

Grisell Memorial Hospital District No. 1

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010



Grisell Memorial Hospital District No. 1
December 31, 2011 and 2010

Contents

Independent Accountants' Report..... 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

Independent Accountants' Report

Board of Directors
Grisell Memorial Hospital District No. 1
Ransom, Kansas

We have audited the accompanying balance sheets of Grisell Memorial Hospital District No. 1 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 Grisell Memorial Hospital District No. 1 as of December 31, 2011 and 2010, 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.

BKD, LLP

April 18, 2012

Grisell Memorial Hospital District No. 1
Balance Sheets
December 31, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 377,687	\$ 358,658
Certificates of deposit	740,196	582,993
Patient accounts receivable, net	489,021	370,767
Estimated amounts due from third-party payers	280,000	205,000
Interest receivable	4,023	5,400
Supplies	58,196	54,175
Prepaid expenses and other	56,394	58,249
Property taxes receivable	<u>797,966</u>	<u>709,841</u>
Total current assets	<u>2,803,483</u>	<u>2,345,083</u>
 Noncurrent Cash and Investments	 <u>861,357</u>	 <u>694,507</u>
 Capital Assets		
Land	4,000	4,000
Depreciable capital assets, net of accumulated depreciation	<u>425,669</u>	<u>405,651</u>
Total capital assets, net of accumulated depreciation	<u>429,669</u>	<u>409,651</u>
Total assets	<u><u>\$ 4,094,509</u></u>	<u><u>\$ 3,449,241</u></u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of capital lease obligations	\$ 10,986	\$ 8,616
Accounts payable	103,067	93,838
Salaries payable	141,270	130,703
Payroll taxes payable	48,575	43,047
Accrued benefits payable	82,128	76,191
Deferred property tax revenue	797,966	709,841
	<hr/>	<hr/>
Total current liabilities	1,183,992	1,062,236
Capital Lease Obligations	38,140	24,799
	<hr/>	<hr/>
Total liabilities	1,222,132	1,087,035
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	380,543	376,236
Restricted - expendable for		
Specific operating activities	32,485	23,632
Unrestricted	2,459,349	1,962,338
	<hr/>	<hr/>
Total net assets	2,872,377	2,362,206
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 4,094,509</u>	<u>\$ 3,449,241</u>

Grisell Memorial Hospital District No. 1
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue	\$ 3,998,078	\$ 3,581,309
Contract services	53,363	52,953
Clinic rentals	31,200	31,200
Ambulance subsidy	24,000	24,000
Other	57,450	73,682
Total operating revenues	4,164,091	3,763,144
Operating Expenses		
Salaries and wages	2,319,004	2,227,457
Supplies and other	2,038,817	1,841,832
Depreciation	92,403	93,385
Total operating expenses	4,450,224	4,162,674
Operating Loss	(286,133)	(399,530)
Nonoperating Revenues (Expenses)		
Property taxes	736,346	624,955
Interest income	20,539	23,530
Noncapital grants and gifts	43,553	22,801
Interest expense	(2,362)	(1,432)
Loss on disposal of capital assets	(1,772)	(143)
Total nonoperating revenues (expenses)	796,304	669,711
Increase in Net Assets	510,171	270,181
Net Assets, Beginning of Year	2,362,206	2,092,025
Net Assets, End of Year	\$ 2,872,377	\$ 2,362,206

Grisell Memorial Hospital District No. 1
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 3,804,824	\$ 3,534,397
Payments to employees	(2,302,500)	(2,233,332)
Payments to suppliers and contractors	(2,026,226)	(1,815,830)
Other receipts, net	166,013	181,835
Net cash used in operating activities	(357,889)	(332,930)
Noncapital Financing Activities		
Property taxes supporting operations	736,346	624,955
Noncapital grants and gifts	43,553	22,801
Net cash provided by noncapital financing activities	779,899	647,756
Capital and Related Financing Activities		
Purchase of capital assets	(90,163)	(25,576)
Principal paid on capital lease obligations	(8,617)	(4,056)
Interest paid on capital lease obligations	(2,362)	(1,432)
Proceeds on sale of capital assets	300	-
Net cash used in capital and related financing activities	(100,842)	(31,064)
Investing Activities		
Interest income received	23,183	20,856
Net change in certificates of deposit	(157,203)	(255,421)
Net change in noncurrent investments	(160,366)	(7,418)
Net cash used in investing activities	(294,386)	(241,983)
Increase in Cash	26,782	41,779
Cash, Beginning of Year	380,640	338,861
Cash, End of Year	\$ 407,422	\$ 380,640
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 377,687	\$ 358,658
Cash in noncurrent cash and investments	29,735	21,982
	\$ 407,422	\$ 380,640

Grisell Memorial Hospital District No. 1
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenue to Net Cash		
Used in Operating Activities		
Operating loss	\$ (286,133)	\$ (399,530)
Depreciation	92,403	93,385
Provision for uncollectible accounts	34,184	58,717
Changes in operating assets and liabilities		
Patient accounts receivable, net	(152,438)	(60,629)
Estimated amounts due from third-party payers	(75,000)	(45,000)
Supplies	(4,021)	8,743
Prepaid expenses and other current assets	1,855	(370)
Accounts payable and accrued expenses	31,261	11,754
	\$ (357,889)	\$ (332,930)

Supplemental Cash Flows Information

Capital lease obligations incurred for capital assets	\$ 24,328	\$ 37,471
---	-----------	-----------

Grisell Memorial Hospital District No. 1

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

Grisell Memorial Hospital District No. 1 (Hospital District), located in Ransom, Kansas, is organized and operating under Kansas law and is governed by a Board of Directors. The Hospital District operates a hospital which provides acute and long-term care services and operates outpatient clinics.

