Hospital District No. 1 of Rice County

Independent Accountants' Report and Financial Statements

April 30, 2010 and 2009

BKD LLP
CPAs & Advisors

Hospital District No. 1 of Rice County

April 30, 2010 and 2009

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information **1**

Financial Statements

Balance Sheets 2

Statements of Revenues, Expenses and Changes in Net Assets 3

Statements of Cash Flows 4

Notes to Financial Statements 6

Supplementary Information

Combining Schedule of Revenues, Expenses and Changes in Net Assets 19

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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 sheet of Hospital District No. 1 of Rice County (Hospital District) as of April 30, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of Hospital District No. 1 of Rice County as of and the for the year ended April 30, 2009, were audited by other accountants whose report dated October 8, 2009, expressed an unqualified opinion on those statements.

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 audit provides a reasonable basis for our opinion.

In our opinion, the 2010 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, 2010, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the Hospital District's basic financial statements as of and for the year ended April 30, 2010, taken as a whole. The accompanying supplementary information as of and the year ended April 30, 2010, as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements as of and for the year ended April 30, 2010, and, in our opinion, is fairly stated in all material respects in relation to those basic financial statements taken as a whole. The information as of and for the year ended April 30, 2009, was audited by other accountants whose report dated October 8, 2009, expressed an unqualified opinion on such information in relation to the basis consolidated financial statements as of and for the year ended April 30, 2009, taken as a whole.

The Hospital District has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

BKD, LLP

October 15, 2010

experienceBKD

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Hospital District No. 1 of Rice County

Balance Sheets

April 30, 2010 and 2009

	2010	2009
Assets		
Current Assets		
Cash and cash equivalents	$ 97,172	$ 525,876
Short-term certificates of deposit	2,393,108	1,539,581
Assets limited as to use - held by trustee for debt service	310,096	309,155
Patient accounts receivable, net of allowance; 2010 – $378,450, 2009 – $362,782	1,573,462	999,188
Property taxes receivable	375,102	347,979
Estimated amounts due from third-party payers	403,947	1,421,853
Supplies	110,439	104,742
Prepaid expenses and other	258,815	127,159
Total current assets	5,522,141	5,375,533
Assets Limited as to Use		
Held by trustee for debt service	897,096	896,155
Internally designated for capital improvements	1,621,369	1,986,289
Restricted by donors for capital acquisitions and specific operating activities	85,419	85,419
	2,603,884	2,967,863
Less amount required to meet current obligations	310,096	309,155
	2,293,788	2,658,708
Capital Assets, Net	10,155,176	10,990,145
Deferred Financing Costs	202,804	223,832
Total assets	$ 18,173,909	$ 19,248,218

See Notes to Financial Statements

Liabilities and Net Assets

	2010	2009
Current Liabilities		
Current maturities of long-term debt	$ 409,219	$ 414,632
Accounts payable	661,070	516,088
Construction payable	50,000	557,925
Accrued wages and vacation benefits	733,896	642,559
Deferred revenue	574,726	562,665
Total current liabilities	2,428,911	2,693,869
Long-term Debt	6,914,839	7,324,058
Total liabilities	9,343,750	10,017,927
Net Assets		
Invested in capital assets, net of related debt	2,983,922	2,917,439
Restricted-expendable for		
Debt service	776,027	770,675
Capital acquisitions	85,419	85,419
Unrestricted	4,984,791	5,456,758
Total net assets	8,830,159	9,230,291
Total liabilities and net assets	$ 18,173,909	$ 19,248,218

Hospital District No. 1 of Rice County

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended April 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2010 – $416,000, 2009 – $267,000	$ 8,367,204	$ 8,408,681
Nonpatient meals	44,873	26,882
Other	234,532	208,402
Total operating revenues	8,646,609	8,643,965
Operating Expenses		
Salaries and wages	4,699,178	4,303,038
Employee benefits	1,228,359	1,088,395
Supplies and other	3,087,936	3,372,352
Depreciation and amortization	990,319	677,768
Total operating expenses	10,005,792	9,441,553
Operating Loss	(1,359,183)	(797,588)
Nonoperating Revenues (Expenses)		
Property taxes	824,957	790,422
Investment income (loss)	416,608	(327,081)
Interest expense	(361,798)	(212,752)
Noncapital grants and gifts	52,337	51,684
Farm and royalty income (net of expense)	26,947	24,148
Total nonoperating revenues (expenses)	959,051	326,421
Change in Net Assets	(400,132)	(471,167)
Net Assets, Beginning of Year	9,230,291	9,701,458
Net Assets, End of Year	$ 8,830,159	$ 9,230,291

