

Ashland Hospital District No. 3

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



Ashland Hospital District No. 3
December 31, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Ashland Hospital District No. 3
Ashland, Kansas

We have audited the accompanying balance sheets of Ashland Hospital District No. 3 as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the December 31, 2011 and 2010, financial statements referred to above present fairly, in all material respects, the financial position of Ashland Hospital District No. 3 as of December 31, 2011 and 2010, and the results of its 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.

BKD, LLP

June 11, 2012

Ashland Hospital District No. 3

Balance Sheets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 205,241	\$ 640,122
Patient accounts receivable, net	382,228	456,494
Property taxes receivable	1,059,464	1,091,829
Estimated amounts due from third-party payers	545,000	12,584
Supplies	116,540	113,932
Prepaid expenses and other	42,742	26,058
	<u>2,351,215</u>	<u>2,341,019</u>
Total current assets	<u>2,351,215</u>	<u>2,341,019</u>
Noncurrent Cash	<u>28,354</u>	<u>20,688</u>
Capital Assets		
Land	14,560	14,560
Depreciable capital assets, net of accumulated depreciation	971,729	862,518
	<u>986,289</u>	<u>877,078</u>
Total capital assets, net of accumulated depreciation	<u>986,289</u>	<u>877,078</u>
Total assets	<u>\$ 3,365,858</u>	<u>\$ 3,238,785</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt	\$ 74,147	\$ 78,213
Accounts payable	403,709	110,239
Accrued wages and payroll taxes	139,643	98,994
Accrued paid time off	68,119	40,184
Accrued interest payable	4,375	5,125
Deferred property taxes revenue	1,059,464	1,091,829
	<u>1,749,457</u>	<u>1,424,584</u>
Total current liabilities	<u>1,749,457</u>	<u>1,424,584</u>
Long-term Debt	<u>153,234</u>	<u>227,381</u>
Total liabilities	<u>1,902,691</u>	<u>1,651,965</u>
Net Assets		
Invested in capital assets, net of related debt	758,908	571,484
Restricted - expendable for specific operating activities	15,868	9,651
Unrestricted	688,391	1,005,685
	<u>1,463,167</u>	<u>1,586,820</u>
Total net assets	<u>1,463,167</u>	<u>1,586,820</u>
Total liabilities and net assets	<u>\$ 3,365,858</u>	<u>\$ 3,238,785</u>

Ashland Hospital District No. 3
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue	\$ 4,193,144	\$ 3,643,582
Other	105,861	139,201
Total operating revenues	4,299,005	3,782,783
Operating Expenses		
Salaries	2,571,998	2,157,776
Supplies and other	2,731,277	2,195,581
Depreciation	221,158	184,579
Total operating expenses	5,524,433	4,537,936
Operating Loss	(1,225,428)	(755,153)
Nonoperating Revenues (Expenses)		
Property taxes	1,083,018	1,081,396
Noncapital grants and contributions	26,531	26,649
Interest income	6,640	5,449
Interest expense	(14,414)	(23,129)
Loss on disposal of capital assets	-	(14)
Total nonoperating revenues (expenses)	1,101,775	1,090,351
Change in Net Assets	(123,653)	335,198
Net Assets, Beginning of Year	1,586,820	1,251,622
Net Assets, End of Year	\$ 1,463,167	\$ 1,586,820

Ashland Hospital District No. 3
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 3,734,994	\$ 4,045,981
Payments to employees	(2,503,414)	(2,146,821)
Payments to suppliers and contractors	(2,457,099)	(2,356,782)
Other receipts, net	105,861	139,201
Net cash used in operating activities	(1,119,658)	(318,421)
Investing Activities		
Interest income	6,640	5,449
Noncapital Financing Activities		
Property taxes	1,083,018	1,081,396
Noncapital grants and contributions	26,531	26,649
Net cash provided by noncapital financing activities	1,109,549	1,108,045
Capital and Related Financing Activities		
Purchases of capital assets	(330,369)	(24,543)
Interest paid on long-term debt	(15,164)	(23,754)
Principal paid on long-term debt	(78,213)	(251,724)
Net cash used in capital and related financing activities	(423,746)	(300,021)
Increase (Decrease) in Cash	(427,215)	495,052
Cash, Beginning of Year	660,810	165,758
Cash, End of Year	\$ 233,595	\$ 660,810
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 205,241	\$ 640,122
Cash in noncurrent assets	28,354	20,688
Total cash	\$ 233,595	\$ 660,810

