

Hospital District No. 1 of Rice County

Independent Accountants' Report and Financial Statements

April 30, 2012 and 2011



Hospital District No. 1 of Rice County
April 30, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

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

We have audited the accompanying balance sheets of Hospital District No. 1 of Rice County (Hospital District) as of April 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital District No. 1 of Rice County as of April 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were conducted for the purpose of forming an opinion on the Hospital District's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audits of the 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 financial statements as a whole.

BKD, LLP

October 8, 2012

Hospital District No. 1 of Rice County

Balance Sheets

April 30, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash	\$ 453,855	\$ 290,871
Short-term investments	489,515	1,405,374
Restricted cash and investments - current	246,536	311,010
Patient accounts receivable, net of allowance; 2012 - \$857,387, 2011 - \$530,270	2,490,321	1,614,916
Property taxes receivable	369,801	381,192
Estimated amounts due from third-party payers	-	536,136
Supplies	144,661	155,873
Prepaid expenses and other	198,094	284,361
	<u>4,392,783</u>	<u>4,979,733</u>
Total current assets		
	<u>4,392,783</u>	<u>4,979,733</u>
Noncurrent Cash and Investments		
Held by trustee for debt service	246,536	898,010
Held by Rice Community Healthcare Foundation	1,955,268	2,110,387
Internally designated for capital improvements	-	1,373
Restricted by donors for capital acquisitions and specific operating activities	110,653	110,653
	<u>2,312,457</u>	<u>3,120,423</u>
Less amount required to meet current obligations	246,536	311,010
	<u>2,065,921</u>	<u>2,809,413</u>
Capital Assets, Net	<u>9,267,946</u>	<u>9,654,159</u>
Deferred Financing Costs	<u>159,713</u>	<u>182,529</u>
Total assets	<u>\$ 15,886,363</u>	<u>\$ 17,625,834</u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 495,343	\$ 408,638
Accounts payable	594,676	423,438
Estimated amounts due to third-party payers	2,227	-
Construction payable	50,000	50,000
Accrued wages and vacation benefits	1,153,111	794,406
Other accrued liabilities	527,539	447,373
Deferred revenue	583,359	581,228
	<u>3,406,255</u>	<u>2,705,083</u>
Total current liabilities	3,406,255	2,705,083
Long-term Debt	<u>5,511,729</u>	<u>6,505,152</u>
Total liabilities	<u>8,917,984</u>	<u>9,210,235</u>
Net Assets		
Invested in capital assets, net of related debt	3,370,587	2,872,898
Restricted - expendable for		
Debt service	161,478	781,489
Capital acquisitions	85,419	85,419
Specific operating activities	25,234	25,234
Unrestricted	3,325,661	4,650,559
	<u>6,968,379</u>	<u>8,415,599</u>
Total net assets	6,968,379	8,415,599
Total liabilities and net assets	<u>\$ 15,886,363</u>	<u>\$ 17,625,834</u>

Hospital District No. 1 of Rice County
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended April 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$715,000, 2011 – \$517,000	\$ 11,054,867	\$ 9,077,938
Nonpatient meals	55,552	46,471
Other	295,595	213,811
Total operating revenues	11,406,014	9,338,220
Operating Expenses		
Salaries and wages	6,817,747	5,132,772
Employee benefits	1,808,700	1,482,002
Supplies and other	4,067,562	3,268,085
Depreciation and amortization	1,063,181	1,004,159
Total operating expenses	13,757,190	10,887,018
Operating Loss	(2,351,176)	(1,548,798)
Nonoperating Revenues (Expenses)		
Property taxes	813,711	819,376
Investment income (loss)	(6,591)	225,295
Interest expense	(263,587)	(297,670)
Noncapital grants and gifts	336,258	362,624
Farm and royalty income (net of expenses)	24,165	24,613
Total nonoperating revenues	903,956	1,134,238
Change in Net Assets	(1,447,220)	(414,560)
Net Assets, Beginning of Year	8,415,599	8,830,159
Net Assets, End of Year	\$ 6,968,379	\$ 8,415,599

