

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

Accountants' Report and Financial Statements

June 30, 2011 and 2010

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
June 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Rawlins County Health Center
Atwood, Kansas

We have audited the accompanying balance sheets of Rawlins County Health Center (Health Center), a component unit of Rawlins County, Kansas, as of June 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 Health Center'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. Our 2011 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Rawlins County Health Center as of June 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2012, on our consideration of Rawlins County Health Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audits were conducted for the purpose of forming an opinion on the Health Center'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 the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governmental and Non-Profit Organizations*, 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 expenditures of federal awards 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

January 31, 2012

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Balance Sheets
June 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	\$ 773,348	\$ 462,845
Patient accounts receivable, net of allowance; 2011 - \$157,262; 2010 - \$65,943	794,843	798,799
Property taxes receivable	38,676	39,180
Supplies	132,888	130,506
Prepaid expenses and other	32,805	48,299
Total current assets	1,772,560	1,479,629
 Noncurrent Cash and Investments		
Designated by Board of Directors for capital acquisitions	67,633	177,077
Held by Foundation	41,060	346,723
Held by trustee for debt service and capital acquisitions	3,960,883	989,847
Time restricted trust assets	40,164	43,152
Irrevocable trust	353,100	289,763
	4,462,840	1,846,562
 Capital Assets, Net	6,271,651	2,101,405
 Deferred Financing Costs, Net	48,625	29,461
Total assets	\$ 12,555,676	\$ 5,457,057

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 176,303	\$ 1,138,959
Accounts payable	518,695	355,104
Salaries payable	221,341	169,844
Payroll taxes payable	45,997	36,000
Vacation benefits payable	114,104	117,960
Estimated amounts due to third-party payers	185,000	40,000
Deferred property tax revenue	206,103	204,438
	<hr/>	<hr/>
Total current liabilities	1,467,543	2,062,305
	<hr/>	<hr/>
Long-term Debt	7,836,084	685,330
	<hr/>	<hr/>
Total liabilities	9,303,627	2,747,635
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	2,031,949	1,127,893
Restricted - expendable for		
Debt service	188,198	97,301
Capital acquisitions	41,060	388,492
Restricted - nonexpendable for		
Irrevocable trust	353,100	289,763
Time restricted trust	40,164	43,152
Unrestricted	597,578	762,821
	<hr/>	<hr/>
Total net assets	3,252,049	2,709,422
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 12,555,676</u>	<u>\$ 5,457,057</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue	\$ 4,749,080	\$ 4,255,613
Assisted living	120,744	131,464
Other	<u>27,638</u>	<u>33,083</u>
Total operating revenues	<u>4,897,462</u>	<u>4,420,160</u>
Operating Expenses		
Salaries and wages	2,697,386	2,507,503
Employee benefits	557,220	517,097
Purchased services and professional fees	751,658	627,155
Supplies and other	1,462,646	933,858
Depreciation and amortization	<u>292,258</u>	<u>226,507</u>
Total operating expenses	<u>5,761,168</u>	<u>4,812,120</u>
Operating Loss	<u>(863,706)</u>	<u>(391,960)</u>
Nonoperating Revenues (Expenses)		
Property taxes	408,684	432,175
Investment income	67,718	31,936
Interest expense	(30,277)	(48,307)
Noncapital grants and gifts	<u>38,114</u>	<u>76,719</u>
Total nonoperating revenues (expenses)	<u>484,239</u>	<u>492,523</u>
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts	(379,467)	100,563
Capital Grants and Gifts	<u>922,094</u>	<u>202,602</u>
Increase in Net Assets	542,627	303,165
Net Assets, Beginning of Year	<u>2,709,422</u>	<u>2,406,257</u>
Net Assets, End of Year	<u><u>\$ 3,252,049</u></u>	<u><u>\$ 2,709,422</u></u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 4,898,036	\$ 4,235,226
Payments to suppliers and contractors	(2,584,824)	(2,051,365)
Payments to employees	(2,649,745)	(2,473,913)
Other receipts	148,382	164,547
	<u>(188,151)</u>	<u>(125,505)</u>
Net cash used in operating activities		
Noncapital Financing Activities		
Property taxes supporting operations	410,853	412,139
Noncapital grants and gifts	38,114	76,719
	<u>448,967</u>	<u>488,858</u>
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Proceeds from issuance of long-term debt	7,000,000	1,530,000
Payment of deferred financing costs	(23,214)	(20,798)
Purchase of capital assets	(4,093,558)	(560,900)
Principal paid on long-term debt	(1,176,798)	(629,808)
Interest paid on long-term debt	(30,277)	(48,307)
Capital grants and gifts	1,227,757	93,168
	<u>2,903,910</u>	<u>363,355</u>
Net cash provided by capital and related financing activities		
Investing Activities		
Interest income received	7,369	10,343
Purchase of certificate of deposit	(100,000)	(50,000)
Proceeds from disposition of certificate of deposit	100,000	100,000
	<u>7,369</u>	<u>60,343</u>
Net cash provided by investing activities		
Increase in Cash	3,172,095	787,051
Cash, Beginning of Year	<u>1,579,769</u>	<u>792,718</u>
Cash, End of Year	<u>\$ 4,751,864</u>	<u>\$ 1,579,769</u>
Reconciliation of Cash		
Cash in current assets	\$ 773,348	\$ 462,845
Noncurrent cash and investments	3,978,516	1,116,924
	<u>\$ 4,751,864</u>	<u>\$ 1,579,769</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (863,706)	\$ (391,960)
Depreciation and amortization	292,258	226,507
Provision for uncollectible accounts	194,351	113,627
Changes in operating assets and liabilities		
Patient accounts receivable, net	(190,395)	(409,014)
Estimated amounts due from and to third-party payers	145,000	275,000
Inventories	(2,382)	(44,227)
Other current assets	15,494	23
Accounts payable and accrued expenses	221,229	104,539
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>\$ (188,151)</u>	<u>\$ (125,505)</u>

