

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2011 AND 2010

George, Bowerman & Noel, P.A.
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Hospital District No. 1,
Sumner County, Kansas
Caldwell, Kansas

We have audited the financial statements of Hospital District No. 1, Sumner County, Kansas and the discretely presented component unit, as listed in the table of contents, at and for the years ended December 31, 2011 and 2010. 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, Sumner County, Kansas and the discretely presented component unit at December 31, 2011 and 2010, and the results of its operations and cash flows for the years 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 2 through 6 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 operational, 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 sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional 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 is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the basic 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 additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

George, Bowerman & Noel, P.A.

Wichita, Kansas
April 24, 2012

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Hospital District No. 1, Sumner County, Kansas (Hospital District's) financial performance provides an overview of the Hospital District's financial activities for the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the Hospital District's financial statements, which begin on page 7.

Financial Highlights

- The Hospital District's net assets increased in 2011 by \$365,347 or 21.08% compared to an increase in 2010 of \$5,171 or .30%.
- The Hospital District reported an operating loss in both 2011 (\$167,388) and 2010 (\$386,299). The operating loss in 2011 decreased by \$218,911 or 56.67% over the loss reported in 2010. The operating loss in 2010 decreased by \$190,991 or 33.08% over 2009.
- Net nonoperating revenues/expenses increased by \$26,785 or 6.84% in 2011 compared to 2010. Net nonoperating revenues/expenses increased in 2010 by \$31,991 or 8.90% compared to 2009.

Financial Statements

The Hospital District's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net assets, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and change in net assets*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Hospital District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net assets for the year. This statement is an indication of the success of the Hospital District's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital District's cash receipts and cash payments during the year.

Financial Position

The information below summarizes the Hospital District's net assets as of December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 1756,758	\$ 1,542,794	\$ 1,610,341
Capital assets, net	959,642	1,087,561	1,398,317
Other noncurrent assets	<u>107,402</u>	<u>106,834</u>	<u>105,815</u>
Total assets	<u>\$2,823,802</u>	<u>\$2,737,189</u>	<u>\$3,114,473</u>
Liabilities:			
Long-term liabilities	\$ 43,024	\$ 82,806	\$ 376,242
Other liabilities	<u>682,570</u>	<u>921,522</u>	<u>1,010,541</u>
Total liabilities	<u>\$ 725,594</u>	<u>\$1,004,328</u>	<u>\$1,386,783</u>
Net assets:			
Invested in capital assets, net	\$ 903,989	\$ 695,541	\$ 710,376
Restricted	21,773	15,972	14,371
Unrestricted	<u>1,172,446</u>	<u>1,021,348</u>	<u>1,002,943</u>
Total net assets	<u>\$2,098,208</u>	<u>\$1,732,861</u>	<u>\$1,727,690</u>

Recent Financial Performance

The schedule below is a summary of the Hospital District's revenues, expenses and changes in net assets for the years ended December 31, 2011, 2010 and 2009.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenue	\$ 4,103,401	\$ 3,870,443	\$ 4,083,397
Operating expenses:			
Salaries	1,793,273	1,823,142	2,019,149
Supplies and other	2,152,166	2,098,015	2,289,630
Depreciation and amortization	<u>325,350</u>	<u>335,585</u>	<u>351,908</u>
Total operating expenses	<u>4,270,789</u>	<u>4,256,742</u>	<u>4,660,687</u>
Loss from operations	<u>(167,388)</u>	<u>(386,299)</u>	<u>(577,290)</u>
Nonoperating revenues/expenses:			
Taxes	350,620	338,501	336,932
Noncapital grants and contributions	28,657	17,775	23,373
Other, net	<u>38,978</u>	<u>35,194</u>	<u>(826)</u>
Total nonoperating revenues/expenses	<u>418,255</u>	<u>391,470</u>	<u>359,479</u>
Capital grants and contributions	<u>114,480</u>	<u>—</u>	<u>—</u>
Increase (decrease) in net assets	<u>\$ 365,347</u>	<u>\$ 5,171</u>	<u>\$ (217,811)</u>
Net assets at end of year	<u>\$ 2,098,208</u>	<u>\$ 1,732,861</u>	<u>\$ 1,727,690</u>

The first component of the overall change in the Hospital District's net assets is its operating income (loss)—generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the Hospital District has reported an operating loss. This is consistent with the Hospital District's entire operating history. The operating loss in 2011 decreased by \$218,911 or 56.67% lower than the operating loss reported in 2010. The operating loss in 2010 decreased by \$190,991 or 33.08% lower than the operating loss reported in 2009. The decrease in the operating loss was due primarily to the Hospital District qualifying for incentive payments from the Medicare and Medicaid programs upon meeting the requirements for an electronic health record (EHR) system in 2011.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital District. A component of the Hospital District's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

Nonoperating revenues consist primarily of property taxes levied by the Hospital District, investment earnings, interest expense on long-term debt, and grants and contributions.

Capital Assets

At the end of 2011, the Hospital District had \$903,989 invested in capital assets, net of accumulated depreciation and debt outstanding for the acquisition of capital assets, as detailed in Notes 5 and 6 to the financial statements. The Hospital District acquired new capital assets of approximately \$215,000 and \$25,000 in 2011 and 2010, respectively.

Debt

The Hospital leases certain property and equipment under capital lease agreements including a new lease in 2010 for \$7,200 for medical equipment.

