

Hospital District No. 1 of Rice County

Independent Accountants' Report and Financial Statements

April 30, 2011 and 2010



Hospital District No. 1 of Rice County
April 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Hospital District No. 1 of Rice County
Lyons, Kansas

We have audited the accompanying balance sheets of Hospital District No. 1 of Rice County (Hospital District) as of April 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 District'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 Hospital District No. 1 of Rice County as of April 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 Hospital District has not presented 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 Hospital District's basic financial statements. The accompanying supplementary information 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to those basic financial statements taken as a whole.

BKD, LLP

October 10, 2011

Hospital District No. 1 of Rice County

Balance Sheets

April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 290,871	\$ 97,172
Short-term investments	1,405,374	2,393,108
Restricted cash and investments - current	311,010	310,096
Patient accounts receivable, net of allowance; 2011 - \$530,270, 2010 - \$378,450	1,614,916	1,573,462
Property taxes receivable	381,192	375,102
Estimated amounts due from third-party payers	536,136	403,947
Supplies	155,873	110,439
Prepaid expenses and other	284,361	258,815
	<u>4,979,733</u>	<u>5,522,141</u>
Total current assets		
Noncurrent Cash and Investments		
Held by trustee for debt service	898,010	897,096
Held by Rice Community Healthcare Foundation	2,110,387	1,614,677
Internally designated for capital improvements	1,373	6,692
Restricted by donors for capital acquisitions and specific operating activities	110,653	85,419
	<u>3,120,423</u>	<u>2,603,884</u>
Less amount required to meet current obligations	<u>311,010</u>	<u>310,096</u>
	<u>2,809,413</u>	<u>2,293,788</u>
Capital Assets, Net	<u>9,654,159</u>	<u>10,155,176</u>
Deferred Financing Costs	<u>182,529</u>	<u>202,804</u>
Total assets	<u>\$ 17,625,834</u>	<u>\$ 18,173,909</u>

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 408,638	\$ 409,219
Accounts payable	870,811	661,070
Construction payable	50,000	50,000
Accrued wages and vacation benefits	794,406	733,896
Deferred revenue	<u>581,228</u>	<u>574,726</u>
Total current liabilities	2,705,083	2,428,911
Long-term Debt	<u>6,505,152</u>	<u>6,914,839</u>
Total liabilities	<u>9,210,235</u>	<u>9,343,750</u>
Net Assets		
Invested in capital assets, net of related debt	2,872,898	2,983,922
Restricted-expendable for		
Debt service	781,489	776,027
Capital acquisitions	85,419	85,419
Specific operating activities	25,234	-
Unrestricted	<u>4,650,559</u>	<u>4,984,791</u>
Total net assets	<u>8,415,599</u>	<u>8,830,159</u>
Total liabilities and net assets	<u>\$ 17,625,834</u>	<u>\$ 18,173,909</u>

Hospital District No. 1 of Rice County
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended April 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$517,000, 2010 – \$416,000	\$ 9,077,938	\$ 8,367,204
Nonpatient meals	46,471	44,873
Other	213,811	234,532
Total operating revenues	9,338,220	8,646,609
Operating Expenses		
Salaries and wages	5,132,772	4,699,178
Employee benefits	1,482,002	1,228,359
Supplies and other	3,268,085	3,087,936
Depreciation and amortization	1,004,159	990,319
Total operating expenses	10,887,018	10,005,792
Operating Loss	(1,548,798)	(1,359,183)
Nonoperating Revenues (Expenses)		
Property taxes	819,376	824,957
Investment income	225,295	416,608
Interest expense	(297,670)	(361,798)
Noncapital grants and gifts	362,624	52,337
Farm and royalty income (net of expenses)	24,613	26,947
Total nonoperating revenues	1,134,238	959,051
Change in Net Assets	(414,560)	(400,132)
Net Assets, Beginning of Year	8,830,159	9,230,291
Net Assets, End of Year	\$ 8,415,599	\$ 8,830,159

