

SATANTA HOSPITAL DISTRICT
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Satanta Hospital District
Satanta, KS 67870

We have audited the accompanying financial statements of the business-type activity of the Satanta Hospital District as of December 31, 2011, and for the year then ended, which collectively comprise the basic financial statements of the District's primary government as listed in the table of contents. These financial statements are the responsibility of the Satanta Hospital District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's 2010 financial statements and, in our report dated May 10, 2011, we expressed an unqualified opinion on the respective financial statements of the business-type activity.

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

The financial statements do not include financial data for the District's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the District's primary government unless the District also issues financial statements for the financial reporting entity that includes the financial data for its component unit. The District has not issued such reporting entity financial statements. The effect on the financial statements of the omission of the aggregate discretely presented component unit, although not reasonably determinable, is presumed to be material.

In our opinion, because of the omission of the discretely presented component unit as discussed above, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America the financial position of the discretely presented component unit of Satanta Hospital District as of December 31, 2011 and 2010, or the changes in its financial position thereof for the years then ended.

In addition, in our opinion, except for the effects of omitting the blended component unit as discussed previously, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the Satanta Hospital District as of December 31, 2011, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity for the primary government of the Satanta Hospital District as of December 31, 2011, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages iii through vi be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operation, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements of the business-type activities of Satanta Hospital District's primary government's financial statements. The information identified in the table of contents as supplemental schedules is presented for purposes of additional analysis and is not a required part of the primary government's financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the primary government's financial statements. The information has been subjected to the auditing procedures applied in the audits of the primary government's financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the primary government's financial statements as a whole.


LEWIS, HOOPER & DICK, LLC

May 24, 2012

Satanta Hospital District

Management Discussion and Analysis

For the years ended December 31, 2011 and 2010

The following information provides an overview of Satanta Hospital District's financial performance for fiscal years ending December 31, 2011 and 2010. The information contained here is intended to provide the users of these financial statements with a well rounded picture of the District's financial condition. It addresses the primary government financial statements only; the component unit is not discussed in this Management's Discussion and Analysis. A more detailed presentation is given in the District's basic financial statements, footnotes and supplementary information (pages 2-25). Responsibility for this discussion and the completeness and fairness of the information presented resides with the District.

Financial Highlights

The District's total assets increased from 2010 to 2011, by \$2,133,054. At December 31, 2011, total assets were \$14,592,484 as compared to \$12,459,430 at December 31, 2010.

Long-term debt totaled \$3,371,144 at December 31, 2011, and \$1,895,753 at December 31, 2010, which is an increase of \$1,475,391.

The District's reported net patient service revenue was \$9,487,013 for fiscal year 2011, and was \$8,808,874 for fiscal year 2010; an increase of \$678,139 or 7.70%.

The District received \$2,801,007 in property tax distributions in fiscal year 2011, and \$2,480,909 in fiscal year 2010. Specific amounts within the property tax distribution are earmarked for long-term bond obligations and employee benefits, as well as a portion of operational costs.

The District reported an excess of revenues over expenses before capital grants, contributions and additions to permanent endowments of \$76,782 for fiscal year 2011, as compared to \$28,942 for fiscal year 2010. This was an increase of \$47,840, or 165.30%.

Using this Annual Report

The District's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District for restricted purposes by contributors, grantors, or enabling legislation.

The discussion following is provided to allow for a more simplified understanding of the District's level of financial stability in relation to that of the previous year (fiscal year 2010).

Net Assets

The District's net assets are the difference between its assets and liabilities reported in the balance sheets on page 2. The District's net assets increased in the past year by \$116,643, or 1.69%, compared to an increase in net assets of \$59,668, or 0.87%, in the previous year, as you can see in the following table.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 6,815,099	\$ 7,564,629	\$ 5,375,386
Noncurrent assets	<u>7,777,385</u>	<u>4,894,801</u>	<u>5,128,905</u>
Total assets	<u>\$ 14,592,484</u>	<u>\$ 12,459,430</u>	<u>\$ 10,504,291</u>
Liabilities:			
Current liabilities	\$ 4,221,381	\$ 3,680,361	\$ 3,601,108
Long-term debt	<u>3,371,144</u>	<u>1,895,753</u>	<u>79,535</u>
Total liabilities	<u>\$ 7,592,525</u>	<u>\$ 5,576,114</u>	<u>\$ 3,680,643</u>
Net assets:			
Invested in capital assets net of related debt	\$ 3,967,182	\$ 2,752,583	\$ 4,654,440
Restricted expendable net assets	682,067	1,904,475	25,355
Restricted nonexpendable net assets	20,000	20,000	20,000
Unrestricted	<u>2,330,710</u>	<u>2,206,258</u>	<u>2,123,853</u>
Total net assets	<u>\$ 6,999,959</u>	<u>\$ 6,883,316</u>	<u>\$ 6,823,648</u>

There was a decrease in the amount of current assets of \$749,530 from 2010; while total assets increased from \$12,459,430 at December 31, 2010, to \$14,592,484 at December 31, 2011.

Long-term debt has increased from \$1,895,753 at December 31, 2010, to \$3,371,144 at December 31, 2011. The issuance of a new general obligation bond for the planned assisted living facility project and additional capital lease purchases were the reasons for this increase in long-term debt. The net effect resulted in increasing the total liabilities at December 31, 2011; total liabilities at December 31, 2010, were \$5,576,114 as compared to \$7,592,525 at December 31, 2011.

New long-term debt initiated during fiscal year 2011, totaled \$2,061,605.