Supplement Cash Flows Information

Increase in fair value of the irrevocable trust and the time restricted trust	\$ 60,349	\$ 21,593
Capital lease obligations incurred for capital assets	\$ 364,896	\$ 35,770

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2011 and 2010

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

Nature of Operations and Reporting Entity

Rawlins County Health Center (Health Center) is an acute care hospital located in Atwood, Kansas. The Health Center is a component unit of Rawlins County (County) and is governed by an elected Board of Directors. The Health Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Rawlins County area.

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, such as 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.

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.

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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.

Property Taxes

The Health Center received approximately 8% and 9% of its financial support from property taxes in 2011 and 2010, respectively. 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 are levied, which is the year in which use is first permitted.

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; medical malpractice; 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.

Patient Accounts Receivable

The Health Center reports patient accounts receivable for 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.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2011 and 2010

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 Rawlins County Health Foundation (Foundation), time restricted trust assets and an irrevocable trust.

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 Health Center:

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

The Health Center capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2011	2010
Total interest expense incurred on borrowings for project	\$ 89,440	\$ 10,860
Interest income from investment of proceeds of borrowings for project	(282)	(2,325)
Net interest cost capitalized	<u>\$ 89,158</u>	<u>\$ 8,535</u>
Interest capitalized	\$ 89,158	\$ 8,535
Interest charged to expense	<u>30,277</u>	<u>48,307</u>
Total interest incurred	<u>\$ 119,435</u>	<u>\$ 56,842</u>

Rawlins County Health Center
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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 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.

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.

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Notes to Financial Statements
June 30, 2011 and 2010

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 \$19,754 and \$14,999 for June 30, 2011 and 2010, respectively.

Income Taxes

As an essential government function of the County, the Health Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Note 2: 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 recognized as a Critical Access Hospital, and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits 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 Department of Health and Environment. 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.

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June 30, 2011 and 2010

Approximately 78% and 83% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2011 and 2010, 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.

Note 3: Deposits and Investments

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.

At June 30, 2011 and 2010, respectively, \$519,242 and \$1,012,557 of the Health Center's bank balances of \$1,148,844 and \$1,762,557 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution	\$ 129,922	\$ 193,074
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Health Center's name	389,320	819,483
	\$ 519,242	\$ 1,012,557

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2011 and 2010

Investments

The Health Center 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 June 30, 2011 and 2010, the Health Center had the following investments, all of which mature within one year:

	2011	2010
Federated Government obligations money market fund	\$ 3,772,685	\$ -

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	\$ 979,179	\$ 1,579,769
Short-term certificate of deposit	50,000	50,000
Investments	3,772,685	-
	\$ 4,801,864	\$ 1,629,769
Included in the following balance sheet captions		
Cash	\$ 773,348	\$ 462,845
Noncurrent cash and investments		
Designated by Board of Directors for capital acquisitions	67,633	177,077
Held by trustee for debt service and capital acquisitions	3,960,883	989,847
	\$ 4,801,864	\$ 1,629,769

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2011 and 2010

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>2011</u>	<u>2010</u>
Medicare	\$ 422,817	\$ 547,365
Medicaid	11,952	7,077
Blue Cross	147,736	98,282
Other third-party payers	78,084	57,439
Self-pay	<u>134,254</u>	<u>88,636</u>
	<u>\$ 794,843</u>	<u>\$ 798,799</u>

Note 5: Noncurrent Cash and Investments – Held by Foundation

The Foundation was established to improve medical, hospital or other health care services in the County. 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 totaled \$307,421 at June 30, 2010. Additional balances held by the Foundation are restricted by donor for Health Center capital acquisitions and total \$41,060 and \$39,302 at June 30, 2011 and 2010, respectively.