Hospital District No. 1 of Rice County

Statements of Cash Flows

Years Ended April 30, 2010 and 2009

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	$ 8,810,836	$ 8,037,459
Payments to suppliers and contractors	(3,080,307)	(3,400,001)
Payments to employees	(5,836,200)	(5,329,091)
Other receipts, net	279,405	235,284
Net cash provided by (used in) operating activities	173,734	(456,349)
Noncapital Financing Activities		
Property taxes supporting operations	809,895	814,416
Noncapital grants and gifts	52,337	31,364
Farm and royalty income (net of expenses)	26,947	24,148
Net cash provided by noncapital financing activities	889,179	869,928
Capital and Related Financing Activities		
Purchases of capital assets	(526,226)	(1,580,034)
Principal paid on long-term debt	(414,632)	(405,389)
Interest paid on long-term debt	(361,798)	(212,752)
Net cash used in capital and related financing activities	(1,302,656)	(2,198,175)
Investing Activities		
Change in short-term certificates of deposit	(853,527)	998,284
Net change in assets limited as to use	247,958	686,706
Investment income (loss)	416,608	(327,081)
Net cash provided by (used in) investing activities	(188,961)	1,357,909
Decrease in Cash and Cash Equivalents	(428,704)	(426,687)
Cash and Cash Equivalents, Beginning of Year	525,876	952,563
Cash and Cash Equivalents, End of Year	$ 97,172	$ 525,876

Hospital District No. 1 of Rice County

Statements of Cash Flows (Continued)

Years Ended April 30, 2010 and 2009

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (1,359,183)	$ (797,588)
Depreciation and amortization	990,319	677,768
Provision for uncollectible accounts	416,000	267,000
Changes in operating assets and liabilities		
Patient accounts receivable	(990,274)	301,365
Estimated amounts due from third party payers	1,017,906	(939,587)
Supplies	(5,697)	(2,657)
Prepaid expenses and other	(131,656)	(965)
Accounts payable and accrued expenses	236,319	38,315
Net cash provided by (used in) operating activities	$ 173,734	$ (456,349)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ -	$ 510,188
Capital assets acquisitions included in accounts payable/ construction payable	$ -	$ 557,925
Capital assets acquisitions funded with bond proceeds	$ -	$ 1,120,524

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2010 and 2009

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 or before 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, 2010 and 2009. Budgeted revenue and expenditure amounts represent the original budget adopted by the Hospital District’s Board of Directors.

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. At April 30, 2010 and 2009, cash equivalents consisted of certificates of deposit.

Property Taxes Receivable

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 9% in 2010 and 2009 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.

Investments and Investment Income

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

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

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

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

The Hospital District capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized was $129,057 and $134,989 in 2010 and 2009, respectively.

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.

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 $92,455 and $31,637 in 2010 and 2009, respectively.

Income Taxes

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

Foundation

The Rice Community Healthcare Foundation (Foundation) is a 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.

Subsequent Events

Subsequent events have been evaluated through October 15, 2010, 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 Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital District and audits thereof by the Medicare Administrative Contractor.

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Net patient service revenue is computed as follows:

	2010	2009
Gross patient service revenue	$ 8,467,108	$ 7,949,245
Plus (less)		
Contractual adjustments		
Medicare	1,529,951	1,499,150
Medicaid	(91,738)	80,949
Other	(1,122,275)	(854,106)
Provision for uncollectible accounts	(415,842)	(266,557)
Net patient service revenue	$ 8,367,204	$ 8,408,681

Note 3: Deposits and Assets Limited as to Use

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, 2010 and 2009, respectively, $1,768,115 and $989,350 of the Hospital District's bank balances of $2,516,079 and $2,128,754 were exposed to custodial credit risk as follows:

	2010	2009
Uninsured and uncollateralized	$ 84,403	$ -
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital District's name	1,683,712	989,350
	$ 1,768,115	$ 989,350

Summary of Carrying Values

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

	2010	2009
Carrying value		
Deposits	$ 2,490,244	$ 2,112,738
Included in the following balance sheet captions		
Cash and cash equivalents	$ 97,136	$ 525,876
Short-term certificates of deposit	2,393,108	1,539,581
Assets limited as to use	-	47,281
	$ 2,490,244	$ 2,112,738

Assets Limited as to Use

Assets limited as to use 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.

