

**Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas**

Accountants' Report and Financial Statements

September 30, 2011 and 2010

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
September 30, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Board of Trustees of Republic County Hospital
Belleville, Kansas

We have audited the accompanying balance sheets of the Board of Trustees of Republic County Hospital (Board of Trustees), a component unit of Republic County, Kansas, 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 Board of Trustees of Republic County Hospital. 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 the Board of Trustees of Republic County Hospital 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 Board of Trustees has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined necessary to supplement, although not required to be a part of, the basic financial statements.

BKD, LLP

February 2, 2012

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Balance Sheets
September 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 192,673	\$ 210,149
Due from Hospital	57,888	53,889
Interest receivable	1,160	1,795
Taxes receivable	15,825	15,503
Notes receivable	21,050	15,000
Rent receivable	-	2,540
	<u>288,596</u>	<u>298,876</u>
Certificates of Deposit	<u>810,081</u>	<u>798,502</u>
Assets Limited As To Use		
Funds held by County for construction/debt service	186,039	33,848
Permanently restricted funds	412,871	412,871
	<u>598,910</u>	<u>446,719</u>
Capital Assets, Net	<u>1,040,290</u>	<u>681,496</u>
Due from Hospital	<u>151,083</u>	<u>88,429</u>
Total assets	<u>\$ 2,888,960</u>	<u>\$ 2,314,022</u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 87,888	\$ 78,889
Interest payable	6,120	6,754
Deposits	2,000	1,500
Due to Hospital	816	-
	<u>96,824</u>	<u>87,143</u>
Long-term Debt, Less Current Maturities	<u>721,083</u>	<u>258,429</u>
Total liabilities	<u>817,907</u>	<u>345,572</u>
Net Assets		
Invested in capital assets, net of related debt	440,290	486,496
Restricted		
Nonexpendable permanent endowments	412,871	412,871
Unrestricted	<u>1,217,892</u>	<u>1,069,083</u>
	<u>2,071,053</u>	<u>1,968,450</u>
Total liabilities and net assets	<u>\$ 2,888,960</u>	<u>\$ 2,314,022</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Clinic revenue	\$ 109,155	\$ 104,167
Independent living revenue	59,596	60,868
Tax revenue	207,516	207,968
Other	<u>14,405</u>	<u>18,239</u>
Total operating revenues	<u>390,672</u>	<u>391,242</u>
Operating Expenses		
Clinic expense	107,229	105,142
Independent living expense	36,421	29,533
Board expense	11,900	11,944
Depreciation	<u>81,056</u>	<u>79,343</u>
Total operating expenses	<u>236,606</u>	<u>225,962</u>
Operating Income	<u>154,066</u>	<u>165,280</u>
Nonoperating Revenues (Expenses)		
Investment income	16,247	22,391
Contribution to Hospital for operations	(67,302)	(153,779)
Interest expense	<u>(408)</u>	<u>(12,199)</u>
Total nonoperating revenues (expenses)	<u>(51,463)</u>	<u>(143,587)</u>
Increase in Net Assets	102,603	21,693
Net Assets, Beginning of Year	<u>1,968,450</u>	<u>1,946,757</u>
Net Assets, End of Year	<u><u>\$ 2,071,053</u></u>	<u><u>\$ 1,968,450</u></u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statements of Cash Flows
Years Ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Patient and resident revenue	\$ 171,291	\$ 162,495
Tax appropriations received	207,194	211,323
Other revenue	14,905	18,239
Other payments	<u>(160,784)</u>	<u>(148,119)</u>
Net cash provided by operating activities	<u>232,606</u>	<u>243,938</u>
Noncapital Financing Activities		
Contributions to Hospital for operations	<u>(67,302)</u>	<u>(153,779)</u>
Net cash used in noncapital financing activities	<u>(67,302)</u>	<u>(153,779)</u>
Capital and Related Financing Activities		
Purchase of capital assets	(434,240)	(6,936)
Proceeds from issuance of long-term debt	600,000	-
Principal paid on long-term debt	(195,000)	(20,000)
Interest paid on long-term debt	<u>(6,652)</u>	<u>(12,199)</u>
Net cash used in capital and related financing activities	<u>(35,892)</u>	<u>(39,135)</u>
Investing Activities		
Investment income	16,882	7,113
Change in certificates of deposit	(11,579)	-
Change in funds held by County	<u>(152,191)</u>	<u>(2,906)</u>
Net cash provided by (used in) investing activities	<u>(146,888)</u>	<u>4,207</u>
Increase (Decrease) in Cash	(17,476)	55,231
Cash, Beginning of Year	<u>210,149</u>	<u>154,918</u>
Cash, End of Year	<u>\$ 192,673</u>	<u>\$ 210,149</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Statement of Cash Flows (Continued)
Years Ended September 30, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues to		
Net Cash Provided by Operating Activities		
Operating income	\$ 154,066	\$ 165,280
Depreciation	81,056	79,343
Change in assets and liabilities		
Taxes receivable	(322)	3,355
Notes receivable	(6,050)	(1,500)
Rent receivable	2,540	(2,540)
Deposits	500	-
Due to Hospital	816	-
	<u>\$ 232,606</u>	<u>\$ 243,938</u>
Net cash provided by operating activities	<u>\$ 232,606</u>	<u>\$ 243,938</u>