Other Economic Factors

The assessed valuation for the Hospital District for 2012 is \$17,321,759 which is decrease of \$455,216 or 2.56% from the assessed valuation for 2011 amount of \$17,776,975. The total ad valorem taxes levied for 2012 was \$322,911 compared to \$319,084 for 2011.

Issues Facing the Hospital District

There are issues facing the Hospital District that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital District's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Employment and labor issues. The Hospital District is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital District in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.

- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital District are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital District.

Contacting The Hospital District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital District's finances and to show the Hospital District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital District Administration Department, at Sumner County Hospital District No. 1, 601 S. Osage, Caldwell, Kansas, 67022.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

ASSETS

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current assets:				
Cash and cash equivalents (Notes 1 and 3)	\$ 275,160	\$ 236,089	\$ 87,177	\$ 165,170
Accounts receivable, net of allowance for doubtful accounts of \$101,246 in 2011 and \$58,371 in 2010 (Notes 1 and 8)	359,895	542,336	-	-
Uncollected current property taxes receivable (Note 1)	315,960	309,790	-	-
Inventories (Note 1)	145,483	128,160	-	-
Estimated third-party payor settlements (Note 2)	623,505	283,624	-	-
Prepaid expenses and other	<u>36,755</u>	<u>42,795</u>	<u>5,000</u>	<u>5,000</u>
Total current assets	<u>1,756,758</u>	<u>1,542,794</u>	<u>92,177</u>	<u>170,170</u>
Noncurrent cash and investments:				
Board designated assets (Note 3)	107,402	106,834	-	-
Other investments (Note 3)	<u>-</u>	<u>-</u>	<u>35,738</u>	<u>37,821</u>
Total noncurrent cash and investments	<u>107,402</u>	<u>106,834</u>	<u>35,738</u>	<u>37,821</u>
Property and equipment, at cost (Notes 1, 5 and 6):				
Land	5,085	5,085	5,000	5,000
Land improvements	60,500	60,500	3,405	3,405
Building	909,877	909,877	157,833	157,833
Fixed equipment	848,479	848,479	-	-
Movable equipment	2,321,845	2,221,040	-	-
Construction in progress	<u>-</u>	<u>17,629</u>	<u>-</u>	<u>-</u>
Total property and equipment	4,145,786	4,062,610	166,238	166,238
Less accumulated depreciation	<u>3,186,144</u>	<u>2,975,049</u>	<u>62,695</u>	<u>54,211</u>
Net property and equipment	<u>959,642</u>	<u>1,087,561</u>	<u>103,543</u>	<u>112,027</u>
Total noncurrent assets	<u>1,067,044</u>	<u>1,194,395</u>	<u>139,281</u>	<u>149,848</u>
Total assets	<u>\$ 2,823,802</u>	<u>\$ 2,737,189</u>	<u>\$ 231,458</u>	<u>\$ 320,018</u>

LIABILITIES AND NET ASSETS

	Primary Government		Component Unit	
	2011	2010	2011	2010
Current liabilities:				
Accounts payable	\$ 191,745	\$ 143,338	\$ -	\$ -
Salaries and wages payable	66,730	63,302	-	-
Payroll taxes payable	7,406	4,778	-	-
Current portion of compensated absences payable (Notes 1 and 5)	66,956	69,236	-	-
Unearned revenue-uncollected current property taxes (Note 1)	315,960	309,790	-	-
Current portion of long-term debt (Note 5)	<u>33,773</u>	<u>331,078</u>	<u>-</u>	<u>-</u>
Total current liabilities	<u>682,570</u>	<u>921,522</u>	<u>-</u>	<u>-</u>
Non-current liabilities:				
Long-term debt (Note 5)	21,880	60,942	-	-
Compensated absences payable (Notes 1 and 5)	<u>21,144</u>	<u>21,864</u>	<u>-</u>	<u>-</u>
Total non-current liabilities	<u>43,024</u>	<u>82,806</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>725,594</u>	<u>1,004,328</u>	<u>-</u>	<u>-</u>
Net assets (Notes 1 and 4):				
Invested in capital assets net of related debt	903,989	695,541	103,543	112,027
Restricted for specific operating activities	21,773	15,972	-	-
Unrestricted	<u>1,172,446</u>	<u>1,021,348</u>	<u>127,915</u>	<u>207,991</u>
Total net assets	<u>2,098,208</u>	<u>1,732,861</u>	<u>231,458</u>	<u>320,018</u>
Total liabilities and net assets	<u>\$ 2,823,802</u>	<u>\$ 2,737,189</u>	<u>\$ 231,458</u>	<u>\$ 320,018</u>

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS DECEMBER 31, 2011 AND 2010