Hospital District No. 1 of Rice County
Statements of Cash Flows
Years Ended April 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 8,904,295	\$ 8,810,836
Payments to suppliers and contractors	(3,129,324)	(3,080,307)
Payments to employees	(6,554,264)	(5,836,200)
Other receipts, net	<u>260,282</u>	<u>279,405</u>
Net cash provided by (used in) operating activities	<u>(519,011)</u>	<u>173,734</u>
Noncapital Financing Activities		
Property taxes	819,788	809,895
Noncapital grants and gifts	362,624	52,337
Farm and royalty income (net of expenses)	<u>24,613</u>	<u>26,947</u>
Net cash provided by noncapital financing activities	<u>1,207,025</u>	<u>889,179</u>
Capital and Related Financing Activities		
Purchases of capital assets	(482,867)	(526,226)
Principal paid on long-term debt	(410,268)	(414,632)
Interest paid on long-term debt	<u>(297,670)</u>	<u>(361,798)</u>
Net cash used in capital and related financing activities	<u>(1,190,805)</u>	<u>(1,302,656)</u>
Investing Activities		
Net change in short-term investments	987,734	(853,527)
Net change in noncurrent cash and investments	(516,539)	247,958
Investment income	<u>225,295</u>	<u>416,608</u>
Net cash provided by (used in) investing activities	<u>696,490</u>	<u>(188,961)</u>
Increase (Decrease) in Cash	193,699	(428,704)
Cash, Beginning of Year	<u>97,172</u>	<u>525,876</u>
Cash, End of Year	<u>\$ 290,871</u>	<u>\$ 97,172</u>

Hospital District No. 1 of Rice County
Statements of Cash Flows (Continued)
Years Ended April 30, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net		
Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,548,798)	\$ (1,359,183)
Depreciation and amortization	1,004,159	990,319
Provision for uncollectible accounts	516,863	415,842
Changes in operating assets and liabilities		
Patient accounts receivable	(558,317)	(990,116)
Estimated amounts due from third-party payers	(132,189)	1,017,906
Supplies	(45,434)	(5,697)
Prepaid expenses and other	(25,546)	(131,656)
Accounts payable and accrued expenses	270,251	236,319
Net cash provided by (used in) operating activities	\$ (519,011)	\$ 173,734

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

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

Nature of Operations and Reporting Entity

Hospital District No. 1 of Rice County (Hospital District) is a municipality of the State of Kansas and is governed by a Board of Directors who is elected by the residents of the District. The Hospital District provides general, acute, outpatient and limited long-term hospital care and services. The Hospital District is a licensed Critical Access Hospital (CAH) located in Lyons, Kansas.

Basis of Accounting and Presentation

The financial statements of the Hospital District 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 (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital District 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 District 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 District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on and after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Budgetary Principles

The Hospital District is required by state statutes to adopt annual budgets on or before August 25 for the ensuing calendar year. The Hospital District'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 individual funds.

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 governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no encumbrances at April 30, 2011 and 2010. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital District's Board of Directors.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

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 District considers all liquid investments with original maturities of three months or less to be cash equivalents except for noncurrent cash and investments held by Rice Community Healthcare Foundation. At April 30, 2011 and 2010, there were no cash equivalents.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. The county treasurer is the tax collection agent for all taxing entities within the county. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At April 30 such taxes are a lien on the property and are recorded as taxes receivable, net of amounts received and anticipated delinquencies. Taxes receivable are also deferred and amortized ratably to income throughout the fiscal year.

The Hospital District received approximately 8% in 2011 and 9% in 2010 of its financial support from property taxes.

Risk Management

The Hospital District 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 other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

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, dividends, and gains and losses, both realized and unrealized, on investments.

Patient Accounts Receivable

The Hospital District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District 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.

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:

Land improvements	12 – 15 years
Building	10 – 50 years
Fixed equipment	10 – 20 years
Major moveable equipment	5 – 20 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected in nonoperating revenue (expense).

The Hospital District 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. There was no interest capitalized in 2011. Total interest capitalized was \$129,057 in 2010.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Deferred Financing Costs

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

Hospital District 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 Hospital District 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 District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

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

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Charity Care

The Hospital District 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 District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The amount of charges foregone for services and supplies furnished under the Hospital District's charity care policy was \$28,504 and \$92,455 in 2011 and 2010, respectively.

