, \$2,757,438 and \$1,507,449 of the Hospital's bank balance of \$3,717,326 and \$3,777,878 was exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 2,757,438	\$ 1,507,449

### **Investments**

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At September 30, 2011 and 2010, the Hospital had the following investments and maturities:

Type	Fair Value	2011 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
		Cash and cash equivalents	\$ 548,027	\$ 548,027	\$ -
State of Kansas municipal obligations	430,844	430,844	-	-	-
	\$ 978,871	\$ 978,871	\$ -	\$ -	\$ -

Type	Fair Value	2010 Maturities in Years			
		Less Than 1	1-5	6-10	More Than 10
		Cash and cash equivalents	\$ 1,524,460	\$ 1,524,460	\$ -
State of Kansas municipal obligations	4,314,317	4,314,317	-	-	-
	\$ 5,838,777	\$ 5,838,777	\$ -	\$ -	\$ -

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

### **Summary of Carrying Values**

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<b>2011</b>	<b>2010</b>
Carrying value		
Deposits	\$ 2,703,738	\$ 2,114,048
Petty cash	300	300
Investments	978,871	5,838,777
	\$ 3,682,909	\$ 7,953,125

Included in the following balance sheet captions:

	<b>2011</b>	<b>2010</b>
Cash and cash equivalents	\$ 2,245,928	\$ 1,662,491
Short-term certificates of deposit	458,110	451,857
Restricted cash - held under bond indenture	196,030	180,090
Held under bond indenture for capital acquisitions	351,997	5,228,030
Held under bond indenture for debt service	430,844	430,657
	\$ 3,682,909	\$ 7,953,125

### **Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2011 and 2010, consisted of:

	<b>2011</b>	<b>2010</b>
Medicare	\$ 242,318	\$ 247,771
Medicaid	4,539	67,802
Blue Cross	121,406	132,095
Other third-party payers	160,443	174,394
Patients	667,544	620,166
	1,196,250	1,242,228
Less allowance for uncollectible accounts	317,300	295,000
	\$ 878,950	\$ 947,228

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

### Note 5: Capital Assets

Capital assets activity for the years ended September 30, 2011 and 2010, was:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 28,253	\$ -	\$ -	\$ -	\$ 28,253
Land improvements	50,908	-	-	-	50,908
Buildings	2,250,221	-	-	-	2,250,221
Construction in progress	581,046	5,302,076	-	(180,608)	5,702,514
Fixed equipment	963,139	-	-	-	963,139
Major moveable equipment	<u>2,655,572</u>	<u>224,922</u>	<u>(20,229)</u>	<u>180,608</u>	<u>3,040,873</u>
	<u>6,529,139</u>	<u>5,526,998</u>	<u>(20,229)</u>	<u>-</u>	<u>12,035,908</u>
Less accumulated depreciation					
Land improvements	50,908	-	-	-	50,908
Buildings	1,529,530	71,062	-	-	1,600,592
Fixed equipment	923,747	12,591	-	-	936,338
Major moveable equipment	<u>2,144,897</u>	<u>231,276</u>	<u>(13,257)</u>	<u>-</u>	<u>2,362,916</u>
	<u>4,649,082</u>	<u>314,929</u>	<u>(13,257)</u>	<u>-</u>	<u>4,950,754</u>
Capital Assets, Net	<u>\$ 1,880,057</u>	<u>\$ 5,212,069</u>	<u>\$ (6,972)</u>	<u>\$ -</u>	<u>\$ 7,085,154</u>

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 28,253	\$ -	\$ -	\$ -	\$ 28,253
Land improvements	50,908	-	-	-	50,908
Buildings	2,250,221	-	-	-	2,250,221
Construction in progress	57,355	523,691	-	-	581,046
Fixed equipment	963,139	-	-	-	963,139
Major moveable equipment	2,631,239	42,700	(18,367)	-	2,655,572
	5,981,115	566,391	(18,367)	-	6,529,139
Less accumulated depreciation					
Land improvements	50,908	-	-	-	50,908
Buildings	1,454,685	74,845	-	-	1,529,530
Fixed equipment	903,477	20,270	-	-	923,747
Major moveable equipment	1,858,891	304,373	(18,367)	-	2,144,897
	4,267,961	399,488	(18,367)	-	4,649,082
Capital Assets, Net	\$ 1,713,154	\$ 166,903	\$ -	\$ -	\$ 1,880,057

### Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
2010 revenue bonds					
Series A	\$ 4,600,000	\$ -	\$ -	\$ 4,600,000	\$ -
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	148,290	194,725	(161,737)	181,278	84,143
Total long-term debt	\$ 6,148,290	\$ 194,725	\$ (161,737)	\$ 6,181,278	\$ 84,143

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
2010 revenue bonds					
Series A	\$ -	\$ 4,600,000	\$ -	\$ 4,600,000	\$ -
Series B	-	1,400,000	-	1,400,000	-
Capital lease obligations	430,392	-	(282,102)	148,290	148,290
Total long-term debt	\$ 430,392	\$ 6,000,000	\$ (282,102)	\$ 6,148,290	\$ 148,290

### 2010 Revenue Bonds

The 2010 bond issue consists of Series A taxable bonds in the original amount of \$4,600,000 and Series B tax-exempt bonds in the original amount of \$1,400,000 dated May 1, 2010, which bear interest at 8.72% and 6.25%, respectively. The Series A bonds were issued as part of the Build America Bonds program and are subject to a 35% rebate of interest paid. The Bonds are payable in annual installments through December 1, 2040. The Hospital is required to make monthly transfers of approximately \$46,000 to the debt service fund. Proceeds from the issuance of these bonds were used for renovation of the Hospital. The Bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

The indenture agreements require that certain funds be established. Accordingly, these funds are included as funds held under bond indenture in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including minimum insurance coverage, restrictions on incurrence of additional debt and maintaining a historical debt-service coverage ratio of at least 1.15 during construction and at least 1.40 thereafter. For the year ended September 30, 2011, the Hospital's historical debt-service coverage ratio was 1.34.

The debt service requirements as of September 30, 2011, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2012	\$ 512,275	\$ 50,000	\$ 462,275
2013	559,463	100,000	459,463
2014	555,088	100,000	455,088
2015	550,088	100,000	450,088
2016	548,990	105,000	443,990
2017-2021	2,692,338	580,000	2,112,338
2022-2026	2,599,800	735,000	1,864,800
2027-2031	2,507,094	935,000	1,572,094
2032-2036	2,463,181	1,265,000	1,198,181
2037-2041	2,566,850	2,030,000	536,850
	<u>\$ 15,555,167</u>	<u>\$ 6,000,000</u>	<u>\$ 9,555,167</u>

### **Capital Lease Obligations**

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2011 and 2010, totaled \$178,529 and \$311,199, respectively, net of accumulated depreciation of \$16,229 and \$835,014, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at a rate of 7.94% together with the present value of the future minimum lease payments as of September 30, 2011:

Year Ending September 30,	
2012	\$ 47,316
2013	47,316
2014	47,316
2015	47,316
2016	27,601
	<u>216,865</u>
Less amount representing interest	<u>35,587</u>
Present value of future minimum lease payments	<u>\$ 181,278</u>

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

### **Note 8: Pension Plan**

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Employees may contribute up to 60% of eligible compensation subject to a maximum established by the Internal Revenue Service. Contributions actually made by plan members and the Hospital aggregated \$120,345 and \$25,181, respectively, during 2011, and \$113,515 and \$25,132, respectively, during 2010.

### **Note 9: 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 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 Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain 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 Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

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 Hospital's ability to maintain sufficient liquidity.