Hospital District No. 1 of Rice County
Statements of Cash Flows
Years Ended April 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 10,717,825	\$ 8,904,295
Payments to suppliers and contractors	(3,718,679)	(3,129,324)
Payments to employees	(8,267,742)	(6,554,264)
Other receipts, net	351,147	260,282
Net cash used in operating activities	(917,449)	(519,011)
Noncapital Financing Activities		
Property taxes	827,233	819,788
Noncapital grants and gifts	336,258	362,624
Farm and royalty income (net of expenses)	24,165	24,613
Net cash provided by noncapital financing activities	1,187,656	1,207,025
Capital and Related Financing Activities		
Purchases of capital assets	(534,152)	(482,867)
Issuance of long-term debt	5,905,000	-
Principal paid on long-term debt	(6,931,718)	(410,268)
Interest paid on long-term debt	(263,587)	(297,670)
Net cash used in capital and related financing activities	(1,824,457)	(1,190,805)
Investing Activities		
Net change in short-term investments	915,859	987,734
Net change in noncurrent cash and investments	807,966	(516,539)
Investment income	(6,591)	225,295
Net cash provided by investing activities	1,717,234	696,490
Increase in Cash	162,984	193,699
Cash, Beginning of Year	290,871	97,172
Cash, End of Year	\$ 453,855	\$ 290,871

Hospital District No. 1 of Rice County
Statements of Cash Flows (Continued)
Years Ended April 30, 2012 and 2011

	2012	2011
Reconciliation of Net Operating Revenues (Expenses) to Net		
Cash Used in Operating Activities		
Operating loss	\$ (2,351,176)	\$ (1,548,798)
Depreciation and amortization	1,063,181	1,004,159
Provision for uncollectible accounts	715,252	516,863
Changes in operating assets and liabilities		
Patient accounts receivable	(1,590,657)	(558,317)
Estimated amounts due from third-party payers	538,363	(132,189)
Supplies	11,212	(45,434)
Prepaid expenses and other	86,267	(25,546)
Accounts payable and accrued expenses	610,109	270,251
Net cash used in operating activities	<u>\$ (917,449)</u>	<u>\$ (519,011)</u>
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 120,000	\$ -

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

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

Nature of Operations and Reporting Entity

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

Basis of Accounting and Presentation

The financial statements of the Hospital District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on and after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Budgetary Principles

The Hospital District is required by state statutes to adopt annual budgets on or before August 25 for the ensuing calendar year. The Hospital District's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted governmental fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the calendar year. There were no encumbrances at April 30, 2012 and 2011. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital District's Board of Directors.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital District considers all liquid investments with original maturities of three months or less to be cash equivalents except for noncurrent cash and investments held by Rice Community Healthcare Foundation. At April 30, 2012 and 2011, there were no cash equivalents.

Property Taxes

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

The Hospital District received approximately 7% in 2012 and 8% in 2011 of its financial support from property taxes.

Risk Management

The Hospital District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest, dividends, and gains and losses, both realized and unrealized, on investments.

Patient Accounts Receivable

The Hospital District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives:

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

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Compensated Absences

Hospital District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital District are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The amount of charges foregone for services and supplies furnished under the Hospital District's charity care policy was \$6,803 and \$28,504 in 2012 and 2011, respectively. The Hospital District's direct and indirect costs for services and supplies furnished under the Hospital District's

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

charity care policy totaled \$7,461 and \$33,641 in 2012 and 2011, respectively. Costs were calculated using the overall cost-to-charge ratio from the April 30, 2012 and 2011, filed Medicare cost reports.

Income Taxes

As an essential government entity, the Hospital District is generally exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Hospital District has obtained 501(c)(3) tax-exempt status with the IRS for the purpose of employees participating in Section 403(b) defined contribution plan.