Rawlins County Health Center
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Notes to Financial Statements
June 30, 2011 and 2010

Note 6: Capital Assets

Capital assets activity for the years ended June 30 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,225	\$ -	\$ -	\$ -	\$ 3,225
Land improvements	268,252	17,440	-	55,155	340,847
Buildings	2,047,846	-	-	1,766,571	3,814,417
Fixed equipment	600,058	22,602	(29,030)	97,810	691,440
Moveable equipment	1,183,328	370,779	(186,951)	-	1,367,156
Construction in progress	797,988	4,047,630	-	(1,919,536)	2,926,082
	<u>4,900,697</u>	<u>4,458,451</u>	<u>(215,981)</u>	<u>-</u>	<u>9,143,167</u>
Less accumulated depreciation					
Land improvements	212,052	13,549	-	-	225,601
Buildings	1,246,451	94,888	-	-	1,341,339
Fixed equipment	469,698	35,528	(29,030)	-	476,196
Moveable equipment	871,091	144,240	(186,951)	-	828,380
	<u>2,799,292</u>	<u>288,205</u>	<u>(215,981)</u>	<u>-</u>	<u>2,871,516</u>
Capital Assets, Net	<u>\$ 2,101,405</u>	<u>\$ 4,170,246</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,271,651</u>
	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 3,225	\$ -	\$ -	\$ -	\$ 3,225
Land improvements	255,630	13,457	(835)	-	268,252
Buildings	2,049,081	-	(1,235)	-	2,047,846
Fixed equipment	603,085	-	(3,027)	-	600,058
Moveable equipment	1,401,425	138,524	(356,621)	-	1,183,328
Construction in progress	258,996	538,992	-	-	797,988
	<u>4,571,442</u>	<u>690,973</u>	<u>(361,718)</u>	<u>-</u>	<u>4,900,697</u>
Less accumulated depreciation					
Land improvements	200,810	12,077	(835)	-	212,052
Buildings	1,178,998	68,687	(1,234)	-	1,246,451
Fixed equipment	439,870	32,856	(3,028)	-	469,698
Moveable equipment	1,117,837	109,822	(356,568)	-	871,091
	<u>2,937,515</u>	<u>223,442</u>	<u>(361,665)</u>	<u>-</u>	<u>2,799,292</u>
Capital Assets, Net	<u>\$ 1,633,927</u>	<u>\$ 467,531</u>	<u>\$ (53)</u>	<u>\$ -</u>	<u>\$ 2,101,405</u>

Rawlins County Health Center
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Notes to Financial Statements
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Note 7: 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.

Note 8: Long-term Debt

In November 2010, the County issued 1.75% Kansas Hospital Revenue Bond Anticipation Refunding and Improvement Bonds, Series 2010B, totaling \$7,000,000 maturing on November 1, 2012. The Series 2010B Revenue Bonds were used to provide funds for renovation projects to the Health Center and for redemption of \$1,100,000 of the Series 2010 Revenue Bonds. The Health Center has obtained a commitment from the United States Department of Agriculture – Rural Development to provide certain permanent funding of the project.

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.

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 2011 to 2023.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2011 and 2010

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

	2011					
	Beginning			Ending	Current	Long-term
	Balance	Additions	Deductions	Balance	Portion	Portion
Series 2010B Revenue						
Bonds payable	\$ -	\$7,000,000	\$ -	7,000,000	\$ -	7,000,000
Series 2010 Revenue						
Bonds payable	1,530,000	-	1,100,000	430,000	85,000	345,000
Capital lease obligations	294,289	364,896	76,798	582,387	91,303	491,084
	<u>\$ 1,824,289</u>	<u>\$7,364,896</u>	<u>\$ 1,176,798</u>	<u>\$8,012,387</u>	<u>\$ 176,303</u>	<u>\$7,836,084</u>
	2010					
	Beginning			Ending	Current	Long-term
	Balance	Additions	Deductions	Balance	Portion	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>

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:

	2011	2010
Debt service	\$ 138,198	\$ 47,301
Bond reserve funds	50,000	50,000
Project funds	3,772,685	892,546
	<u>\$ 3,960,883</u>	<u>\$ 989,847</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2011 and 2010