Supplemental Cash Flows Information

Capital lease additions entered into and subsequently subleased to Great Plains of Republic County, Inc.	\$ 140,188	\$ 181,220
Capital lease payments made by Great Plains of Republic County, Inc. on subleases	\$ 73,535	\$ 38,902
Capitalized interest	\$ 5,610	\$ -

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
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

The Board of Trustees of Republic County Hospital (Board of Trustees) was organized by the County Commissioners of Republic County, Kansas to operate a governmental hospital and to control the use of tax appropriations. The Board of Trustees is appointed by the County Commissioners of Republic County and is considered to be a component unit of Republic County (County). The Board of Trustees owns and rents a medical clinic building and independent living apartments.

Great Plains of Republic County, Inc. (GPRC/Hospital) is located in Belleville, Kansas and provides acute, swing-bed and long-term care services. The operations of the Hospital are reported separately from the Board of Trustees due to the lease of hospital operations to GPRC (see *Note 2*).

Basis of Accounting and Presentation

The financial statements of the Board of Trustees 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 tax appropriations and exchange transactions. Investment income, contributions to Hospital for operations and interest expense are included in nonoperating revenues and expenses.

The Board of Trustees 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 Board of Trustees 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.

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2011 and 2010

Cash Equivalents

The Board of Trustees considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at 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. The following estimated useful lives are being used by the Board of Trustees:

Land improvements	10 – 25 years
Buildings	5 – 40 years
Fixed equipment	7 – 20 years
Moveable equipment	10 – 15 years

Maintenance, repairs and renewals which neither materially add to the value of the capital assets nor appreciably prolong the life are charged to expense as incurred. Gains or losses on dispositions of capital assets are included in operations.

Net Assets

The Board of Trustees' unrestricted net assets are to be used solely for the benefit of the Board of Trustees. The funds are used by the Board of Trustees for capital assets purchases and for operations as approved by action of the Board of Trustees.

Restricted funds represent nonexpendable permanent endowments where the donor required the principal or corpus of the endowment be retained in perpetuity. The earnings on the endowment fund are not restricted and are used as earned.

Tax Appropriations

The Board of Trustees receives tax appropriations from the County. Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are assessed to the extent such taxes are collected and available for use.

Income Taxes

As an essential government function, the Board of Trustees 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 Board of Trustees is subject to federal income tax on any unrelated business taxable income.

Board of Trustees of Republic County Hospital
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September 30, 2011 and 2010

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.

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: Lease and Management Agreement

The Board of Trustees leases the hospital facilities to GPRC for one dollar. In connection with this lease, Great Plains Health Alliance, Inc., the sole member of GPRC, has a management agreement with GPRC. The lease agreement provides that GPRC will assume and continue the operations of the hospital and maintain all property and equipment in good condition. Either party has the option to terminate the lease at any time for a material breach of terms or provisions of the agreement with 60 days notice.

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 Board of Trustees' 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 acceptable collateral. Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000.

The Board of Trustees maintains its bank deposits (checking accounts, savings accounts and certificates of deposit) with financial institutions which, at times, exceed federally insured limits. For purposes of evaluating credit risk, the stability of financial institutions conducting business with the Board of Trustees is periodically reviewed and the Board of Trustees believes it is not exposed to any significant credit risk on these balances.

Board of Trustees of Republic County Hospital
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Notes to Financial Statements
September 30, 2011 and 2010

At September 30, 2011 and 2010, the Board of Trustees had bank balances as follows:

	<u>2011</u>	<u>2010</u>
Insured (FDIC)	\$ 1,164,093	\$ 1,162,867
Collateralized by securities held on behalf of the pledging financial institution in the Board of Trustees' name	<u>251,532</u>	<u>258,655</u>
Total	<u>\$ 1,415,625</u>	<u>\$ 1,421,522</u>
Carrying value	<u>\$ 1,415,625</u>	<u>\$ 1,421,522</u>

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets at September 30, 2011 and 2010, as follows:

	<u>2011</u>	<u>2010</u>
Cash	\$ 192,673	\$ 210,149
Certificates of deposit	810,081	798,502
Permanently restricted funds	<u>412,871</u>	<u>412,871</u>
	<u>\$ 1,415,625</u>	<u>\$ 1,421,522</u>

Note 4: Assets Limited as to Use

Assets limited as to use include (1) funds held by the County for construction/debt service and (2) funds permanently restricted by donors. Permanently restricted funds consist of certificates of deposit and represent assets subject to donor-imposed stipulations that are required to be maintained permanently by the Board of Trustees.