Foundation

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital District's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital District will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

As of April 30, 2012, the Hospital District has not completed the first-year requirements under both the Medicare and Medicaid programs and has not recorded revenue.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the changes in financial position.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital District has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

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

Medicaid. The Medicaid state plan provides for a cost reimbursement methodology for inpatient, outpatient and Rural Health Clinic services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital District is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital District and reviews thereof by the Kansas Department of Health and Environment. The Hospital District is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 64% and 70% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Hospital District No. 1 of Rice County
Notes to Financial Statements
April 30, 2012 and 2011

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

	2012	2011
Gross patient service revenue	\$ 12,497,029	\$ 9,467,425
Plus (less)		
Contractual adjustments		
Medicare	1,314,986	1,440,935
Medicaid	(585,953)	(368,966)
Other	(1,455,943)	(944,593)
Provision for uncollectible accounts	(715,252)	(516,863)
Net patient service revenue	\$ 11,054,867	\$ 9,077,938

Note 3: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas, bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At April 30, 2012 and 2011, respectively, \$7,561 and \$14,513 of the Hospital District's bank balances of \$1,198,179 and \$1,785,934 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and uncollateralized	\$ 7,561	\$ 14,513

Subsequent to year-end the Hospital has obtained additional collateralized pledges and no longer has deposits exposed to custodial risk.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 943,370	\$ 1,696,245
Included in the following balance sheet captions		
Cash	\$ 453,855	\$ 290,871
Short-term investments	489,515	1,405,374
	\$ 943,370	\$ 1,696,245

Noncurrent Cash and Investments

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

Noncurrent cash and investments consist of the following at April 30, 2012 and 2011:

		April 30, 2012		
		Maturities in Years		
		Fair Value	Less than 1	1-5
U.S. agencies obligations	\$ 461,764	\$ 291,672	\$ 170,092	\$ -
Corporate bonds	245,748	61,636	172,635	11,477
Municipal bonds	-	-	-	-
Money market mutual funds	334,545	334,545	-	-
		\$ 687,853	\$ 342,727	\$ 11,477
Cash	29,505			
Surrender value of life insurance	14,515			
Corporate stocks	1,226,380			
	\$ 2,312,457			

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Type	April 30, 2011			
	Fair Value	Maturities in Years		
		Less than 1	1-5	6-10
U.S. agencies obligations	\$ 365,528	\$ 35,047	\$ 330,481	\$ -
Corporate bonds	249,062	-	237,914	11,148
Municipal bonds	10,136	10,136	-	-
Money market mutual funds	945,764	945,764	-	-
		<u>\$ 990,947</u>	<u>\$ 568,395</u>	<u>\$ 11,148</u>
Cash	18,906			
Surrender value of life insurance	14,515			
Corporate stocks	<u>1,516,512</u>			
	<u>\$ 3,120,423</u>			

Reconciliation of noncurrent assets to balance sheets:

	2012	2011
Held by trustee for debt service	\$ 246,536	\$ 898,010
Held by Rice Community Healthcare Foundation	1,955,268	2,110,387
Internally designated for capital improvements	-	1,373
Restricted by donors for capital acquisitions and specific operating activities	<u>110,653</u>	<u>110,653</u>
Total noncurrent cash and investments	<u>\$ 2,312,457</u>	<u>\$ 3,120,423</u>

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Note 4: Patient Accounts Receivable

The Hospital District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at April 30 consisted of:

	2012	2011
Medicare	\$ 1,036,260	\$ 604,156
Medicaid	271,844	63,137
Blue Cross	332,260	142,684
Other third-party payers	351,308	393,722
Patients	1,356,036	941,487
	3,347,708	2,145,186
Less allowance for uncollectible accounts	857,387	530,270
	\$ 2,490,321	\$ 1,614,916

Note 5: Capital Assets

Capital assets activity for the years ended April 30 was:

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 143,104	\$ -	\$ -	\$ -	\$ 143,104
Land improvements	621,908	-	-	-	621,908
Building	10,386,745	230,435	-	-	10,617,180
Fixed equipment	646,164	31,165	-	-	677,329
Major moveable equipment	2,737,361	165,126	-	515,985	3,418,472
Construction in progress	327,047	233,586	-	(515,985)	44,648
	14,862,329	660,312	-	-	15,522,641
Less accumulated depreciation					
Land improvements	283,297	41,597	-	-	324,894
Buildings	2,672,022	612,115	-	-	3,284,137
Fixed equipment	340,670	32,902	-	-	373,572
Major moveable equipment	1,912,181	359,911	-	-	2,272,092
	5,208,170	1,046,525	-	-	6,254,695
Capital assets, net	\$ 9,654,159	\$ (386,213)	\$ -	\$ -	\$ 9,267,946