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Operating Results and Changes in Net Assets

In 2011, the District's net assets increased by \$116,643 or 1.69%, as shown in the following table. This increase is made up of different components. This increase in net assets is 1.95 times more than the increase seen in 2010.

	2011	2010	2009
Operating revenues			
Net patient service revenues	\$ 9,487,013	\$ 8,808,874	\$ 8,350,111
Other operating revenues	166,416	203,651	197,599
Total operating revenues	<u>9,653,429</u>	<u>9,012,525</u>	<u>8,547,710</u>
Operating expenses			
Salaries and benefits	6,377,960	6,030,850	5,635,853
Supplies and other expenses	3,572,880	3,346,274	3,347,521
Other operating expenses	1,784,696	1,475,536	1,616,062
Depreciation	558,483	575,217	577,731
Total operating expenses	<u>12,294,019</u>	<u>11,427,877</u>	<u>11,177,167</u>
Operating loss	<u>(2,640,590)</u>	<u>(2,415,352)</u>	<u>(2,629,457)</u>
Nonoperating revenues (expenses)			
Property taxes	2,801,007	2,480,909	2,609,199
Interest income	23,349	15,156	13,893
Other nonoperating revenues (expenses), net	(106,984)	(51,771)	(76,328)
Total nonoperating revenues (expenses)	<u>2,717,372</u>	<u>2,444,294</u>	<u>2,546,764</u>
Excess (deficit) of revenues over (under) expenses before capital grants, contributions, and additions to permanent endowments	76,782	28,942	(82,693)
Capital grants and contributions	<u>39,861</u>	<u>30,726</u>	<u>26,524</u>
Increase (decrease) in net assets	116,643	59,668	(56,169)
Net assets, beginning of year	<u>6,883,316</u>	<u>6,823,648</u>	<u>6,879,817</u>
Net assets, end of year	<u>\$ 6,999,959</u>	<u>\$ 6,883,316</u>	<u>\$ 6,823,648</u>

The increase in net patient service revenues from fiscal year 2010, to fiscal year 2011, in the amount of \$678,139 can be attributed to several items, including:

- The Hospital's total patient days increased 18.5% or 117 days from 634 patient days in 2010 to 751 in 2011. The acute inpatient days increased from 279 in 2010 to 365 in 2011 and skilled/intermediate swing-bed days increased from 355 in 2010 to 386 in 2011.
- The number of clinic visits at both the Satanta and Sublette clinics increased 1,019 visits compared to the prior year. A total of 11,737 patients were seen and/or treated in 2011 as compared to 10,718 patients in 2010.
- Two areas that had positive impact on the net patient revenue for 2011 were retail pharmacy with an increase of \$68,434 in revenue from 2010 to 2011, and a higher resident census in the Long-Term Care Unit resulted in an increase of \$151,304 in patient revenue from 2010 to 2011.

The increase in the operating loss from fiscal year 2010 to fiscal year 2011 of \$225,238 can be primarily attributed to an increase in operating expenses.

All of these factors helped contribute to the 9.33% total operating loss increase for fiscal year 2011.

The District received \$320,098 more in property taxes for fiscal year 2011 than it had for fiscal year 2010 primarily due to the increase in the District's mill levy by 3.060 mills required in part due to a decrease in the assessed valuation of \$20,177,589. When considering the property tax receipts, the District was able to prevent a larger increase its overall loss for fiscal year 2011.

Capital Asset and Debt Administration

At the end of 2011, the District had \$7,716,536 invested in capital assets, net of accumulated depreciation, as detailed in Note 3G to the financial statements. In 2011, the District purchased new equipment costing \$691,047. This is \$624,163 more than was spent to acquire new equipment in 2010. A large part of the 2011 acquisitions were for the following:

CT scanner	\$ 346,087
Chemistry analyzer	70,149
Bone densitometer	59,950
PACS system	44,262

A new renovation project for an assisted living facility was started in 2010, and continued through 2011.

At December 31, 2011, the District had \$3,729,490 in general obligation bonds and capital lease obligations outstanding. The District issued \$2,061,605 in new debt in 2011, and \$2,024,419 in new debt in 2010. The District's formal debt issuances – general obligation bonds – cannot be issued without approval of the citizens of the District. The amount of debt issued is subject to limitations that apply to the District.

Budget Information

As discussed above, the mill levy for the District declined for the last year due to an increase in the tax base. There were no amendments to the original budgets adopted during the last two years. In addition, there have been no significant variations between the budgeted and actual results for the District's three tax levying funds as presented on page 24 of the financial statements.

Other Economic Factors

The outlook for the District's finances is bright for the up-coming year 2012. Although the District, as any other healthcare entity does, will have to deal with continued reimbursement challenges and rising costs of providing healthcare, we feel positive that we are working to counter those issues with increased service offerings and better efficiency.

Contact Information

If you have any questions about this report or need additional financial information, please contact the Administrator or the Director of Finance at Satanta District Hospital, 401 Cheyenne, Satanta, KS 67870 or at (620) 649-2761.