Ashland Hospital District No. 3
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (1,225,428)	\$ (755,153)
Depreciation	221,158	184,579
Provision for uncollectible accounts	55,641	101,528
Change in assets and liabilities		
Patient accounts receivable	18,625	(101,545)
Estimated amounts due from third-party payers	(532,416)	402,416
Supplies	(2,608)	4,231
Prepaid expenses	(16,684)	(3,262)
Accounts payable	293,470	(162,170)
Other accrued liabilities	68,584	10,955
Net cash used in operating activities	\$ (1,119,658)	\$ (318,421)
 Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	\$ -	\$ 21,165

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

Ashland Hospital District No. 3 (Hospital District) is a political subdivision of the State of Kansas. The Hospital District operates the Ashland Health Center which consists of an acute care hospital, long-term care unit, clinic and independent living facility located in Ashland, Kansas. The Hospital District is governed by a Board of Trustees consisting of five members elected by residents of the Hospital District.

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 tax 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 tax appropriations), interest 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), including those that were issued on or after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

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.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2011 and 2010

Cash Equivalents

The Hospital District considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2011 and 2010.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Budgetary Principles

The Hospital District is required by state statutes to adopt an annual budget for its general funds on or before August 25 for the ensuing year. The Hospital District's Board of Trustees 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.

Property Taxes

The Hospital District received approximately 20% and 22% of its financial support from property taxes in 2011 and 2010, respectively. One hundred percent of these funds were used to support operations in both years.

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 tax 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 property taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred property tax revenue on the balance sheets.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Ashland Hospital District No. 3

Notes to Financial Statements

December 31, 2011 and 2010

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Hospital District analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital District records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital District's allowance for uncollectible accounts estimate at December 31, 2011, is based primarily on 75% of account balances between 90 and 365 days (excluding Medicare accounts) and 100% of account balances greater than 365 days outstanding from the date of discharge or service.

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. The following estimated useful lives are being used by the Hospital District:

Land improvements	5-15 years
Buildings	10-33 years
Fixed equipment	5-25 years
Moveable equipment	3-15 years

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Notes to Financial Statements

December 31, 2011 and 2010

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 revenues (expenses).

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 in effect at the balance sheet date.

Net Assets

Net assets of the Hospital District are classified in three components. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by donors external to the Hospital District. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the above conditions.

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.

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Notes to Financial Statements

December 31, 2011 and 2010

Charity Care

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

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 (CMS). 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.

The Hospital District has not received or recognized any revenue for the incentive payments in the accompanying financial statements.

Income Taxes

As an essential government entity, the Hospital District is generally exempt from federal and state 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.

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.

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Notes to Financial Statements

December 31, 2011 and 2010

Note 2: 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 and other acceptable collateral having an aggregate value at least equal to the amount of the deposits.

At December 31, 2011 and 2010, none of the Hospital District's deposits (checking and savings accounts) were exposed to custodial credit risk.

The carrying amounts of deposits are included in the Hospital District's balance sheet captions as follows at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash in current assets	\$ 204,925	\$ 639,806
Noncurrent cash		
Board-designated	12,486	11,037
Restricted by others	15,868	9,651
	<u>28,354</u>	<u>20,688</u>
	<u>\$ 233,279</u>	<u>\$ 660,494</u>

Note 3: Patient Accounts Receivable, Net/Net Patient Service Revenue

The Hospital District recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital District recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital District records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented as a component of net patient service revenue.