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Operating revenues:				
Net patient service revenue	\$3,560,973	\$3,836,674	\$ -	\$ -
Ambulance subsidy	33,395	33,719	-	-
Grants and contributions	-	-	-	50
Rent income	-	-	45,600	45,600
Other (Note 2)	<u>509,033</u>	<u>50</u>	<u>-</u>	<u>-</u>
Total operating revenue	<u>4,103,401</u>	<u>3,870,443</u>	<u>45,600</u>	<u>45,650</u>
Operating expenses:				
Salaries	1,793,273	1,823,142	-	-
Supplies and other	2,152,166	2,098,015	9,957	9,256
Depreciation and amortization	<u>325,350</u>	<u>335,585</u>	<u>8,484</u>	<u>8,484</u>
Total operating expenses	<u>4,270,789</u>	<u>4,256,742</u>	<u>18,441</u>	<u>17,740</u>
Operating income (loss)	<u>(167,388)</u>	<u>(386,299)</u>	<u>27,159</u>	<u>27,910</u>
Non-operating revenues (expenses):				
Tax revenues	350,620	338,501	-	-
Investment return	829	1,505	(1,239)	4,864
Interest expense	(14,933)	(30,274)	-	-
Noncapital grants and contributions	28,657	17,775	-	-
Other	<u>53,082</u>	<u>63,963</u>	<u>-</u>	<u>-</u>
Total non-operating revenues (expenses)	<u>418,255</u>	<u>391,470</u>	<u>(1,239)</u>	<u>4,864</u>
Excess of revenues over expenses before capital grants and contributions	250,867	5,171	25,920	32,774
Capital grants and contributions	<u>114,480</u>	<u>-</u>	<u>(114,480)</u>	<u>-</u>
Increase (decrease) in net assets	365,347	5,171	(88,560)	32,774
Net assets at beginning of year	<u>1,732,861</u>	<u>1,727,690</u>	<u>320,018</u>	<u>287,244</u>
Net assets at end of year	<u>\$2,098,208</u>	<u>\$1,732,861</u>	<u>\$ 231,458</u>	<u>\$ 320,018</u>

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

	Primary Government		Component Unit	
	2011	2010	2011	2010
Cash flows from operating activities:				
Receipts from and on behalf of patients	\$ 3,403,533	\$ 3,722,967	\$ -	\$ -
Payments to suppliers and contractors	(1,572,676)	(1,721,313)	(9,957)	(9,256)
Payments to employees	(2,332,583)	(2,307,959)	-	-
Other receipts and payments, net	<u>542,428</u>	<u>33,769</u>	<u>45,600</u>	<u>45,650</u>
Net cash flows provided (used) by operating activities	<u>40,702</u>	<u>(272,536)</u>	<u>35,643</u>	<u>36,394</u>
Cash flows from noncapital financing activities:				
Property taxes	350,620	338,501	-	-
Noncapital grants and contributions	28,657	63,963	-	-
Other	<u>37,804</u>	<u>17,775</u>	<u>-</u>	<u>-</u>
Net cash flows provided by noncapital financing activities	<u>417,081</u>	<u>420,239</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:				
Capital grants and contributions	114,480	-	(114,480)	-
Principal payments on long-term debt	(306,328)	(303,121)	-	-
Interest paid on long-term debt	(14,933)	(30,274)	-	-
Proceeds from sale of assets	2,648	-	-	-
Purchases of capital assets	<u>(214,840)</u>	<u>(17,629)</u>	<u>-</u>	<u>-</u>
Net cash flows used by capital and related financing activities	<u>(418,973)</u>	<u>(351,024)</u>	<u>(114,480)</u>	<u>-</u>
Cash flows from investing activities:				
Changes in board-designated assets, net	(568)	(1,019)	2,083	(9,017)
Investment income	<u>829</u>	<u>1,505</u>	<u>(1,239)</u>	<u>4,864</u>
Net cash flows provided (used) by investing activities	<u>261</u>	<u>486</u>	<u>844</u>	<u>(4,153)</u>
Net increase (decrease) in cash and cash equivalents	39,071	(202,835)	(77,993)	32,241
Cash and cash equivalents at beginning of year	<u>236,089</u>	<u>438,924</u>	<u>165,170</u>	<u>132,929</u>
Cash and cash equivalents at end of year	<u>\$ 275,160</u>	<u>\$ 236,089</u>	<u>\$ 87,177</u>	<u>\$ 165,170</u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

STATEMENTS OF CASH FLOWS – continued

YEARS ENDED DECEMBER 31, 2011 AND 2010

	Primary Government		Component Unit	
	2011	2010	2011	2010
Reconciliation of operating loss to net cash provided by operating activities:				
Operating income (loss)	\$ (167,388)	\$ (386,299)	\$ 27,159	\$ 27,910
Adjustments to reconcile operating loss to net cash flows used in operating activities:				
Depreciation and amortization	325,350	335,585	8,484	8,484
Provision for doubtful accounts	140,835	130,603	-	-
Net (increases) decreases in current assets:				
Accounts receivable	41,606	(87,448)	-	-
Property taxes receivable	(6,170)	(12,105)	-	-
Inventories	(17,323)	16,109	-	-
Estimated third-party payor settlements	(339,881)	(156,862)	-	-
Other current assets	6,040	(25,585)	-	-
Net increases (decreases) in current liabilities:				
Accounts payable	48,407	(108,462)	-	-
Compensated absences payable	(3,000)	10,193	-	-
Salaries and wages payable	3,428	311	-	-
Payroll taxes payable	2,628	(681)	-	-
Unearned revenue-uncollected current property taxes	6,170	12,105	-	-
Net cash provided (used) by operating activities	\$ 40,702	\$ (272,536)	\$ 35,643	\$ 36,394

The accompanying notes are an integral part of the financial statements.

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS

December 31, 2011 and 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist in understanding the Hospital District's financial statements. The financial statements and notes are representations of the Hospital District's management, which is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Organization and business activity

The hospital is owned by Hospital District No. 1, Sumner County, Kansas (Hospital District) and is governed by an elected Board of Directors. The hospital provides acute care, outpatient, swing-bed and home health services.