FINANCIAL STATEMENTS

SATANTA HOSPITAL DISTRICT
Balance Sheets
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,624,470	\$ 1,430,693
Donor restricted cash	64,578	58,786
Restricted cash for capital project	637,489	1,865,689
Accounts receivable, less allowance for doubtful accounts of \$453,702 and \$326,911	1,102,125	1,049,359
Due from Medicare and Medicaid for contractual adjustments	204,635	183,957
Uncollected current property taxes receivable	2,727,805	2,527,718
Inventories	365,048	358,878
Prepaid expenses	88,949	89,549
TOTAL CURRENT ASSETS	<u>6,815,099</u>	<u>7,564,629</u>
NONCURRENT ASSETS		
Deferred bond costs	60,849	37,247
CAPITAL ASSETS, net of accumulated depreciation	<u>7,716,536</u>	<u>4,857,554</u>
TOTAL NONCURRENT ASSETS	<u>7,777,385</u>	<u>4,894,801</u>
TOTAL ASSETS	<u>\$ 14,592,484</u>	<u>\$ 12,459,430</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 262,090	\$ 147,362
Accrued payroll	141,673	138,857
Accrued compensated absences	257,584	235,810
Other accrued expenses	230,610	211,511
Accrued interest payable	34,340	13,293
Current portion of long-term debt	439,059	246,465
Deferred revenue - routine services	128,220	159,345
Deferred revenue - current property taxes	<u>2,727,805</u>	<u>2,527,718</u>
TOTAL CURRENT LIABILITIES	4,221,381	3,680,361
LONG-TERM DEBT, net of current maturities	<u>3,371,144</u>	<u>1,895,753</u>
TOTAL LIABILITIES	<u>7,592,525</u>	<u>5,576,114</u>
NET ASSETS		
Invested in capital assets net of related debt	3,967,182	2,752,583
Restricted:		
Expendable for capital acquisitions	675,722	1,895,264
Expendable for employee activities	723	3,800
Expendable for scholarships	5,622	5,411
Nonexpendable permanent endowments	20,000	20,000
Unrestricted	<u>2,330,710</u>	<u>2,206,258</u>
TOTAL NET ASSETS	<u>6,999,959</u>	<u>6,883,316</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,592,484</u>	<u>\$ 12,459,430</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
 Statements of Revenues, Expenses and Changes in Net Assets
 For the years ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
PATIENT SERVICE REVENUES		
Routine services - hospital	\$ 383,680	\$ 313,745
Routine services - LTCU	1,804,865	1,653,561
Ancillary services - Satanta Clinic	822,303	688,501
Ancillary services - Sublette Clinic	394,259	330,739
Ancillary services - retail pharmacy	1,909,984	1,978,418
Ancillary services - other	4,517,785	3,990,586
Total patient service revenues	9,832,876	8,955,550
Adjustments to patient service revenues:		
Contractual adjustments - Medicare and Medicaid	335,739	431,618
Contractual adjustments - Blue Cross	(503,886)	(430,489)
Administrative adjustments	(177,716)	(147,805)
Total adjustments to patient service revenues	(345,863)	(146,676)
NET PATIENT SERVICE REVENUES	9,487,013	8,808,874
OTHER OPERATING REVENUES		
Cafeteria sales	19,254	17,173
Other	147,162	186,478
TOTAL OPERATING REVENUES	9,653,429	9,012,525
OPERATING EXPENSES		
Salaries	5,163,701	4,931,876
Employee benefits	1,214,259	1,098,974
Supplies and other expenses	3,572,880	3,346,274
Professional service	1,467,812	1,326,465
Provision for uncollectible accounts	316,884	149,071
Depreciation	558,483	575,217
TOTAL OPERATING EXPENSES	12,294,019	11,427,877
OPERATING LOSS	(2,640,590)	(2,415,352)
NONOPERATING REVENUES (EXPENSES)		
Property taxes	2,801,007	2,480,909
Interest income	23,349	15,156
Gain (loss) on disposal of assets	3,066	-
Interest expense and fees	(110,050)	(51,771)
TOTAL NONOPERATING REVENUES (EXPENSES)	2,717,372	2,444,294
EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS, CONTRIBUTIONS, AND ADDITIONS TO PERMANENT ENDOWMENTS	76,782	28,942
CAPITAL GRANTS AND CONTRIBUTIONS	39,861	30,726
INCREASE IN NET ASSETS	116,643	59,668
NET ASSETS, BEGINNING OF YEAR	6,883,316	6,823,648
NET ASSETS, END OF YEAR	\$ 6,999,959	\$ 6,883,316

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on behalf of patients	\$ 9,065,560	\$ 8,888,872
Payments to suppliers and contractors	(6,126,694)	(5,711,859)
Payments to employees	(5,139,111)	(4,912,590)
Other receipts and payments, net	166,416	203,651
NET CASH USED BY OPERATING ACTIVITIES	(2,033,829)	(1,531,926)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property taxes	2,801,007	2,480,909
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital grants and contributions	39,861	30,726
Purchases of property and equipment	(2,858,794)	(279,447)
Proceeds from sale of property and equipment	6,000	-
Proceeds from issuance of long-term debt	1,500,000	2,000,000
Premium from issuance of long-term debt	54,335	42,615
Principal paid on long-term debt	(433,367)	(422,034)
Interest paid on long-term debt	(92,474)	(19,643)
Bond issuance costs	(34,719)	(38,848)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(1,819,158)	1,313,369
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	23,349	15,156
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,028,631)	2,277,508
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,355,168	1,077,660
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 2,326,537	\$ 3,355,168
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and cash equivalents in current assets	\$ 1,624,470	\$ 1,430,693
Donor restricted cash	64,578	58,786
Restricted cash for capital project	637,489	1,865,689
TOTAL CASH AND CASH EQUIVALENTS	\$ 2,326,537	\$ 3,355,168
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,640,590)	\$ (2,415,352)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation	558,483	575,217
Provision for uncollectible accounts	316,884	149,071
Changes in:		
Accounts receivable	(369,650)	(267,209)
Due from Medicare and Medicaid for contractual adjustments	(20,678)	301,745
Inventories	(6,170)	13,917
Prepaid expenses	600	18,663
Accounts payable	114,728	10,839
Accrued payroll	2,816	346
Accrued compensated absences	21,774	18,940
Other accrued expenses	19,099	16,435
Deferred revenue-routine services	(31,125)	45,462
NET CASH USED BY OPERATING ACTIVITIES	\$ (2,033,829)	\$ (1,531,926)