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,				
2012	\$ 85,000	\$ 14,681	\$ 91,303	\$ 19,090
2013	7,090,000	252,982	94,261	16,132
2014	90,000	8,463	96,474	13,046
2015	95,000	4,875	76,467	10,367
2016	70,000	1,488	78,753	8,081
2017-2021	-	-	105,655	22,093
2022-2023	-	-	39,474	2,870
	<u>\$ 7,430,000</u>	<u>\$ 282,489</u>	<u>\$ 582,387</u>	<u>\$ 91,679</u>

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

	2011	2010
Equipment	\$ 692,180	\$ 514,235
Less accumulated depreciation	<u>190,410</u>	<u>270,374</u>
	<u>\$ 501,770</u>	<u>\$ 243,861</u>

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. 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 \$223,653 and \$199,904 during 2011 and 2010, respectively.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2011 and 2010

Note 10: 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 \$83,329 and \$84,451 for 2011 and 2010, respectively. Additional fees paid to GPHA for services provided under this agreement were \$19,736 and \$15,974 for 2011 and 2010, 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 \$105,839 and \$97,556 in 2011 and 2010, respectively. Additional fees paid to GPHA for services provided under this agreement were \$16,550 and \$8,868 for 2011 and 2010, respectively.

Note 11: 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, 2011, \$489,678 has been paid and is capitalized in construction in progress in relation to this commitment.

The Health Center has also signed a commitment with a general contractor. The estimated cost of this commitment is \$5,973,402 and as of June 30, 2011, \$2,355,352 has been paid and is capitalized in construction in progress in relation to this commitment.

Note 12: 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 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.

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Notes to Financial Statements
June 30, 2011 and 2010

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.

Supplementary Information

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Comparison of Revenues and Expenses (Cash Basis) – Actual to 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	\$ 4,374,393	\$ 4,424,108	\$ (49,715)
Other revenue	<u>152,050</u>	<u>311,031</u>	<u>(158,981)</u>
Total operating revenue	<u>4,526,443</u>	<u>4,735,139</u>	<u>(208,696)</u>
Operating expenses	5,002,532	5,596,224	(593,692)
Interest paid	<u>32,251</u>	<u>-</u>	<u>32,251</u>
Operating expenses	<u>5,034,783</u>	<u>5,596,224</u>	<u>(561,441)</u>
Operating loss	<u>(508,340)</u>	<u>(861,085)</u>	<u>352,745</u>
Property tax revenue	415,432	413,749	1,683
Other nonoperating revenues	<u>191,264</u>	<u>-</u>	<u>191,264</u>
Total nonoperating revenues	<u>606,696</u>	<u>413,749</u>	<u>192,947</u>
Excess (deficiency) of revenue over expenses	<u>\$ 98,356</u>	<u>\$ (447,336)</u>	<u>\$ 545,692</u>

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2011

Cluster/Program	Federal Agency/ Pass-Through Entity	CFDA Number	Grant or Identifying Number	Amount Expended
Communities Facilities Direct Loan and Grants - ARRA	U.S. Department of Agriculture	10.766	KS-97-01-01	\$ 3,980,751
Community Development Block Grant ARRA (CDBG-R)	U.S. Department of Housing & Urban Development / State of Kansas	14.253	09-RA-012	<u>390,074</u>
				<u><u>\$ 4,370,825</u></u>

Notes to Schedule

1. This schedule includes the federal awards activity of the Rawlins County Health Center, a component unit of Rawlins County, Kansas, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. No federal awards were provided to subrecipients during this period.

**Independent Accountants' Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the Financial
Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors
Rawlins County Health Center
Atwood, Kansas

We have audited the financial statements of Rawlins County Health Center, a component unit of Rawlins County, Kansas, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012, which contained an explanatory paragraph regarding omission of required supplementary information. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Health Center's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Board of Directors
Rawlins County Health Center
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center's financial statements are free of material misstatement, we performed the tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Board of Directors and the Health Center's management in a separate letter dated January 31, 2012.

This report is intended solely for the information and use of the governing body, management and others within the Health Center and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 31, 2012

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Directors
Rawlins County Health Center
Atwood, Kansas

Compliance

We have audited the compliance of Rawlins County Health Center, a component unit of Rawlins County, Kansas, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Health Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Health Center's management. Our responsibility is to express an opinion on the compliance of the Rawlins County Health Center based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Health Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Health Center's compliance with those requirements.

In our opinion Rawlins County Health Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Rawlins County Health Center is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Health Center's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing body, management and others within the Health Center and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

January 31, 2012

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

7. The Health Center's major programs were:

Cluster/Program	CFDA Number
Communities Facilities Direct Loan and Grants - ARRA	10.766
Community Development Block Grant ARRA (CDBG-R)	14.253

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Health Center qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2011

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
No matters are reportable.		

Rawlins County Health Center
A Component Unit of Rawlins County, Kansas
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2011

Reference Number	Summary of Finding	Status
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No matters are reportable.