Discretely presented component unit

The component unit columns in the financial statements consist of the financial data of the Hospital District's component unit, the Caldwell Area Hospital and Health Foundation (Foundation), a tax-exempt nonprofit organization. It is reported in separate columns to emphasize that it is legally separate from the Hospital District. The Foundation is considered a component unit of the Hospital District since the purpose of the Foundation is primarily to secure and expend financial aid for the operations, maintenance, and expansion of the health care facilities and services of the Hospital District.

Accounting standards

The Hospital District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

Allowance for doubtful accounts

Accounts receivable (Note 8) is presented net of an allowance for doubtful accounts. The allowance is estimated based on multiple factors including historical experience with bad debts, the aging of receivables, payor mix trends, and local economic conditions. If future actual default rates on accounts receivable in general differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Cash and cash equivalents

Cash and cash equivalents include short-term certificates of deposit, money market, and interest bearing checking accounts, excluding those investments designated by the Board of Directors for the purchase or replacement of capital assets, with maturities of three months or less (Note 3).

Budgetary principles

The Hospital District is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operations and maintenance and employee benefits funds on or before August 25 of the preceding 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.

Under the modified accrual basis of accounting revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances, 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 year. Encumbrances were \$-0- and \$158,659 at December 31, 2011 and 2010, respectively. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital Board of Directors.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The following reconciliation is presented to provide a correlation between the different bases of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	Operation and Maintenance Fund	Employee Benefits Fund
	<u>Fund</u>	<u>Fund</u>
GAAP basis net assets at December 31, 2011	\$ 2,098,208	\$ —
Adjustments:		
Net property and equipment	(959,642)	—
Net long-term debt	55,653	—
Encumbrances at December 31, 2011	<u>—</u>	<u>—</u>
Budgetary basis fund balance at December 31, 2011	<u>\$ 1,194,219</u>	<u>\$ —</u>

Property taxes receivable

In accordance with governing 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. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. 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 December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as unearned revenue on the balance sheet.

Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

The Hospital District's capital assets that are \$5,000 or greater, are recorded at cost at the date of acquisition. 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 these asset lives:

Land improvements	15 years
Buildings and fixed equipment	10-40 years
Movable equipment	5-20 years

Maintenance and repairs are charged to expense and renewals and expenditures for improvements are capitalized.

Net patient service revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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 based on current poverty level guidelines. 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 Hospital provided \$29,527 and \$10,168 of charity care for the years ended December 31, 2011 and 2010, respectively estimated by multiplying the Hospital District's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants and contributions

From time to time, the Hospital District receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions 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 revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital 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.

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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted for specific operating activities* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital District. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted*.

Operating revenues and expenses

The Hospital'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 Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Risk management

The Hospital District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital District carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the three preceding years. The Hospital District also purchases professional liability insurance to cover medical malpractice claims. Management is not aware of any asserted or unasserted claims or incidents arising from services provided to patients.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated absences

All full-time and part-time employees receive up to 31 days paid time off per year depending upon length of service. Upon resignation or retirement from service with the Hospital District, employees are entitled to payment for all accrued paid time off, up to the allowable maximum. The Hospital District fund accrues compensated absence benefits as earned.

Subsequent events

Subsequent events have been evaluated through April 24, 2012, which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYOR SETTLEMENTS

The Hospital has an agreement with the Medicare program that provides for payments to the Hospital at amounts different from its established rates for care for Medicare beneficiaries.

Inpatient and outpatient services related to Medicare program beneficiaries are paid based primarily on a cost reimbursement methodology. The Hospital District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital District and reviews thereof by the Medicare fiscal intermediary. Home health services provided to Medicare beneficiaries are paid based upon prospectively determined rates. The Hospital District's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital District. The Hospital District's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2010.

During 2011, the Hospital District met the requirements for additional incentive payments from the Medicare and Medicaid programs upon the implementation of a qualifying electronic health record system. The expected incentive payments to be paid to the Hospital District in 2012 total approximately \$509,000 and, accordingly, a receivable and the revenue relating to these payments have been accrued on the financial statements at December 31, 2011.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

3. CASH AND INVESTMENTS

The Hospital District's cash and investments consisted of the following:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents:				
Cash on hand	\$ 300	\$ 300	\$ -	\$ -
Checking accounts	192,368	154,795	-	-
Money market account	9,965	9,933	87,177	165,170
Saving accounts	<u>72,527</u>	<u>71,061</u>	<u>-</u>	<u>-</u>
	<u>\$ 275,160</u>	<u>\$ 236,089</u>	<u>\$ 87,177</u>	<u>\$ 165,170</u>
Board designated assets:				
Money market account	\$ 2,925	\$ 2,917	\$ -	\$ -
Certificates of deposit	<u>104,477</u>	<u>103,917</u>	<u>-</u>	<u>-</u>
	<u>\$ 107,402</u>	<u>\$ 106,834</u>	<u>\$ -</u>	<u>\$ -</u>
Other investments:				
Wichita Community Foundation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,738</u>	<u>\$ 37,821</u>

The board-designated assets have been designated by the Board of Directors to be used for the replacement of capital assets or for the acquisition of additional assets. These assets can be utilized for other purposes at the discretion of the Board of Directors.

The Foundation's investment with the Wichita Community Foundation, a non-profit organization, are kept in a trust fund. The trust places these funds in various cash and stock items and the withdrawal of principal and investment earnings are subject to the approval of the Wichita Community Foundation's Board of Directors.