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 143,104	\$ -	\$ -	\$ -	\$ 143,104
Land improvements	621,908	-	-	-	621,908
Building	10,370,945	15,800	-	-	10,386,745
Fixed equipment	587,121	59,043	-	-	646,164
Major moveable equipment	2,656,384	80,977	-	-	2,737,361
Construction in progress	-	327,047	-	-	327,047
	14,379,462	482,867	-	-	14,862,329
Less accumulated depreciation					
Land improvements	241,700	41,597	-	-	283,297
Buildings	2,060,914	611,108	-	-	2,672,022
Fixed equipment	309,470	31,200	-	-	340,670
Major moveable equipment	1,612,202	299,979	-	-	1,912,181
	4,224,286	983,884	-	-	5,208,170
Capital assets, net	\$10,155,176	\$ (501,017)	\$ -	\$ -	\$ 9,654,159

Note 6: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital District for the years ended April 30, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2006 revenue bonds payable (A)	\$ 6,645,000	\$ -	\$ 6,645,000	\$ -	\$ -
2011 revenue bonds payable (B)	-	5,905,000	-	5,905,000	380,000
Capital lease obligations	268,790	120,000	121,042	267,748	128,509
	6,913,790	6,025,000	6,766,042	6,172,748	508,509
Unamortized loss on refunding	-	(171,163)	(5,487)	(165,676)	(13,166)
	\$ 6,913,790	\$ 5,853,837	\$ 6,760,555	\$ 6,007,072	\$ 495,343

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable (A)	\$ 6,940,000	\$ -	\$ 295,000	\$ 6,645,000	\$ 305,000
Capital lease obligations	384,058	-	115,268	268,790	103,638
Total long-term debt	\$ 7,324,058	\$ -	\$ 410,268	\$ 6,913,790	\$ 408,638

- (A) Due December 1, 2026, principal payable annually beginning December 1, 2008, plus semi-annual interest payments at interest rates from 3.75% to 4.50%; secured by the project and trustee-held assets. Upon issuance and delivery of the 2011 revenue bonds, the Hospital District defeased its outstanding 2006 revenue bonds. This advance refunding transaction resulted in an extinguishment of debt since the Hospital District was legally released from its obligation on the 2006 Revenue bonds at the time of the defeasance.
- (B) Due December 1, 2024, principal payable annually beginning December 1, 2012, plus semi-annual interest payments at interest rates from 2.00% to 4.25%; secured by trustee-held assets.

Revenue Bonds Payable

Under the terms of the Hospital District's Revenue Bond Indentures, the Hospital District is required to maintain certain funds with a trustee. Accordingly, these funds are included as restricted cash and investments – current and noncurrent cash and investments held by trustee for debt service in the accompanying balance sheets.

The debt service requirements as of April 30, 2012, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2013	\$ 583,017	\$ 380,000	\$ 203,017
2014	584,295	390,000	194,295
2015	580,520	395,000	185,520
2016	585,645	410,000	175,645
2017	579,370	415,000	164,370
2018 - 2022	2,906,107	2,300,000	606,107
2023 - 2025	1,754,400	1,615,000	139,400
	\$ 7,573,354	\$ 5,905,000	\$ 1,668,354

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Capital Lease Obligations

The Hospital District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at April 30, 2012 and 2011, totaled \$267,256 and \$259,293, respectively, net of accumulated depreciation of \$362,932 and \$250,895, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 2.54% to 3.65% together with the present value of the future minimum lease payments as of April 30, 2012:

Year Ending April 30,	
2013	\$ 135,195
2014	84,075
2015	25,716
2016	25,716
2017	8,573
Total minimum lease payments	<u>279,275</u>
Less amount representing interest	<u>11,527</u>
Present value of future minimum lease payments	<u>\$ 267,748</u>

Note 7: Pension Plan

KPERS Plan

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

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statute for calendar years 2011 and 2010 was 6.74% and 6.14%, respectively. The Hospital District's employer contributions to KPERS for the years ended April 30, 2012 and 2011, were \$443,331 and \$348,495, respectively, equal to the statutory required contributions for each year.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Defined Contribution Plan