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Notes to Financial Statements

December 31, 2011 and 2010

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

Medicare. The Hospital District is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on a combination of fee schedules and cost reimbursement methodologies. The Hospital District is reimbursed for most 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 for inpatient (excluding long-term care) and outpatient services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital with audit 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. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital District is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues for the Hospital District relative to the provider assessment program for the period July 1, 2010 through June 30, 2011 (the State's fiscal year), totaled approximately \$103,000. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 77% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both years ended December 31, 2011 and 2010. 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 and preferred provider organizations. The basis for payment to the Hospital District under these agreements includes prospectively determined case rates and discounts from established charges.

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Notes to Financial Statements

December 31, 2011 and 2010

Accounts receivable are recorded net of the allowance for uncollectible accounts and allowance for contractual adjustments at December 31, 2011 and 2010, as follows:

	2011	2010
Gross patient accounts receivable		
Medicare	\$ 93,335	\$ 90,936
Medicaid	60,089	67,620
Blue Cross	24,618	35,546
Other third-party payers	52,394	43,383
Self-pay	430,067	438,281
	660,503	675,766
Less allowance for uncollectible accounts	(321,449)	(306,332)
Plus allowance for contractual adjustments	43,174	87,060
	\$ 382,228	\$ 456,494

Net patient service revenue for the years ended December 31, 2011 and 2010, is as follows:

	2011	2010
Gross patient service revenue	\$ 3,070,237	\$ 2,997,689
Plus (less):		
Contractual adjustments		
Medicare	1,300,591	971,931
Medicaid	81,152	(18,509)
Blue Cross	(111,923)	(90,993)
Other	(14,473)	(66,240)
Administrative adjustments	(41,375)	(36,359)
Charity care	(35,424)	(12,409)
Provision for uncollectible accounts	(55,641)	(101,528)
	\$ 4,193,144	\$ 3,643,582

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Notes to Financial Statements

December 31, 2011 and 2010

Note 4: Concentration of Credit Risk

The Hospital District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. The mix of accounts receivables net of allowance for uncollectible accounts and contractual allowances at December 31, 2011 and 2010, was as follows:

	<u>2011</u>	<u>2010</u>
Medicare	35%	43%
Medicaid	16	14
Blue Cross	4	6
Other third-party payers	15	8
Self-pay	<u>30</u>	<u>29</u>
	<u>100%</u>	<u>100%</u>

Note 5: Noncurrent Cash

Noncurrent cash includes 1) funds internally designated by the Board of Trustees to be used for replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors for student scholarships and loans. The internally designated funds may be used for other purposes by action of the Board of Trustees. Noncurrent cash consists of savings accounts.

The externally restricted assets totaled \$15,868 and \$9,651 at December 31, 2011 and 2010, respectively.

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Notes to Financial Statements

December 31, 2011 and 2010

Note 6: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,560	\$ -	\$ -	\$ 14,560
Land improvements	41,353	-	-	41,353
Buildings	1,533,216	-	-	1,533,216
Fixed equipment	626,601	-	-	626,601
Moveable equipment	1,208,612	330,369	-	1,538,981
	<u>3,424,342</u>	<u>330,369</u>	<u>-</u>	<u>3,754,711</u>
Less accumulated depreciation				
Land improvements	16,056	1,299	-	17,355
Buildings	1,057,040	50,192	-	1,107,232
Fixed equipment	522,728	15,457	-	538,185
Moveable equipment	951,440	154,210	-	1,105,650
	<u>2,547,264</u>	<u>221,158</u>	<u>-</u>	<u>2,768,422</u>
Capital assets, net	<u>\$ 877,078</u>	<u>\$ 109,211</u>	<u>\$ -</u>	<u>\$ 986,289</u>
	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 14,560	\$ -	\$ -	\$ 14,560
Land improvements	41,353	-	-	41,353
Buildings	1,533,740	-	(524)	1,533,216
Fixed equipment	626,601	-	-	626,601
Moveable equipment	1,234,671	45,708	(71,767)	1,208,612
	<u>3,450,925</u>	<u>45,708</u>	<u>(72,291)</u>	<u>3,424,342</u>
Less accumulated depreciation				
Land improvements	14,660	1,396	-	16,056
Buildings	1,007,021	50,543	(524)	1,057,040
Fixed equipment	505,880	16,848	-	522,728
Moveable equipment	907,401	115,792	(71,753)	951,440
	<u>2,434,962</u>	<u>184,579</u>	<u>(72,277)</u>	<u>2,547,264</u>
Capital assets, net	<u>\$ 1,015,963</u>	<u>\$ (138,871)</u>	<u>\$ (14)</u>	<u>\$ 877,078</u>