Investment return consisted of the following:

	<u>Primary Government</u>		<u>Component Unit</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 829	\$ 1,505	\$ 1,291	\$ 1,615
Net realized and unrealized gains	<u>-</u>	<u>-</u>	<u>(2,530)</u>	<u>3,249</u>
	<u>\$ 829</u>	<u>\$ 1,505</u>	<u>\$ (1,239)</u>	<u>\$ 4,864</u>

3. CASH AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital District's deposits may not be returned or the Hospital District will not be able to recover collateral securities in the possession of an outside party. The Hospital District's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at fair value, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable pledged securities.

At December 31, 2011, the carrying amount of the Hospital District's deposits, which approximates their fair value, was \$388,568 with the bank balances of such accounts being \$438,031. Of the bank balances, \$364,024 was secured by federal depository insurance and the remaining balance of \$74,007 was covered by collateral held by the Hospital District's custodial banks in joint custody in the name of the Hospital District and its banks. The fair value of those pledged securities held by the Hospital District's custodial banks was \$944,450 at December 31, 2011.

At December 31, 2011, the carrying amount of the Hospital District's component unit's deposits was \$87,177 with the bank balances of such accounts being \$87,177, all of which was secured by federal depository insurance.

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Hospital's investing activities are managed under the custody of the Hospital Administrator. The Hospital District's component unit's investing activities are under the custody of the component unit's Board of Directors. Investing is performed in accordance with investment policies adopted by the respective Boards of Directors and in compliance with State statutes.

Applicable state statutes authorize the Hospital District to invest in (1) temporary notes or no-fund warrants issued by the Hospital District (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Hospital's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

4. RESTRICTED NET ASSETS

Restricted, expendable net assets consist of cash and cash equivalents and are available for the following purposes:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Sidewalk fund	\$ 1,640	\$ 1,636
Intermediate care	6,621	6,621
Ambulance fund	3,427	4,800
Nursing scholarships	2,924	2,915
Other	<u>7,161</u>	<u>—</u>
	<u>\$ 21,773</u>	<u>\$ 15,972</u>

Net assets were released from restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors was \$129,954 and \$12,295 for the years December 31, 2011 and 2010, respectively.

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term liabilities for the years ended December 31, 2011 and 2010:

	Balance			Balance	
	At December 31, <u>2010</u>	<u>Additions</u>	<u>Reductions</u>	At December 31, <u>2010</u>	Amounts Due Within <u>One Year</u>
Long-term debt:					
Capital lease obligations	\$ 392,020	\$ —	\$ 336,367	\$ 55,653	\$ 33,773
Other liabilities:					
Compensated absences payable	<u>91,100</u>	<u>142,347</u>	<u>145,347</u>	<u>88,100</u>	<u>66,956</u>
Total noncurrent liabilities	<u>\$ 483,120</u>	<u>\$ 142,347</u>	<u>\$ 481,714</u>	<u>\$ 143,753</u>	<u>\$ 100,729</u>

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES
(continued)

	Balance At December 31, <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	Balance At December 31, <u>2010</u>	Amounts Due Within <u>One Year</u>
Long-term debt:					
Capital lease obligations	\$ 687,941	\$ 7,200	\$ 303,121	\$ 392,020	\$ 331,078
Other liabilities:					
Compensated absences payable	<u>80,907</u>	<u>139,527</u>	<u>129,334</u>	<u>91,100</u>	<u>69,236</u>
Total noncurrent liabilities	<u>\$ 768,848</u>	<u>\$ 146,727</u>	<u>\$ 432,455</u>	<u>\$ 483,120</u>	<u>\$ 400,314</u>

Capitalized lease obligations

The Hospital leases certain assets under capital lease agreements including a new lease of \$7,200 for medical equipment in 2010. Interest expensed under the capital lease agreements was \$14,933 and \$30,274 for the years ended December 31, 2011 and 2010, respectively. The following is an analysis of the financial presentation of the capital leases:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Fixed equipment	\$ 484,055	\$ 484,055
Movable equipment	108,080	719,738
Less accumulated depreciation	<u>(184,372)</u>	<u>(561,757)</u>
	<u>\$ 407,763</u>	<u>\$ 642,036</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

5. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES
(continued)

Year ending December 31,:	
2012	\$ 42,563
2013	21,682
2014	<u>3,250</u>
Gross minimum lease payments	67,495
Less amount representing interest	7,110
Less amount for maintenance costs	<u>4,732</u>
Present value of net minimum lease payments	55,653
Less current portion	<u>33,773</u>
Long term portion	<u>\$ 21,880</u>

6. CAPITAL ASSETS

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

	Balance At December 31, <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance At December 31, <u>2011</u>
<u>Hospital</u>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ -	\$ -	\$ 5,085
Construction in progress	<u>17,629</u>	<u>-</u>	<u>17,629</u>	<u>-</u>
Total capital assets not being depreciated	<u>22,714</u>	<u>-</u>	<u>17,629</u>	<u>5,085</u>