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of significant accounting policies

The Satanta Hospital District is a tax levying municipality which operates as the Satanta District Hospital located in Satanta, Kansas. The District is a health care facility organized as a district hospital pursuant to K.S.A. 80-2113 and includes the operation of the hospital and long-term care unit, Satanta clinic, and Sublette clinic. They are operated from facilities owned and leased by the Satanta Hospital District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Financial reporting entity

The Satanta Hospital District is governed by an elected five-member board. These financial statements present the Satanta Hospital District (the primary government) only. The following organization is a component unit of the District's reporting entity because of the significance of its operational or financial relationship with the District; however, it is not included in the District's primary government financial statements.

Haskell County Health Foundation has its own Board of Directors, who operates independently from the District. Haskell County Health Foundation (a nonprofit corporation) was formed in 1999 under the laws of the State of Kansas, for the purpose of developing and supporting health services in Haskell County, Kansas. The purpose of Haskell County Health Foundation as a charitable organization is to promote health care. This is accomplished by providing monetary and service support for health services and programs. Haskell County Health Foundation is a separate, legal entity that prepares and operates under its own budget. The Satanta Hospital District has the power to appoint Haskell County Health Foundation's board members. The Board of Directors is responsible for the management and fiscal accountability of Haskell County Health Foundation. The Foundation has a December 31st year end. The Foundation does not issue separate financial statements.

B. Enterprise fund accounting

Private-sector standards of accounting and financial reporting issued by the Financial Accounting Standards Board prior to December 1, 1989, generally are followed in the business-type activity's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The District has elected not to follow subsequent private-sector guidance.

C. 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.

D. Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of significant accounting policies (continued)

E. Capital assets

Prior to January 1, 1978, capital assets were not capitalized and historical cost data is unavailable. Capital assets have been valued by management using an estimate to establish cost of assets acquired before January 1, 1978. All capital assets acquired after January 1, 1978, are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following asset lives:

Land improvements	15 to 20 years
Buildings and building improvements	40 years
Equipment	5 to 20 years

F. Costs of borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the District's interest costs were capitalized in either 2011 or 2010.

G. Property taxes and deferred revenue

The District received approximately 22% in 2011, and 21% in 2010, of its financial support from property taxes. These funds were used as follows:

	2011		2010	
Used to support operations	\$ 2,404,018	19%	\$ 2,238,866	19%
Used for debt service on general obligation bonds	\$ 396,989	3%	\$ 242,043	2%

The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the counties. The County Appraiser annually determines assessed valuations based on real property transactions as recorded by the Register of Deeds and personal property holdings reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls and the County Treasurer collects the taxes for all taxing entities within the County.

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, are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31, 2011 and 2010, such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies of \$54,557 and \$50,555, respectively, with a corresponding amount recorded as deferred revenue on the balance sheets of the appropriate funds. It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the accounting period, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of significant accounting policies (continued)

H. Inventories and prepaid items

Inventories are stated at the lower of cost or market. Cost has been determined on the first-in, first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

I. Doubtful accounts

Accounts receivable in excess of four months are charged to the allowance for doubtful accounts.

J. Long-term obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

K. Net patient service revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

L. Grants and contributions

From time to time, the District receives grants from the State of Kansas as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

M. Endowments

Endowments are provided to the District on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the District's Board of Trustees may authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note 2.

N. Restricted resources

When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of significant accounting policies (continued)

O. Net assets

Net assets of the District are classified in four components. *Net assets invested in capital assets net of related debt* consist of property and equipment net of accumulated depreciation and reduced by the current 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 creditors, grantors or contributors external to the District. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted in expendable or nonexpendable net assets*.

P. Operating revenues and expenses

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Q. Concentration of credit risk

The District's business activity is primarily with patients located within Haskell County, Kansas. The District grants credit without collateral to its patients, most of whom are local residents with most of those having insurance under third-party payer agreements. Revenues from patients and third-party payors were as follows:

	2011	2010
Medicare and Medicaid	26%	21%
Blue Cross	9%	14%
Other third-party payors (none over 10%)	12%	8%
Patients	53%	57%
	100%	100%

R. Compensated absences

The District's policy is to recognize the cost of paid time off when actually paid. Paid time off may be used for sick leave, emergency leave, vacation leave and holidays. Employees may accumulate paid time off at a maximum rate of 6.4 hours for every 72 regular hours worked; employees with 5 to 10 years or more of continuous service receive an additional 40 to 80 hours, respectively, of paid time off per year, with a maximum accumulation of 400 hours. Employees can sell back a maximum of 80 hours of accumulated paid time off per year at a reduced rate and subject to other restrictions. The District has determined the dollar amount of accumulated paid time off at December 31, 2011 and 2010, at \$257,584 and \$235,810, respectively.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

2. Stewardship, compliance and accountability

A. Budget and tax cycle

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), and debt service funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments to the adopted annual operating budget for 2011 or 2010.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All encumbered appropriations (legal budget expenditure authority) lapse at year end.