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

Note 8: Compliance with Kansas Law

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

Operating expenses	\$ 13,724,536
Capital outlays	4,647,451
Depreciation	(1,025,645)
Provision for uncollectible accounts	(649,122)
Annualized calendar expenses	<u>16,697,220</u>
Budgeted expenditures	<u>10,404,804</u>
Unfavorable variance	<u><u>\$ (6,292,416)</u></u>

Unfavorable variances were due to calling of the series 2006 Bond and the addition of two clinics during the year. Clinic additions caused increases in wages and purchasing costs. These situations were not foreseeable when the budget was completed for fiscal year 2012. Excluding these special situations and evaluating normal hospital operations, the facility was in compliance with the budget.

Note 9: Medical Malpractice Coverage and Claims

The Hospital District purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides \$1,000,000 of coverage for each medical incident and \$3,000,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2012 and 2011

Note 10: Current Economic Conditions

The current protracted economic environment presents hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital District.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital District's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

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

Supplementary Information

Hospital District No. 1 of Rice County
Combining Schedule of Revenues, Expenses and Changes in Net Assets
April 30, 2012 and 2011

	2012		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2012 – \$715,000, 2011 – \$517,000	\$11,054,867	\$ -	\$11,054,867
Nonpatient meals	55,552	-	55,552
Other	279,700	15,895	295,595
Total operating revenues	<u>11,390,119</u>	<u>15,895</u>	<u>11,406,014</u>
Operating Expenses			
Salaries and wages	6,817,747	-	6,817,747
Employee benefits	1,808,700	-	1,808,700
Supplies and other	4,032,568	34,994	4,067,562
Depreciation and amortization	1,063,181	-	1,063,181
Total operating expenses	<u>13,722,196</u>	<u>34,994</u>	<u>13,757,190</u>
Operating Loss	<u>(2,332,077)</u>	<u>(19,099)</u>	<u>(2,351,176)</u>
Nonoperating Revenues (Expenses)			
Property taxes	813,711	-	813,711
Investment income	4,548	(11,139)	(6,591)
Interest expense	(263,587)	-	(263,587)
Noncapital grants and gifts	185,304	150,954	336,258
Farm and royalty income (net of expenses)	-	24,165	24,165
Total nonoperating revenues (expenses)	<u>739,976</u>	<u>163,980</u>	<u>903,956</u>
Excess (Deficiency) of Revenues Over Expenses Before Transfers	(1,592,101)	144,881	(1,447,220)
Transfers	300,000	(300,000)	-
Change in Net Assets	(1,292,101)	(155,119)	(1,447,220)
Net Assets, Beginning of Year	<u>6,174,240</u>	<u>2,241,359</u>	<u>8,415,599</u>
Net Assets, End of Year	<u>\$ 4,882,139</u>	<u>\$ 2,086,240</u>	<u>\$ 6,968,379</u>

2011		
Hospital	Foundation	Total
\$ 9,077,938	\$ -	\$ 9,077,938
46,471	-	46,471
199,350	14,461	213,811
<u>9,323,759</u>	<u>14,461</u>	<u>9,338,220</u>
5,132,772	-	5,132,772
1,482,002	-	1,482,002
3,211,499	56,586	3,268,085
1,004,159	-	1,004,159
<u>10,830,432</u>	<u>56,586</u>	<u>10,887,018</u>
<u>(1,506,673)</u>	<u>(42,125)</u>	<u>(1,548,798)</u>
819,376	-	819,376
15,196	210,099	225,295
(297,670)	-	(297,670)
9,267	353,357	362,624
-	24,613	24,613
<u>546,169</u>	<u>588,069</u>	<u>1,134,238</u>
(960,504)	545,944	(414,560)
25,000	(25,000)	-
(935,504)	520,944	(414,560)
<u>7,109,744</u>	<u>1,720,415</u>	<u>8,830,159</u>
<u>\$ 6,174,240</u>	<u>\$ 2,241,359</u>	<u>\$ 8,415,599</u>