6. CAPITAL ASSETS (continued)

	Balance At December 31, <u>2010</u>	Additions	Disposals	Balance At December 31, <u>2011</u>
Capital assets being depreciated:				
Land				
improvements	\$ 60,500	\$ -	\$ -	\$ 60,500
Buildings	909,877	-	-	909,877
Fixed equipment	848,479	-	-	848,479
Movable equipment	<u>2,221,040</u>	<u>232,469</u>	<u>131,664</u>	<u>2,321,845</u>
Total capital assets being depreciated	<u>4,039,896</u>	<u>232,469</u>	<u>131,664</u>	<u>4,140,701</u>
Less accumulated depreciation for:				
Land				
improvements	27,186	3,859	-	31,045
Buildings	744,947	26,167	-	771,114
Fixed equipment	342,958	34,234	-	377,192
Movable equipment	<u>1,859,958</u>	<u>261,090</u>	<u>114,255</u>	<u>2,006,793</u>
Total accumulated depreciation	<u>2,975,049</u>	<u>325,350</u>	<u>114,255</u>	<u>3,186,144</u>
Total capital assets being depreciated, net	<u>1,064,847</u>	<u>(92,881)</u>	<u>17,409</u>	<u>954,557</u>
Total capital assets, net	<u>\$ 1,087,561</u>	<u>\$ (92,881)</u>	<u>\$ 35,038</u>	<u>\$ 959,642</u>

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
<u>Hospital</u>				
Capital assets not being depreciated:				
Land	\$ 5,085	\$ -	\$ -	\$ 5,085
Construction in progress	<u>-</u>	<u>17,629</u>	<u>-</u>	<u>17,629</u>
Total capital assets not being depreciated	<u>5,085</u>	<u>17,629</u>	<u>-</u>	<u>22,714</u>
Capital assets being depreciated:				
Land				
improvements	60,500	-	-	60,500
Buildings	909,877	-	-	909,877
Fixed equipment	848,479	-	-	848,479
Movable equipment	<u>2,213,840</u>	<u>7,200</u>	<u>-</u>	<u>2,221,040</u>
Total capital assets being depreciated	<u>4,032,696</u>	<u>7,200</u>	<u>-</u>	<u>4,039,896</u>
Less accumulated depreciation for:				
Land				
improvements	23,327	3,859	-	27,186
Buildings	718,242	26,705	-	744,947
Fixed equipment	307,682	35,276	-	342,958
Movable equipment	<u>1,590,213</u>	<u>269,745</u>	<u>-</u>	<u>1,859,958</u>
Total accumulated depreciation	<u>2,639,464</u>	<u>335,585</u>	<u>-</u>	<u>2,975,049</u>
Total capital assets being depreciated, net	<u>1,393,232</u>	<u>(328,385)</u>	<u>-</u>	<u>1,064,847</u>
Total capital assets, net	<u>\$ 1,398,317</u>	<u>\$ (310,756)</u>	<u>\$ -</u>	<u>\$ 1,087,561</u>

6. CAPITAL ASSETS (continued)

<u>Component unit</u>	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
Capital assets not being depreciated:				
Land	\$ 5,000	\$ —	\$ —	\$ 5,000
Construction in progress	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total capital assets not being depreciated	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>5,000</u>
Capital assets being depreciated:				
Land improvements	3,405	—	—	3,405
Buildings	<u>157,833</u>	<u>—</u>	<u>—</u>	<u>157,833</u>
Total capital assets being depreciated	<u>161,238</u>	<u>—</u>	<u>—</u>	<u>161,238</u>
Less accumulated depreciation for:				
Land improvements	1,425	227	—	1,652
Buildings	<u>52,786</u>	<u>8,257</u>	<u>—</u>	<u>61,043</u>
Total accumulated depreciation	<u>54,211</u>	<u>8,484</u>	<u>—</u>	<u>62,695</u>
Total capital assets being depreciated, net	<u>107,027</u>	<u>(8,484)</u>	<u>—</u>	<u>98,543</u>
Total capital assets, net	<u>\$ 112,027</u>	<u>\$ (8,484)</u>	<u>\$ —</u>	<u>\$ 103,543</u>

6. CAPITAL ASSETS (continued)

	Balance At December 31, 2009	Additions	Disposals	Balance At December 31, 2010
<u>Component unit</u>				
Capital assets not being depreciated:				
Land	\$ 5,000	\$ —	\$ —	\$ 5,000
Construction in progress	—	—	—	—
Total capital assets not being depreciated	<u>5,000</u>	<u>—</u>	<u>—</u>	<u>5,000</u>
Capital assets being depreciated:				
Land				
improvements	3,405	—	—	3,405
Buildings	<u>157,833</u>	<u>—</u>	<u>—</u>	<u>157,833</u>
Total capital assets being depreciated	<u>161,238</u>	<u>—</u>	<u>—</u>	<u>161,238</u>
Less accumulated depreciation for:				
Land				
improvements	1,198	227	—	1,425
Buildings	<u>44,529</u>	<u>8,257</u>	<u>—</u>	<u>52,786</u>
Total accumulated depreciation	<u>45,727</u>	<u>8,484</u>	<u>—</u>	<u>54,211</u>
Total capital assets being depreciated, net	<u>115,511</u>	<u>(8,484)</u>	<u>—</u>	<u>107,027</u>
Total capital assets, net	<u>\$ 120,511</u>	<u>\$ (8,484)</u>	<u>\$ —</u>	<u>\$ 112,027</u>

7. PENSION PLAN

Plan description

The Hospital 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 S. Kansas Avenue, Suite 100, Topeka, Kansas 66603-3869.