A legal operating budget is not required for capital project funds, fiduciary funds and certain special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by statutes or by the use of internal spending limits established by the governing body.

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment to the taxing units. One-half of the property taxes are due December 20th and distributed to the District by January 20th. The second half is due May 10th and distributed to the District by June 5th. Both distributions to the District are in its next budget year. The District Treasurer draws available funds from the County Treasurer's office at designated times throughout the year.

B. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretations of the law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representation of the District. No material violations of Kansas statutes were noted.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes

A. Endowments and restricted net assets

Restricted, expendable net assets are available for the following purposes:

	2011	2010
Capital acquisitions	\$ 675,722	\$ 1,895,264
Employee activities	723	3,800
Scholarships	5,622	5,411
Total expendable, restricted net assets	\$ 682,067	\$ 1,904,475

Unless the contributor provides specific instructions, the Board of Trustees may authorize for expenditure the net appreciation (realized and unrealized) of the investments of its endowments. When administering its power to spend appreciation, the Board of Trustees is required to consider the District's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) for scholarships each year. The District retains the remaining amount, if any, to be used in future years when the amount chosen to be spent exceeds investment income. At December 31, 2011 and 2010, net appreciation of \$5,622 and \$5,411, respectively, is available to be spent, all of which is reported as restricted expendable net assets.

Restricted nonexpendable net assets as of December 31, 2011 and 2010, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the District's permanent endowments are expendable to support these programs as established by the contributor:

	2011	2010
Scholarships	\$ 20,000	\$ 20,000

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

B. Designated net assets

Of the \$2,330,710 and \$2,206,558 of unrestricted net assets reported in 2011 and 2010, respectively, the following amounts have been designated by the District's Board of Trustees for the purposes specified.

	2011	2010
Employee benefits	\$ 42,039	\$ 8,821
Bond and interest payments	41,975	6,592
Future expansion	145,328	200,381
Total designated net assets	\$ 229,342	\$ 215,794

Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

C. Deposits and investments

Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2011	2010
Cash	\$ 1,197,857	\$ 1,211,392
Operating savings	145,328	141,033
General tax accounts	197,271	62,855
Employee benefits tax accounts	42,039	8,821
Bond and interest tax accounts	41,975	6,592
Total cash and cash equivalents, current assets	1,624,470	1,430,693
Donor restricted cash	64,578	58,786
Restricted cash for capital project	637,489	1,865,689
Total cash and cash equivalents	\$ 2,326,537	\$ 3,355,168

Deposits and investments

A reconciliation of cash and investments as shown on the balance sheets for the primary government is as follows:

	2011	2010
Cash and cash equivalents	\$ 1,624,470	\$ 1,430,693
Donor restricted cash	64,578	58,786
Restricted cash for capital project	637,489	1,865,689
Total cash and investments	\$ 2,326,537	\$ 3,355,168

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

C. Deposits and investments (continued)

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

Investment rate risk

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

The District had no investments of this type at December 31, 2011 and 2010.

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods".

At December 31, 2011, the District's carrying amount of deposits was \$2,326,537 and the bank balance was \$2,695,838. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$257,001 was covered by federal depository insurance, and the balance of \$2,438,837 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

At December 31, 2010, the District's carrying amount of deposits \$3,355,168 and the bank was \$3,540,002. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$269,254 was covered by federal depository insurance, and the balance of \$3,270,748 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial credit risk - investments

Custodial credit risk for an investment is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments of this type at December 31, 2011 and 2010.

D. Charity care

Charges excluded from revenue under the District's charity care policy were \$132,982 and \$124,265 for 2011 and 2010, respectively.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

E. Accounts receivable

Accounts receivable reported as current assets by the District at December 31, 2011, and 2010, consisted of the following amounts:

	2011	2010
Receivable from patients and their insurance carriers	\$ 1,107,715	\$ 1,038,860
Receivable from Medicare	338,486	228,632
Receivable from Medicaid	52,551	49,663
Total patient receivable	1,498,752	1,317,155
Less allowance for doubtful accounts	(453,702)	(326,911)
Patient accounts receivable, net	1,045,050	990,244
Other miscellaneous receivables	57,075	59,115
Accounts receivable, net	\$ 1,102,125	\$ 1,049,359

F. Due to Medicare and Medicaid for contractual adjustments

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2010. The District was designated a critical access hospital as of August 1, 2000.
- Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual Medicare cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicaid reimbursements are currently based on Medicare cost reports which have been audited by the Medicare fiscal intermediary through December 31, 2009.

Revenue from the Medicare and Medicaid programs accounted for approximately 30 percent and 5 percent, respectively, of the District's net patient revenue for the year ended December 31, 2011, and 22 percent and 5 percent, respectively, of the District's net patient revenue for the year ended December 31, 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

F. Due to Medicare and Medicaid for contractual adjustments (continued)

The 2011 and 2010 net patient service revenues increased/(decreased) approximately \$65,779 and \$(35,712), respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

The 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 District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

G. Capital assets

Capital asset additions, retirements and balances for the years ended December 31, 2011 and 2010, were as follows:

	Balance 12/31/10	Additions	Retirements	Balance 12/31/11
Cost:				
Land	\$ 180,198	\$ -	\$ -	\$ 180,198
Hospital, nursing home and clinic building	8,514,662	7,625	-	8,522,287
Hospital and clinic equipment	2,643,598	631,543	614,708	2,660,433
Nursing home equipment	1,107,116	51,879	6,528	1,152,467
Construction in progress	160,479	2,756,897	-	2,917,376
Total cost	12,606,053	3,447,944	621,236	15,432,761
Less accumulated depreciation for:				
Hospital, nursing home and clinic building	(4,643,070)	(292,337)	-	(4,935,407)
Hospital and clinic equipment	(2,101,370)	(224,523)	(584,228)	(1,741,665)
Nursing home equipment	(1,004,059)	(41,623)	(6,529)	(1,039,153)
Total accumulated depreciation	(7,748,499)	(558,483)	(590,757)	(7,716,225)
Net capital assets	\$ 4,857,554	\$ 2,889,461	\$ 30,479	\$ 7,716,536

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

G. Capital assets (continued)

	Balance 12/31/09	Additions	Retirements	Balance 12/31/10
Cost:				
Land	\$ 102,695	\$ 77,503	\$ -	\$ 180,198
Hospital, nursing home and clinic building	8,514,662	-	-	8,514,662
Hospital and clinic equipment	2,622,177	42,098	20,677	2,643,598
Nursing home equipment	1,083,677	24,786	1,347	1,107,116
Construction in progress	1,000	160,479	1,000	160,479
Total cost	12,324,211	304,866	23,024	12,606,053
Less accumulated depreciation for:				
Hospital, nursing home and clinic building	(4,339,010)	(304,060)	-	(4,643,070)
Hospital and clinic equipment	(1,891,332)	(230,715)	(20,677)	(2,101,370)
Nursing home equipment	(964,964)	(40,442)	(1,347)	(1,004,059)
Total accumulated depreciation	(7,195,306)	(575,217)	(22,024)	(7,748,499)
Net capital assets	\$ 5,128,905	\$ (270,351)	\$ 1,000	\$ 4,857,554

H. Capital projects in process

Capital projects under authorized contracts in process at December 31, 2011 and 2010, consisted of the following:

	Project Authorization	Expended to 12-31-10	Expended to 12-31-11	Committed
Assisted Living Facility	\$ 3,489,000	\$ 160,479	\$ 2,708,772	\$ 619,749
Nurse call and security systems	60,157	-	48,126	12,031

I. Leases

Operating leases

On February 8, 2011, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2011, totaled \$2,264. Future minimum lease requirements are \$205 per month through January, 2016.

On May 31, 2010, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2011 and 2010, totaled \$4,648 and \$2,861, respectively. Future minimum lease requirements are \$358 per month through April, 2015.

On November 10, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2011 and 2010, totaled \$6,516 and \$6,516, respectively. Future minimum lease requirements are \$543 per month through November, 2013.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

I. Leases (continued)

Operating leases (continued)

On September 17, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2011 and 2010, totaled \$3,225 and \$2,977, respectively. Future minimum lease requirements are \$248 per month through September, 2013.

On July 9, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2011 and 2010, totaled \$3,824 and \$3,824, respectively. Future minimum lease requirements are \$319 per month through July, 2013.

On May 13, 2005, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2010, totaled \$698. The lease expired May, 2010.

The District entered into a five year operating lease on December 29, 2005, for laboratory equipment. No lease payments are required if the District purchases the required chemicals from the equipment owner. Required minimum reagent purchases for the year ended December 31, 2010, totaled \$4,433. The lease expired December 29, 2010.

On March 19, 2007, the District entered into an operating lease agreement for facilities for the Sublette Clinic. The lease is for 12 months with an annual renewal for an additional four years. No lease payments are required and there are no future minimum lease payments required under this lease agreement, although graduated liquidated damages are due if the District terminates the lease prior to June 30, 2012.

Capital leases payable

The District has entered into various lease agreements to finance the acquisition of equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a summary of assets acquired through these capital lease agreements by the District at December 31, 2011:

Hospital and clinic equipment	\$	592,824
Less accumulated depreciation		<u>(74,591)</u>
Total	\$	<u>518,233</u>

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

I. Leases (continued)

Capital leases payable (continued)

Capital leases payable consist of the following:

	2011	2010
Capital lease obligation, at 7.00% imputed interest collateralized by leased equipment with cost of \$188,709 at December 16, 2005.	\$ -	\$ 29,124
Capital lease obligation, at 11.47% imputed interest collateralized by leased equipment with cost of \$134,750 at December 30, 2005.	-	8,226
Capital lease obligation, at 6.05% imputed interest collateralized by leased equipment with cost of \$175,623 at December 28, 2006.	-	39,483
Capital lease obligation, at 5.61% imputed interest collateralized by leased equipment with cost of \$24,419 at December 23, 2010.	16,728	24,419
Capital lease obligation, at 5.19% imputed interest collateralized by leased equipment with cost of \$59,950 at January 7, 2011.	48,958	-
Capital lease obligation, at 4.22% imputed interest collateralized by leased equipment with cost of \$339,286 at January 7, 2011.	291,805	-
Capital lease obligation, at 5.93% imputed interest collateralized by leased equipment with cost of \$7,644 at May 12, 2011.	6,864	-
Capital lease obligation, at 5.89% imputed interest collateralized by leased equipment with cost of \$14,500 at June 17, 2011.	13,019	-
Capital lease obligation, at 4.98% imputed interest collateralized by leased equipment with cost of \$70,149 at July 28, 2011.	67,040	-
Capital lease obligation, at 8.00% imputed interest collateralized by leased equipment with cost of \$25,814 at December 1, 2011.	25,814	-
Capital lease obligation, at 8.00% imputed interest collateralized by leased equipment with cost of \$44,262 at December 21, 2011.	44,262	-
	514,490	101,252
Total capital leases payable	108,758	84,524
Less current portion	\$ 405,732	\$ 16,728
Long-term portion		