Under Bond Indenture Agreement

Assets limited as to use under the revenue bond indenture agreement are comprised of the following at April 30:

	2010	2009
Project account	$ -	$ 77
Principal and interest account	310,096	309,078
Bond reserve account	587,000	587,000
	897,096	896,155
Less current portion	310,096	309,155
	$ 587,000	$ 587,000

The above funds are reported at fair value and are comprised of U.S. Treasuries and money market funds.

By Board of Directors for Capital Improvements

Assets limited as to use by Board of Directors for capital improvements are reported at fair value and represent assets designated by the Board to be used for the replacement or purchase of capital assets. The majority of these assets are held in the Foundation, which consist of assets susceptible to market value fluctuations. These funds may be used for other purposes by action of the Board. The assets consist of the following at April 30:

	2010	2009
Cash	$ 19,803	$ 66,090
Certificates of deposit	-	75,000
Mutual funds and U.S. government securities	174,342	406,816
Marketable securities and bonds	1,406,017	1,418,618
Accrued interest receivable	6,692	5,250
Surrender value of life insurance	14,515	14,515
	$ 1,621,369	$ 1,986,289

The marketable securities and bonds have varying maturities of one to five years at April 30, 2010.

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, 2010 and 2009, consisted of:

	2010	2009
Medicare	$ 933,149	$ 374,120
Medicaid	20,587	48,433
Blue Cross	147,035	51,766
Other third-party payers	139,595	192,799
Patients	711,546	694,852
	1,951,912	1,361,970
Less allowance for uncollectible accounts	378,450	362,782
	$ 1,573,462	$ 999,188

Hospital District No. 1 of Rice County

Notes to Financial Statements

April 30, 2010 and 2009

Note 5: Capital Assets

Capital assets activity for the years ended April 30, 2010 and 2009, were:

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 143,104	$ -	$ -	$ -	$ 143,104
Land improvements	633,939	-	(12,031)	-	621,908
Building	7,822,025	-	-	2,548,920	10,370,945
Fixed equipment	568,014	-	-	19,107	587,121
Major moveable equipment	2,469,821	136,965	-	49,598	2,656,384
Construction in progress	2,617,625	-	-	(2,617,625)	-
	14,254,528	136,965	(12,031)	-	14,379,462
Less accumulated depreciation					
Land improvements	200,103	41,597	-	-	241,700
Buildings	1,465,378	595,536	-	-	2,060,914
Fixed equipment	284,688	24,782	-	-	309,470
Major moveable equipment	1,314,214	297,988	-	-	1,612,202
	3,264,383	959,903	-	-	4,224,286
Capital assets, net	$10,990,145	$ (822,938)	$ (12,031)	$ -	$10,155,176

	2009				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 122,784	$ 20,320	$ -	$ -	$ 143,104
Land improvements	606,238	-	(2,312)	30,013	633,939
Building	6,852,996	-	(728,076)	1,697,105	7,822,025
Fixed equipment	707,028	-	(141,745)	2,731	568,014
Major moveable equipment	2,243,026	520,954	(710,090)	415,931	2,469,821
Construction in progress	2,148,454	2,614,951	-	(2,145,780)	2,617,625
	12,680,526	3,156,225	(1,582,223)	-	14,254,528
Less accumulated depreciation					
Land improvements	162,578	39,349	(1,824)	-	200,103
Buildings	1,842,228	347,956	(724,806)	-	1,465,378
Fixed equipment	351,700	35,723	(102,735)	-	284,688
Major moveable equipment	1,775,105	240,390	(701,281)	-	1,314,214
	4,131,611	663,418	(1,530,646)	-	3,264,383
Capital assets, net	$ 8,548,915	$ 2,492,807	$ (51,577)	$ -	$10,990,145

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, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable (A)	$ 7,225,000	$ -	$ 285,000	$ 6,940,000	$ 295,000
Capital lease obligations	513,690	-	129,632	384,058	114,219
Total long-term debt	$ 7,738,690	$ -	$ 414,632	$ 7,324,058	$ 409,219

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Revenue bonds payable (A)	$ 7,500,000	$ -	$ 275,000	$ 7,225,000	$ 285,000
Capital lease obligations	133,891	510,188	130,389	513,690	129,632
Total long-term debt	$ 7,633,891	$ 510,188	$ 405,389	$ 7,738,690	$ 414,632

(A) Due December 1, 2026, principal payable annually beginning December 1, 2008, plus semi-annual interest payments at interest rates from 3.70% to 4.50%; secured by the project and trustee-held assets.