Funding policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 6% of covered salary. Member-employees' contributions are withheld by their employer and paid to KPERS 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, were as follows:

Period from January 1, 2010 to December 31, 2010	7.14%
Period from January 1, 2011 to December 31, 2011	7.74%

The Hospital's contributions to KPERS for the years ending December 31, 2011, 2010 and 2009 were \$108,323, \$99,296 and \$90,512, respectively, equal to the statutory required contributions for each year.

8. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Medicare	\$ 142,338	\$ 298,720
Medicaid	18,286	18,324
Commercial	98,435	204,220
Other	<u>202,082</u>	<u>79,443</u>
Gross accounts receivable	461,141	600,707
Less allowance for doubtful accounts	<u>101,246</u>	<u>58,371</u>
	<u>\$ 359,895</u>	<u>\$ 542,336</u>

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the Hospital District in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Board designated assets – These assets consist of cash and short-term investments and the carrying amounts reported in the balance sheet approximates their fair value.

Other investments – The fair values of investments are based on quoted market prices.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates its fair value.

Long-term debt – These liabilities consist of capitalized lease obligations. The fair value of these liabilities is estimated using discounted cash flow analyses, based on the interest rate implicit in the lease agreements.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The carrying amounts and fair value of the Hospital District's financial instruments at December 31, 2011 and 2010 are as follows:

	<u>December 31, 2011</u>		<u>December 31, 2010</u>	
	<u>Carrying</u>	<u>Fair</u>	<u>Carrying</u>	<u>Fair</u>
	<u>Amount</u>	<u>Value</u>	<u>Amount</u>	<u>Value</u>
Primary government:				
Cash and cash equivalents	\$ 275,160	\$ 275,160	\$ 236,089	\$ 236,089
Accounts receivable	359,895	359,895	542,336	542,336
Estimated third-party payor settlements	623,505	623,505	283,624	283,624
Board designated assets	107,402	107,402	106,834	106,834
Accounts and other payables	265,881	265,881	211,418	211,418
Long-term debt	55,653	55,653	392,020	392,020
Component unit:				
Cash and cash equivalents	87,177	87,177	165,170	165,170
Other investments	35,738	35,738	37,821	37,821

10. BUILDING LEASE AGREEMENTS

In January 2005, the Hospital District entered into an agreement to lease space in the building owned by the District's component unit. The lease term is for one year with an option to extend the lease for ten separate and successive periods of one year each. The annual rent is \$30,000, payable in twelve equal monthly installments of \$2,500 in advance on the first day of each month. The space is being used for administrative offices, home health, and laundry services.

During 2005, the component unit entered into an agreement with a not-for-profit organization to provide space for a local physician's office. The lease term is for five years with an option to renew for an additional five year term. The annual rent is \$15,600 commencing with the second year of the lease and is payable in installments of \$1,300 per month.

11. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital District is required to allow retirees to participate in its group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital District would be subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy, if any, has not been quantified in these financial statements. The Hospital District provides no other post-employment benefits, other than a retirement plan, for former employees.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital District makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage.

ADDITIONAL INFORMATION

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

OPERATION AND MAINTENANCE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Net patient service revenue	\$ 3,396,986	\$ 3,396,986	\$ 3,560,973	\$ 163,987
Taxes	238,319	238,319	244,582	6,263
Other	<u>80,765</u>	<u>80,765</u>	<u>739,476</u>	<u>658,711</u>
Total revenues	<u>3,716,070</u>	<u>3,716,070</u>	<u>4,545,031</u>	<u>828,961</u>
Expenditures:				
Salaries	1,866,453	1,866,453	1,793,273	73,180
Employee benefits	336,806	336,806	433,700	(96,894)
Supplies and contractual services	1,476,432	1,476,432	1,627,361	(150,929)
Capital outlay	565,000	565,000	375,139	189,861
Transfers to Employee Benefits Fund	<u>50,000</u>	<u>50,000</u>	<u>–</u>	<u>50,000</u>
Total expenditures	<u>4,294,691</u>	<u>4,294,691</u>	<u>4,229,473</u>	<u>65,218</u>
Excess of revenue over expenditures (expenditures over revenue)	(578,621)	(578,621)	315,558	894,179
Fund balance, beginning of year	<u>578,621</u>	<u>578,621</u>	<u>878,661</u>	<u>300,040</u>
Fund balance, end of year	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1,194,219</u>	<u>\$ 1,194,219</u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