### **Note 10: St. Luke Hospital Foundation**

#### ***Financial Statements***

The financial statements of the Foundation are presented in accordance with the provisions of the FASB ASC. The FASB ASC requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements September 30, 2011 and 2010

not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by GASB Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

### **Contributions Receivable**

Contributions receivable consisted of the following:

	<b>September 30, 2011</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 112,142	\$ -	\$ -	\$ 112,142
Due in one to five years	184,283	-	-	184,283
	296,425	-	-	296,425
Less				
Allowance for uncollectible contributions	-	-	-	-
Unamortized discount	15,351	-	-	15,351
	\$ 281,074	\$ -	\$ -	\$ 281,074
	<b>September 30, 2010</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Due within one year	\$ 113,012	\$ -	\$ -	\$ 113,012
Due in one to five years	339,035	-	-	339,035
	452,047	-	-	452,047
Less				
Allowance for uncollectible contributions	-	-	-	-
Unamortized discount	36,954	-	-	36,954
	\$ 415,093	\$ -	\$ -	\$ 415,093

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Notes to Financial Statements

September 30, 2011 and 2010

### Note 11: Restatement of Prior Year Financial Statements

The Foundation has restated its previously issued 2010 financial statements for the correction of an error related to the omission of pledges received in 2010 for the Hospital's building project. The effect of the restatement was to increase previously reported assets, change in unrestricted net assets and net assets by \$415,093.

The following statement line items for fiscal year 2010 were affected by the correction:

	As Restated	As Previously Reported	Effect of Change
<b>Statement of Financial Position</b>			
Contributions receivable	\$ 415,093	\$ -	\$ 415,093
Total Assets	972,768	557,675	415,093
Unrestricted net assets	972,768	557,675	415,093
<b>Statement of Activities</b>			
Contributions	951,828	536,735	415,093
Total revenue, gains and other support	954,325	539,232	415,093
Change in unrestricted net assets	789,642	374,549	415,093
Unrestricted net assets, end of year	972,768	557,675	415,093

## **Supplementary Information**

**Marion County Hospital District #1 of Marion County, Kansas  
d/b/a St. Luke Hospital and Living Center**

**Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget  
Calendar Year Ended December 31, 2010**

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenue	\$ 6,509,708	\$ 6,819,152	\$ (309,444)
Other revenue	<u>108,109</u>	<u>113,129</u>	<u>(5,020)</u>
Total operating revenue	<u>6,617,817</u>	<u>6,932,281</u>	<u>(314,464)</u>
Operating expenses	7,249,810	8,900,913	(1,651,103)
Interest paid	<u>9,282</u>	<u>-</u>	<u>9,282</u>
Operating expenses	<u>7,259,092</u>	<u>8,900,913</u>	<u>(1,641,821)</u>
Operating loss	<u>(641,275)</u>	<u>(1,968,632)</u>	<u>1,327,357</u>
Property tax revenue	704,824	724,810	(19,986)
Other nonoperating revenues	<u>35,599</u>	<u>27,111</u>	<u>8,488</u>
Total nonoperating revenues	<u>740,423</u>	<u>751,921</u>	<u>(11,498)</u>
Excess (deficiency) of revenue over expenses	<u>\$ 99,148</u>	<u>\$ (1,216,711)</u>	<u>\$ 1,315,859</u>

# Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

## Insurance Coverage September 30, 2011

<b>General Casualty</b>	<b>Coverage Limits</b>	<b>Premiums</b>
Expiring October 1, 2011:		
Buildings and contents	\$ 15,118,227	\$ 15,876
Electronic data processing equipment	400,000	-
Business income with extra expense	6,297,000	868
 Expiring October 1, 2011:		 1,296
Employee theft	500,000	
Forgery and alteration	500,000	
Computer fraud coverage	100,000	
 Expiring October 1, 2011:		
Commercial automobile	1,000,000	2,027
 <b>U.S. Specialty Insurance Company</b>		
Expiring October 1, 2011:		
Directors and officers with employment practices	2,000,000	6,830
 <b>KHA Workers' Compensation Fund, Inc.</b>		
Expiring January 1, 2012:		
Workers' compensation:		34,518
Per accident	500,000	
Per employee disease	500,000	
Policy limit	500,000	
 <b>Kansas Medical Mutual Insurance Company</b>		
Expiring October 15, 2011:		
Professional liability	200,000/600,000	15,276
Kansas Healthcare Stabilization Fund	800,000/2,400,000	6,110
General liability	1,000,000/3,000,000	2,000
Additional insureds	5,000,000/5,000,000	16,303
Fire legal liability	50,000	