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

I. Leases (continued)

Capital leases payable (continued)

Future minimum lease obligations and the net present value of the minimum lease payments at December 31, 2011, are as follows:

2012	\$	130,730
2013		132,112
2014		123,180
2015		124,278
2016		57,070
2017-2021		<u>18,793</u>
Total minimum lease payments		586,163
Less amount representing interest		<u>(71,673)</u>
Present value of future minimum lease obligations	\$	<u><u>514,490</u></u>

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SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

J. Long-term debt

General obligation bonds

The District issues general obligation bonds to provide funds for the acquisition and construction or improvement of major capital assets. The original principal amount of general obligation bonds issued in prior years was \$2,000,000. During the year ended December 31, 2011, general obligation bonds totaling \$1,500,000 were issued.

General obligation bonds are direct obligations and the full faith and credit of the District is pledged to their repayment. These bonds generally are issued as 5 to 15-year serial bonds with nearly equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

	2011	2010
General obligation bonds Series 2010A, serial bonds due in annual installments of \$155,000 to \$235,000 through September 1, 2020, bearing interest at rate of 2.00% to 3.50%.	\$ 1,845,000	\$ 2,000,000
General obligation bonds Series 2011, serial bonds due in annual installments of \$130,000 to \$175,000 through September 1, 2020, bearing interest at rate of 3.00% to 4.00%.	1,370,000	-
Total general obligation bonds payable	3,215,000	2,000,000
Less current portion	315,000	155,000
Long-term portion	\$ 2,900,000	\$ 1,845,000

Maturities on general obligation bonds payable at December 31, 2011, are as follows:

Year	Principal	Interest	Total
2012	\$ 315,000	\$ 103,019	\$ 418,019
2013	325,000	95,419	420,419
2014	335,000	87,519	422,519
2015	345,000	76,519	421,519
2016	355,000	65,194	420,194
2017-2020	1,540,000	135,626	1,675,626
Total	\$ 3,215,000	\$ 563,296	\$ 3,778,296

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

3. Detailed notes (continued)

J. Long-term debt (continued)

Changes in long-term liabilities

Long-term liability activity for the District for the years ended December 31, 2011 and 2010, was as follows:

	Balance 12/31/10	Additions	Reductions	Balance 12/31/11	Amounts Due Within One Year
General obligation bonds	\$ 2,000,000	\$ 1,500,000	\$ 285,000	\$ 3,215,000	\$ 315,000
Capital leases payable	101,252	561,605	148,367	514,490	108,758
Plus bond premium	40,966	54,335	14,588	80,713	15,301
Total long-term debt	2,142,218	2,115,940	447,955	3,810,203	<u>\$ 439,059</u>
Less current maturities	<u>246,465</u>	<u>439,059</u>	<u>246,465</u>	<u>439,059</u>	
Net long-term debt	<u>\$ 1,895,753</u>	<u>\$ 1,676,881</u>	<u>\$ 201,490</u>	<u>\$ 3,371,144</u>	

	Balance 12/31/09	Additions	Reductions	Balance 12/31/10	Amounts Due Within One Year
General obligation bonds	\$ 310,000	\$ 2,000,000	\$ 310,000	\$ 2,000,000	\$ 155,000
Capital leases payable	188,867	24,419	112,034	101,252	84,524
Plus bond premium	-	42,615	1,649	40,966	6,941
	498,867	2,067,034	423,683	2,142,218	246,465
Less deferred loss on refunding of general obligation bonds, net of amortization	<u>24,402</u>	<u>-</u>	<u>24,402</u>	<u>-</u>	<u>-</u>
Total long-term debt	474,465	2,067,034	399,281	2,142,218	<u>\$ 246,465</u>
Less current maturities	<u>394,930</u>	<u>246,465</u>	<u>394,930</u>	<u>246,465</u>	
Net long-term debt	<u>\$ 79,535</u>	<u>\$ 1,820,569</u>	<u>\$ 4,351</u>	<u>\$ 1,895,753</u>	

4. Other information

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

4. Other information (continued)

B. Commitments and contingencies

Contracts

On March 20, 2008, the District entered into a maintenance agreement for equipment. The agreement was for 3 years; a new maintenance agreement for this equipment was entered into on March 2, 2011, for an additional 3 years. Payments under these maintenance agreements for the years ended December 31, 2011 and 2010, totaled \$6,237 and \$12,021, respectively. Future minimum maintenance requirements are \$6,237 per year through March, 2014.

On December 21, 2006, the District entered into a reagent purchase agreement for an HmX with autoloader. The agreement was for 60 months; during 2011 it was extended for one year through April, 2012. Payments under this reagent purchase agreement for the years ended December 31, 2011 and 2010, totaled \$16,874 and \$5,560, respectively, with no future minimum maintenance requirements remaining.

On December 21, 2006, the District entered into a reagent purchase agreement for an access immunoassay system. The agreement was for 60 months; payments under this reagent purchase agreement for the years ended December 31, 2011 and 2010, totaled \$30,495 and \$30,495, respectively, with no future minimum maintenance requirements remaining.

On December 16, 2005, the District entered into a maintenance agreement for a CT scanner. The agreement was for 60 months; payments under this maintenance agreement for the years ended December 31, 2011 and 2010, totaled \$8,500 and \$34,000, respectively, with no future minimum maintenance requirements remaining.