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Construction in progress at September 30, 2011, relates to a project to construct additional independent living apartments to be financed primarily with proceeds from the issuance of Hospital Revenue Bonds, Series 2011 (See *Note 6*). A portion of the project was completed and placed in service as of September 30, 2011, with the remainder to be completed in 2012. The remaining commitments on the project as of September 30, 2011, totaled approximately \$190,000.

The Board of Trustees 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 during 2011 was \$5,610.

Note 6: Long-term Debt/Due From Hospital

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital Revenue Bonds					
Series 2001	\$ 195,000	\$ -	\$ 195,000	\$ -	\$ -
Series 2011	-	600,000	-	600,000	30,000
Capital lease obligations	<u>142,318</u>	<u>140,188</u>	<u>73,535</u>	<u>208,971</u>	<u>57,888</u>
Total long-term debt	<u>\$ 337,318</u>	<u>\$ 740,188</u>	<u>\$ 268,535</u>	<u>\$ 808,971</u>	<u>\$ 87,888</u>

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital Revenue Bonds					
Series 2001	\$ 215,000	\$ -	\$ 20,000	\$ 195,000	\$ 25,000
Capital lease obligations	<u>-</u>	<u>181,220</u>	<u>38,902</u>	<u>142,318</u>	<u>53,889</u>
Total long-term debt	<u>\$ 215,000</u>	<u>\$ 181,220</u>	<u>\$ 58,902</u>	<u>\$ 337,318</u>	<u>\$ 78,889</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2011 and 2010

Revenue Bonds Payable – Series 2001

The Series 2001 bonds payable consisted of Hospital Revenue Bonds (Bonds) in the original amount of \$350,000 dated May 2001, with interest of 5.95%. The Bonds were payable in annual installments through November 2016. Outstanding bonds were redeemable at the Board of Trustees’ option at any time at a redemption price of 100%. The Board of Trustees exercised its option and redeemed all outstanding bonds payable in November 2010.

Revenue Bonds Payable – Series 2011

The Series 2011 bonds payable consist of Hospital Revenue Bonds (Bonds) in the original amount of \$600,000 dated July, 2011, with interest of 4.25%. The Bonds are payable in annual installments through June, 2026. Outstanding bonds are redeemable at the Board of Trustees’ option at any time at a redemption price of 100%.

Scheduled principal repayments on the revenue bond obligations as of September 30, 2011, were as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2012	\$ 52,950	\$ 30,000	\$ 22,950
2013	54,225	30,000	24,225
2014	52,950	30,000	22,950
2015	51,675	30,000	21,675
2016	55,400	35,000	20,400
2017-2021	278,413	200,000	78,413
2022-2026	277,300	245,000	32,300
	<u>\$ 822,913</u>	<u>\$ 600,000</u>	<u>\$ 222,913</u>

Board of Trustees of Republic County Hospital
A Component Unit of Republic County, Kansas
Notes to Financial Statements
September 30, 2011 and 2010

Capital Lease Obligations

The Board of Trustees is obligated under leases for equipment that are accounted for as capital leases. The Board of Trustees has subleased the equipment to GPRC. The following is a schedule by year of future minimum lease payments under the capital leases including interest ranging from 3.15% to 5.43% together with the present value of the future minimum lease payments as of September 30, 2011:

Year Ending September 30,	
2012	\$ 63,777
2013	52,928
2014	52,928
2015	45,399
2016	<u>7,585</u>
Total minimum lease payments	222,617
Less amount representing interest	<u>(13,646)</u>
Present value of future minimum lease payments	<u>\$ 208,971</u>
Current portion	\$ 57,888
Noncurrent portion	<u>151,083</u>
	<u>\$ 208,971</u>

Due from Hospital in the accompanying balance sheets represents the amounts due to the Board of Trustees in connection with the subleases referred to above.

Note 7: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the value of assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Board of Trustees.

Current economic conditions may make it difficult for the County's taxpayers to pay assessed taxes. Further, the effect of economic conditions on the government may have an adverse effect on cash flows.