Income Taxes

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

Foundation

The Rice Community Healthcare Foundation (Foundation) is a legally separate, not-for-profit 501(c)(3) corporation organized under the Kansas General Corporation Code for exclusively charitable purposes. Membership in the Foundation is limited to the Hospital District. As the Hospital District may impose its will on the Foundation, and as it exists to provide services entirely to the Hospital District, the Foundation is, accordingly, included as a component unit in the Hospital District's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital District 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 District is recognized as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicare Administrative Contractor.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

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 Hospital District is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital District and reviews thereof by the Kansas Health Policy Authority. The Hospital District is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 70% and 72% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 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 Hospital District 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 District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue consists of the following for the year ended April 30:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 9,467,425	\$ 8,467,108
Plus (less)		
Contractual adjustments		
Medicare	1,456,386	1,529,951
Medicaid	(368,966)	(91,738)
Other	(960,044)	(1,122,275)
Provision for uncollectible accounts	<u>(516,863)</u>	<u>(415,842)</u>
Net patient service revenue	<u>\$ 9,077,938</u>	<u>\$ 8,367,204</u>

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 Hospital District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

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 April 30, 2011 and 2010, respectively, \$1,250,708 and \$1,768,115 of the Hospital District's bank balances of \$1,785,934 and \$2,516,079 were exposed to custodial credit risk as follows:

	<u>2011</u>	<u>2010</u>
Uninsured and uncollateralized	\$ 14,513	\$ 84,403
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital District's name	<u>1,236,195</u>	<u>1,683,712</u>
	<u>\$ 1,250,708</u>	<u>\$ 1,768,115</u>

Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	<u>\$ 1,696,245</u>	<u>\$ 2,490,280</u>
Included in the following balance sheet captions		
Cash	\$ 290,871	\$ 97,172
Short-term investments	<u>1,405,374</u>	<u>2,393,108</u>
	<u>\$ 1,696,245</u>	<u>\$ 2,490,280</u>

Noncurrent Cash and Investments

Noncurrent cash and investments held by the Hospital District and the Foundation are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain securities, it is reasonably possible that changes in the values of securities will occur in the near term and that such changes could materially affect the amount reported in the statements of revenues, expenses and changes in net assets.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Noncurrent cash and investments consist of the following at April 30, 2011 and 2010:

April 30, 2011				
Maturities in Years				
Type	Fair Value	Less than 1	1-5	6-10
U.S. agencies obligations	\$ 365,528	\$ 35,047	\$ 330,481	\$ -
Corporate bonds	249,062	-	237,914	11,148
Municipal bonds	10,136	10,136	-	-
Money market mutual funds	945,764	945,764	-	-
		\$ 990,947	\$ 568,395	\$ 11,148
Cash	18,906			
Surrender value of life insurance	14,515			
Corporate stocks	1,516,512			
	<u>\$ 3,120,423</u>			
April 30, 2010				
Maturities in Years				
Type	Fair Value	Less than 1	1-5	6-10
U.S. agencies obligations	\$ 232,184	\$ 81,215	\$ 150,969	\$ -
Corporate bonds	288,893	30,270	226,162	32,461
Municipal bonds	10,518	10,518	-	-
Money market mutual funds	1,036,997	1,036,997	-	-
		\$ 1,159,000	\$ 377,131	\$ 32,461
Cash	26,494			
Surrender value of life insurance	14,515			
Corporate stocks	994,283			
	<u>\$ 2,603,884</u>			

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Reconciliation of noncurrent assets to balance sheets:

	2011	2010
Held by trustee for debt service	\$ 898,010	\$ 897,096
Held by Rice Community Healthcare Foundation	2,110,387	1,614,677
Internally designated for capital improvements	1,373	6,692
Restricted by donors for capital acquisitions and specific operating activities	110,653	85,419
Total noncurrent cash and investments	<u>\$ 3,120,423</u>	<u>\$ 2,603,884</u>