EMPLOYEE BENEFITS FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 103,000	\$ 103,000	\$ 106,038	\$ 3,038
Transfers from operations and maintenance fund	<u>50,000</u>	<u>50,000</u>	<u>–</u>	<u>(50,000)</u>
Total revenues	153,000	103,000	106,038	(46,962)
Expenditures – Employee benefits	<u>153,000</u>	<u>153,000</u>	<u>106,038</u>	<u>46,962</u>
Excess of revenue over expenditures (expenditures over revenue)	–	–	–	–
Fund balance, beginning of year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Fund balance, end of year	<u><u>\$ –</u></u>	<u><u>\$ –</u></u>	<u><u>\$ –</u></u>	<u><u>\$ –</u></u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2011			2010		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Nursing service	\$ 577,880	\$ 18,567	\$ 596,447	\$ 610,340	\$ 35,930	\$ 646,270
Operating room	2,262	128,265	130,527	—	123,802	123,802
Anesthesiology	1,392	37,696	39,088	—	15,123	15,123
Radiology	52,809	257,936	310,745	52,852	274,092	326,944
CAT scan	53,414	183,481	236,895	82,389	265,376	347,765
MRI	9,488	105,559	115,047	6,977	119,768	126,745
Laboratory	109,758	480,647	590,405	100,292	481,510	581,802
Physical therapy	54,081	87,694	141,775	51,859	100,739	152,598
Electrocardiology	6,394	36,361	42,755	7,888	61,594	69,482
Medical supplies	45,190	60,955	106,145	93,114	48,596	141,710
Pharmacy	204,349	314,781	519,130	301,870	316,072	617,942
Emergency room	5,443	357,354	362,797	1,903	385,175	387,078
Ambulance	—	82,393	82,393	—	115,341	115,341
Home health	—	57,500	57,500	—	87,800	87,800
	<u>\$ 1,122,460</u>	<u>\$ 2,209,189</u>	3,331,649	<u>\$ 1,309,484</u>	<u>\$ 2,430,918</u>	3,740,402
Contractual adjustments			393,193			235,810
Charity care			(23,034)			(8,935)
Bad debts			<u>(140,835)</u>			<u>(130,603)</u>
			<u>\$ 3,560,973</u>			<u>\$ 3,836,674</u>

HOSPITAL DISTRICT NO. 1, SUMNER COUNTY, KANSAS

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

	Year ended December 31, 2011				Percent of total operating expenses
	Salaries	Supplies and other	Depreciation	Total	
Routine service:					
Nursing service	\$ 640,163	\$ 38,938	\$ 160,795	\$ 839,896	19.67 %
Ancillary services:					
Operating room	12,664	7,656	8,337	28,657	0.67
Anesthesiology	—	21,611	—	21,611	0.51
Radiology	82,584	49,166	31,722	163,472	3.83
CAT scan	3,341	103,309	179	106,829	2.50
MRI	177	61,069	267	61,513	1.44
Laboratory	141,765	191,738	10,979	344,482	8.07
Physical therapy	79,003	922	—	79,925	1.87
Electrocardiology	682	10,151	—	10,833	0.25
Medical supplies	31,414	33,958	—	65,372	1.53
Pharmacy	6,049	151,499	—	157,548	3.69
Emergency room	263,795	15,681	—	279,476	6.54
Ambulance	32,298	29,032	814	62,144	1.46
Home health	41,693	14,227	—	55,920	1.31
	<u>695,465</u>	<u>690,019</u>	<u>52,298</u>	<u>1,437,782</u>	<u>33.67</u>
General services:					
Nursing administration	61,328	—	—	61,328	1.44
Dietary	87,946	41,781	478	130,205	3.05
Operation of plant	9,590	277,318	2,007	288,915	6.76
Housekeeping	22,080	5,119	50	27,249	0.64
Laundry	9,590	3,394	1,183	14,167	0.33
Medical records	24,297	19,334	—	43,631	1.02
Administration	242,814	536,525	44,279	823,618	19.28
Employee benefits	—	539,738	—	539,738	12.64
Depreciation - building and fixed equipment	—	—	64,260	64,260	1.50
	<u>457,645</u>	<u>1,423,209</u>	<u>112,257</u>	<u>1,993,111</u>	<u>46.66</u>
	<u>\$ 1,793,273</u>	<u>\$ 2,152,166</u>	<u>\$ 325,350</u>	<u>\$ 4,270,789</u>	<u>100.00 %</u>

Year ended December 31, 2010

	Salaries	Supplies and other	Depreciation	Total	Percent of total operating expenses
Routine service:					
Nursing service	\$ 630,510	\$ 17,316	\$ 9,064	\$ 656,890	15.44 %
Ancillary services:					
Operating room	9,859	11,696	15,327	36,882	0.87
Anesthesiology	–	15,715	–	15,715	0.37
Radiology	83,955	29,265	43,964	157,184	3.69
CAT scan	5,950	103,253	179	109,382	2.57
MRI	1,407	77,253	267	78,927	1.85
Laboratory	149,778	185,423	10,979	346,180	8.13
Physical therapy	74,989	1,178	–	76,167	1.79
Electrocardiology	914	24,618	–	25,532	0.60
Medical supplies	31,030	53,829	–	84,859	1.99
Pharmacy	8,058	151,570	–	159,628	3.75
Emergency room	257,594	5,546	547	263,687	6.19
Ambulance	40,194	8,757	814	49,765	1.17
Home health	52,628	21,447	–	74,075	1.74
	<u>716,356</u>	<u>689,550</u>	<u>72,077</u>	<u>1,477,983</u>	<u>34.71</u>
General services:					
Nursing administration	59,482	–	–	59,482	1.40
Dietary	92,421	35,914	478	128,813	3.03
Operation of plant	30,076	272,533	3,980	306,589	7.20
Housekeeping	24,025	5,203	265	29,493	0.69
Laundry	8,541	2,673	1,225	12,439	0.29
Medical records	23,752	26,579	6,419	56,750	1.33
Administration	237,979	552,926	176,237	967,142	22.72
Employee benefits	–	495,321	–	495,321	11.64
Depreciation - building and fixed equipment	–	–	65,840	65,840	1.55
	<u>476,276</u>	<u>1,391,149</u>	<u>254,444</u>	<u>2,121,869</u>	<u>49.85</u>
	<u>\$ 1,823,142</u>	<u>\$ 2,098,015</u>	<u>\$ 335,585</u>	<u>\$ 4,256,742</u>	<u>100.00 %</u>