On April 22, 2004, the District entered into a professional services agreement for psychiatric outpatient hospitalization service. The agreement was for 5 years with annual renewal options for an additional five years; payments under these professional services agreements for the years ended December 31, 2011 and 2010, totaled \$294,000 and \$294,000, respectively. The agreement renewed in April, 2010 and 2009.

On December 21, 2008, the District entered into a professional services agreement for specialized hospital management services. The agreement was for 60 months; payments under these professional services agreements for the years ended December 31, 2011 and 2010, totaled \$91,626 and \$88,102, respectively. Future minimum requirements are as follows:

<u>Year</u>	<u>Amount</u>
2012	\$ 95,291
2013	99,103
Total	<u>\$ 194,394</u>

Litigation

The District has the potential for legal action arising from normal business activities. The District is not currently involved in any pending litigation. Management cannot predict the outcome of potential lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the District's professional liability insurance policy and would not have a material effect on the financial position of the District.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2011 and 2010

4. Other information (continued)

C. Post-employment health care benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. This program is offered for a maximum duration of 36 months after the employee's termination date. There is no cost to the District under this program, and there were two participants in the program at December 31, 2011.

SUPPLEMENTAL SCHEDULES

SATANTA HOSPITAL DISTRICT
Schedules of Revenues, Expenditures and Changes in Unencumbered Cash - Actual and Budget
For the years ended December 31, 2011 and 2010

	2011		Variance Over/ (Under)
	Actual	Budget	
<u>GENERAL FUND</u>			
REVENUES			
Property taxes	\$ 1,941,813	\$ 1,805,974	\$ 135,839
Interest	7,449	-	7,449
TOTAL REVENUES	1,949,262	\$ 1,805,974	\$ 143,288
EXPENDITURES			
Transfer to hospital operations	1,816,929	\$ 1,816,929	\$ -
REVENUE OVER (UNDER) EXPENDITURES	132,333		
UNENCUMBERED CASH, BEGINNING OF YEAR	60,349		
UNENCUMBERED CASH, END OF YEAR	\$ 192,682		
<u>EMPLOYEE BENEFIT FUND</u>			
REVENUES			
Property taxes	\$ 462,204	\$ 430,072	\$ 32,132
Interest	997	-	997
TOTAL REVENUES	463,201	\$ 430,072	\$ 33,129
EXPENDITURES			
Transfer to hospital operations	429,983	\$ 430,000	\$ (17)
REVENUE OVER EXPENDITURES	33,218		
UNENCUMBERED CASH, BEGINNING OF YEAR	8,821		
UNENCUMBERED CASH, END OF YEAR	\$ 42,039		
<u>BOND AND INTEREST FUND</u>			
REVENUES			
Property taxes	\$ 396,989	\$ 369,078	\$ 27,911
Interest	933	-	933
TOTAL REVENUES	397,922	\$ 369,078	\$ 28,844
EXPENDITURES			
Bond principal	285,000	\$ 140,000	\$ 145,000
Interest and fiscal fees	51,272	135,663	(84,391)
Cash Basis Reserve	26,267	91,500	(65,233)
TOTAL EXPENDITURES	362,539	\$ 367,163	\$ (4,624)
REVENUE OVER (UNDER) EXPENDITURES	35,383		
UNENCUMBERED CASH, BEGINNING OF YEAR	6,592		
UNENCUMBERED CASH, END OF YEAR	\$ 41,975		

2010		
Actual	Budget	Variance Over/ (Under)
\$ 1,810,197	\$ 1,804,480	\$ 5,717
8,650	-	8,650
1,818,847	\$ 1,804,480	\$ 14,367
1,925,776	\$ 1,925,776	\$ -
(106,929)		
167,278		
<u>\$ 60,349</u>		
\$ 428,669	\$ 428,065	\$ 604
449	-	449
429,118	\$ 428,065	\$ 1,053
420,504	\$ 420,000	\$ 504
8,614		
207		
<u>\$ 8,821</u>		
\$ 242,043	\$ 240,722	\$ 1,321
-	-	-
242,043	\$ 240,722	\$ 1,321
310,000	\$ 310,000	\$ -
9,881	9,881	-
-	-	-
319,881	\$ 319,881	\$ -
(77,838)		
84,430		
<u>\$ 6,592</u>		

SATANTA HOSPITAL DISTRICT
Notes to Supplementary Information
December 31, 2011 and 2010

1. Explanation of differences between revenues and expenditures for budgetary funds on a budgetary basis and GAAP

There are no differences between the budgetary basis and GAAP for revenues and expenditures of the budgetary funds.

SATANTA HOSPITAL DISTRICT
Schedule of Insurance
December 31, 2011

<u>Description of Coverage</u>	<u>Amount</u>
Comprehensive business policy:	
Blanket building and contents	\$ 15,701,800
Business interruption	2,000,000
Valuable papers and accounts receivable	50,000
Equipment	34,500
Commercial auto:	
Liability	500,000
Uninsured motorist	500,000
Under insured motorist	500,000
Boiler and machinery	1,200,000
Comprehensive general liability:	
Professional liability - basic coverage	200,000/600,000
Professional liability - surcharge	1,000,000/3,000,000
General liability	1,000,000/3,000,000
Directors and officers	1,000,000/1,000,000
Employee dishonesty	50,000
Employee benefits liability	250,000/250,000
Resident fund surety bonds	3,000
Workmen's compensation	Statutory