Note 4: Patient Accounts Receivable

The Hospital District 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 April 30 consisted of:

	2011	2010
Medicare	\$ 604,156	\$ 933,149
Medicaid	63,137	20,587
Blue Cross	142,684	115,991
Other third-party payers	393,722	170,639
Patients	941,487	711,546
	<u>2,145,186</u>	<u>1,951,912</u>
Less allowance for uncollectible accounts	<u>530,270</u>	<u>378,450</u>
	<u>\$ 1,614,916</u>	<u>\$ 1,573,462</u>

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Note 6: Long-term Debt

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable (A)	\$ 6,940,000	\$ -	\$ 295,000	\$ 6,645,000	\$ 305,000
Capital lease obligations	384,058	-	115,268	268,790	103,638
Total long-term debt	\$ 7,324,058	\$ -	\$ 410,268	\$ 6,913,790	\$ 408,638
	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable (A)	\$ 7,225,000	\$ -	\$ 285,000	\$ 6,940,000	\$ 295,000
Capital lease obligations	513,690	-	129,632	384,058	114,219
Total long-term debt	\$ 7,738,690	\$ -	\$ 414,632	\$ 7,324,058	\$ 409,219

(A) Due December 1, 2026, principal payable annually beginning December 1, 2008, plus semi-annual interest payments at interest rates from 3.75% to 4.50%; secured by the project and trustee-held assets.

Revenue Bonds Payable

In December 2006, the Hospital District issued \$7,500,000 Rice County Public Commission Revenue Bonds, Series 2006. The bond proceeds were used for the purpose of constructing, furnishing and equipping certain improvements to the existing hospital. Under the terms of the Hospital District's Revenue Bond Indentures, the Hospital District is required to maintain certain funds with a trustee. Accordingly, these funds are included as restricted cash and investments – current and noncurrent cash and investments held by trustee for debt service in the accompanying balance sheets.

Hospital District No. 1 of Rice County
Notes to Financial Statements
April 30, 2011 and 2010

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

Year Ending April 30,	Total to be Paid	Principal	Interest
2012	\$ 584,650	\$ 305,000	\$ 279,650
2013	583,213	315,000	268,213
2014	586,243	330,000	256,243
2015	583,537	340,000	243,537
2016	585,277	355,000	230,277
2017-2021	2,909,923	1,985,000	924,923
2022-2026	2,918,400	2,455,000	463,400
2027	585,200	560,000	25,200
	<u>\$ 9,336,443</u>	<u>\$ 6,645,000</u>	<u>\$ 2,691,443</u>

Capital Lease Obligations

The Hospital District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at April 30, 2011 and 2010, totaled \$259,293 and \$377,526, respectively, net of accumulated depreciation of \$250,895 and \$229,832, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.54% to 3.65% together with the present value of the future minimum lease payments as of April 30, 2011:

Year Ending April 30,	
2012	\$ 111,622
2013	111,622
2014	58,359
Total minimum lease payments	<u>281,603</u>
Less amount representing interest	<u>12,813</u>
Present value of future minimum lease payments	<u>\$ 268,790</u>

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Note 7: Pension Plan

KPERS Plan

The Hospital District participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas, Suite 100, Topeka, Kansas 66603) or by calling 1.888.275.5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar years 2010 and 2009 was 6.14% and 5.54%, respectively. The Hospital District's employer contributions to KPERS for the years ended April 30, 2011 and 2010, were \$348,495 and \$294,471, respectively, equal to the statutory required contributions for each year.

Defined Contribution Plan

The Hospital District provides a 403(b) plan to substantially all employees of the Hospital District. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. The Hospital District does not make contributions to the 403(b) plan.