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Notes to Financial Statements

December 31, 2011 and 2010

Note 7: Long-term Debt

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

	2011				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
6% certificates of participation	\$ 205,000	\$ -	\$ (30,000)	\$ 175,000	\$ 30,000
Capital lease obligations	100,594	-	(48,213)	52,381	44,147
	\$ 305,594	\$ -	\$ (78,213)	\$ 227,381	\$ 74,147

	2010				
	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
6% certificates of participation	\$ 230,000	\$ -	\$ (25,000)	\$ 205,000	\$ 30,000
Capital lease obligations	306,153	21,165	(226,724)	100,594	48,213
	\$ 536,153	\$ 21,165	\$ (251,724)	\$ 305,594	\$ 78,213

Certificates of Participation

Certificates of participation, dated January 2001, in the original amount of \$400,000 bear interest at 6%. The debt is payable in annual installments through February 2016. The Hospital District is required to make semi-annual interest and annual principal payments. Outstanding certificates of participation maturing February 1, 2003, and thereafter may be redeemed at the Hospital District's option.

Required annual payments on the certificates of participation as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 39,600	\$ 30,000	\$ 9,600
2013	42,650	35,000	7,650
2014	40,550	35,000	5,550
2015	38,450	35,000	3,450
2016	41,200	40,000	1,200
	\$ 202,450	\$ 175,000	\$ 27,450

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Notes to Financial Statements

December 31, 2011 and 2010

Capital Lease Obligations

The Hospital District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2011 and 2010, totaled \$209,662 and \$230,826, respectively, net of accumulated depreciation of \$159,698 and \$121,292, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 4.11% to 4.78% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,		
2012	\$	45,541
2013		8,306
Total minimum lease payments		<u>53,847</u>
Less amount representing interest		<u>1,466</u>
Present value of future minimum lease payments	\$	<u><u>52,381</u></u>

Note 8: Medical Malpractice Coverage and Claims

The Hospital District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Pension Plan

Plan description - The Hospital District contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple employer defined benefit pension plan administered by the state of Kansas 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 Avenue, Suite 100, Topeka, Kansas 66603-3803) or by calling 1.888.275.5737.

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Notes to Financial Statements

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Funding policy - K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary for all employees who joined the plan prior to July 1, 2009, and at 6% for employees who joined the plan on or after July 1, 2009. 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 regular employer rate for 2011 and 2010, established by statute, was 6.74% and 6.14%, respectively. The Hospital District's employer contributions to KPERS for the years ended December 31, 2011, 2010 and 2009, were \$150,958, \$118,701 and \$98,209, respectively, equal to the statutory required contributions for each year.

Note 10: Management Agreement

The Hospital District has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Ashland Health Center and provide shared services for accounting, education and medical records. Fees incurred under the management agreement were \$68,437 and \$65,805 for 2011 and 2010, respectively.

Note 11: Significant Estimates and Concentrations

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 3*.

Current Economic Conditions

The current protracted economic decline continues to present health care providers with difficult circumstances and challenges, which in some cases have resulted in large declines in assets and contributions and 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.

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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.

Note 12: Contingencies

Litigation

In the normal course of business, the Hospital District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Hospital District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.