Revenue Bonds Payable

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

The debt service requirements as of April 30, 2010, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2011	$ 580,108	$ 295,000	$ 285,108
2012	578,931	305,000	273,931
2013	577,227	315,000	262,227
2014	579,890	330,000	249,890
2015	576,908	340,000	236,908
2016-2020	2,874,236	1,910,000	964,236
2021-2025	2,864,588	2,350,000	514,588
2026-2027	1,144,837	1,095,000	49,837
	$ 9,776,725	$ 6,940,000	$ 2,836,725

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, 2010 and 2009, totaled $377,526 and $511,954, respectively, net of accumulated depreciation of $229,832 and $95,404, 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 4.00% together with the present value of the future minimum lease payments as of April 30, 2010:

Year Ending April 30,	
2011	$ 125,980
2012	111,623
2013	111,623
2014	59,406
Total minimum lease payments	408,632
Less amount representing interest	24,574
Present value of future minimum lease payments	$ 384,058

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 2009 and 2008 was 5.54% and 4.93%, respectively. The Hospital District's employer contributions to KPERS for the years ended April 30, 2010 and 2009, were $294,471 and $219,074, respectively, equal to the statutory required contributions for each year.

Defined Contribution Plan

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

Note 8: Compliance with Kansas Law

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

Operating expenses	$ 10,036,388
Capital outlays	411,551
Depreciation	(861,075)
Provision for doubtful accounts	(366,080)
Annualized calendar expenses	9,220,784
Budgeted expenditures	11,227,468
Favorable variance	$ 2,006,684

Note 9: Medical Malpractice Coverage and Claims

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

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

Note 10: 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 of our 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, 2010 and 2009

	2010		
	Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2010 – $416,000, 2009 – $267,000	$ 8,367,204	$ -	$ 8,367,204
Nonpatient meals	44,873	-	44,873
Other	234,532	-	234,532
Total operating revenues	8,646,609	-	8,646,609
Operating Expenses			
Salaries and wages	4,699,178	-	4,699,178
Employee benefits	1,228,359	-	1,228,359
Supplies and other	3,045,335	42,601	3,087,936
Depreciation and amortization	990,319	-	990,319
Total operating expenses	9,963,191	42,601	10,005,792
Operating Loss	(1,316,582)	(42,601)	(1,359,183)
Nonoperating Revenues (Expenses)			
Property taxes	824,957	-	824,957
Investment income (loss)	74,744	341,864	416,608
Interest expense	(361,798)	-	(361,798)
Noncapital grants and gifts	36,524	15,813	52,337
Farm and royalty income (net of expense)	-	26,947	26,947
Total nonoperating revenues (expenses)	574,427	384,624	959,051
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Transfers	(742,155)	342,023	(400,132)
Transfers	661,107	(661,107)	-
Change in Net Assets	(81,048)	(319,084)	(400,132)
Net Assets, Beginning of Year	7,190,792	2,039,499	9,230,291
Net Assets, End of Year	$ 7,109,744	$ 1,720,415	$ 8,830,159

2009		
Hospital	Foundation	Total
$ 8,408,681	$ -	$ 8,408,681
26,882	-	26,882
187,002	21,400	208,402
8,622,565	21,400	8,643,965
4,303,038	-	4,303,038
1,088,395	-	1,088,395
3,301,449	70,903	3,372,352
677,768	-	677,768
9,370,650	70,903	9,441,553
(748,085)	(49,503)	(797,588)
790,422	-	790,422
109,218	(436,299)	(327,081)
(212,752)	-	(212,752)
23,312	28,372	51,684
-	24,148	24,148
710,200	(383,779)	326,421
(37,885)	(433,282)	(471,167)
74,254	(74,254)	-
36,369	(507,536)	(471,167)
7,154,423	2,547,035	9,701,458
$ 7,190,792	$ 2,039,499	$ 9,230,291