Note 8: Compliance with Kansas Law

Kansas statutes require that fixed budgets be legally adopted for all enterprise and debt service funds. Budgets are prepared utilizing the modified accrual basis of accounting. Kansas statutes prohibit creating expenditures in excess of the total amount of the adopted budget of expenditures, which is prepared on a calendar year basis. Calendar year budgeted expenditures are compared to the Hospital District's enterprise fund, which are on an annualized calendar year basis as follows:

Operating expenses	\$ 11,395,511
Capital outlays	411,723
Depreciation	(975,890)
Provision for uncollectible accounts	(483,189)
Annualized calendar expenses	<u>10,348,155</u>
Budgeted expenditures	<u>10,970,215</u>
Favorable variance	<u><u>\$ 622,060</u></u>

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2011 and 2010

Note 9: Medical Malpractice Coverage and Claims

The Hospital District purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides \$1,000,000 of coverage for each medical incident and \$3,000,000 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.

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

Note 10: Subsequent Events

Subsequent events have been evaluated through October 10, 2011, which is the date the financial statements were available to be issued.

The Hospital District purchased the Sterling Clinic in Sterling, Kansas. The purchase transaction was effective May 1, 2011. The purchase price was approximately \$100,000. The Sterling Clinic will be operated by the Hospital District as a rural health clinic.

Note 11: Current Economic Conditions

The current protracted economic environment presents 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 District.

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 District's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

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

Supplementary Information

Hospital District No. 1 of Rice County
Combining Schedule of Revenues, Expenses and Changes in Net Assets
April 30, 2011 and 2010

	2011		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2011 – \$517,000, 2010 – \$416,000	\$ 9,077,938	\$ -	\$ 9,077,938
Nonpatient meals	46,471	-	46,471
Other	199,350	14,461	213,811
Total operating revenues	<u>9,323,759</u>	<u>14,461</u>	<u>9,338,220</u>
Operating Expenses			
Salaries and wages	5,132,772	-	5,132,772
Employee benefits	1,482,002	-	1,482,002
Supplies and other	3,211,499	56,586	3,268,085
Depreciation and amortization	1,004,159	-	1,004,159
Total operating expenses	<u>10,830,432</u>	<u>56,586</u>	<u>10,887,018</u>
Operating Loss	<u>(1,506,673)</u>	<u>(42,125)</u>	<u>(1,548,798)</u>
Nonoperating Revenues (Expenses)			
Property taxes	819,376	-	819,376
Investment income	15,196	210,099	225,295
Interest expense	(297,670)	-	(297,670)
Noncapital grants and gifts	9,267	353,357	362,624
Farm and royalty income (net of expenses)	-	24,613	24,613
Total nonoperating revenues (expenses)	<u>546,169</u>	<u>588,069</u>	<u>1,134,238</u>
Excess of Revenues Over Expenses (Expenses Over Revenues)			
Before Transfers	(960,504)	545,944	(414,560)
Transfers	25,000	(25,000)	-
Change in Net Assets	(935,504)	520,944	(414,560)
Net Assets, Beginning of Year	<u>7,109,744</u>	<u>1,720,415</u>	<u>8,830,159</u>
Net Assets, End of Year	<u><u>\$ 6,174,240</u></u>	<u><u>\$ 2,241,359</u></u>	<u><u>\$ 8,415,599</u></u>

2010		
Hospital	Foundation	Total
\$ 8,367,204	\$ -	\$ 8,367,204
44,873	-	44,873
234,532	-	234,532
<u>8,646,609</u>	<u>-</u>	<u>8,646,609</u>
4,699,178	-	4,699,178
1,228,359	-	1,228,359
3,045,335	42,601	3,087,936
990,319	-	990,319
<u>9,963,191</u>	<u>42,601</u>	<u>10,005,792</u>
<u>(1,316,582)</u>	<u>(42,601)</u>	<u>(1,359,183)</u>
824,957	-	824,957
74,744	341,864	416,608
(361,798)	-	(361,798)
36,524	15,813	52,337
-	26,947	26,947
<u>574,427</u>	<u>384,624</u>	<u>959,051</u>
(742,155)	342,023	(400,132)
<u>661,107</u>	<u>(661,107)</u>	<u>-</u>
(81,048)	(319,084)	(400,132)
<u>7,190,792</u>	<u>2,039,499</u>	<u>9,230,291</u>
<u>\$ 7,109,744</u>	<u>\$ 1,720,415</u>	<u>\$ 8,830,159</u>