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), 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), including those that were issued 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.

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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

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 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.

Property Taxes

The Hospital District received approximately 15% of its financial support from property taxes in both 2011 and 2010. 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.

Grisell Memorial Hospital District No. 1
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 is based on 100% of account balances in excess of 150 days (excluding Medicare accounts) 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	8-15 years
Buildings	10-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

Grisell Memorial Hospital District No. 1

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. 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 rates 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, consist 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 grantors or 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 include 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.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2011 and 2010

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.

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.

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

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: 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;

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2011 and 2010

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

All certificates of deposit have maturities of one year or less and are reported at cost, which approximates fair value.

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	\$ 377,437	\$ 358,408
Certificates of deposit	740,196	582,993
Noncurrent cash and investments	<u>855,653</u>	<u>688,634</u>
	<u>\$ 1,973,286</u>	<u>\$ 1,630,035</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.

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 is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care and 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 fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital District is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital District and audits thereof by the Medicare administrative contractor.

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2011 and 2010

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 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 \$116,000. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 74% and 71% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, 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 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.

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	\$ 192,472	\$ 103,743
Medicaid	77,032	72,048
Blue Cross	39,484	28,135
Other third-party payers	35,785	34,033
Self-pay	232,768	271,321
	577,541	509,280
Less allowance for uncollectible accounts	(182,237)	(192,675)
Plus allowance for contractual adjustments	93,717	54,162
	\$ 489,021	\$ 370,767

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2011 and 2010

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

	2011	2010
Gross patient service revenue	\$ 3,174,723	\$ 3,135,964
Plus (less):		
Contractual adjustments		
Medicare	763,805	590,861
Medicaid	229,219	36,845
Blue Cross	(78,296)	(83,911)
Other	(24,844)	(17,136)
Administrative adjustments	(21,859)	(15,048)
Charity care	(10,486)	(7,549)
Provision for uncollectible accounts	(34,184)	(58,717)
Net patient service revenue	<u>\$ 3,998,078</u>	<u>\$ 3,581,309</u>

Note 4: Concentration of Credit Risk

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

	2011	2010
Medicare	61%	42%
Medicaid	17	23
Blue Cross	6	6
Other third-party payers	5	8
Self-pay	11	21
	<u>100%</u>	<u>100%</u>

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2011 and 2010

Note 5: Noncurrent Cash and Investments

Noncurrent cash and investments include 1) funds internally designated by the Board of Directors to be used for physician recruitment and replacement of capital assets or for the purchase of additional capital assets and 2) funds externally restricted by donors and grantors for student scholarships/loans and other specific purposes. The internally designated funds may be used for other purposes by action of the Board of Directors. Noncurrent cash and investments consist of certificates of deposit, saving accounts and interest receivable.

The externally restricted assets totaled \$32,485 and \$23,632 at December 31, 2011 and 2010, respectively.

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	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	45,537	-	-	45,537
Buildings	1,430,083	-	-	1,430,083
Fixed equipment	205,537	-	(5,287)	200,250
Moveable equipment	724,624	114,490	(125,988)	713,126
	2,409,781	114,490	(131,275)	2,392,996
Less accumulated depreciation				
Land improvements	38,779	803	-	39,582
Buildings	1,161,311	31,995	-	1,193,306
Fixed equipment	199,963	824	(5,287)	195,500
Moveable equipment	600,077	58,781	(123,919)	534,939
	2,000,130	92,403	(129,206)	1,963,327
Capital Assets, Net	\$ 409,651	\$ 22,087	\$ (2,069)	\$ 429,669

Grisell Memorial Hospital District No. 1

Notes to Financial Statements

December 31, 2011 and 2010

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 4,000	\$ -	\$ -	\$ 4,000
Land improvements	46,626	-	(1,089)	45,537
Buildings	1,448,680	25,576	(44,173)	1,430,083
Fixed equipment	211,214	-	(5,677)	205,537
Moveable equipment	711,209	37,471	(24,056)	724,624
	2,421,729	63,047	(74,995)	2,409,781
Less accumulated depreciation				
Land improvements	36,835	3,033	(1,089)	38,779
Buildings	1,173,118	32,222	(44,029)	1,161,311
Fixed equipment	204,267	1,374	(5,678)	199,963
Moveable equipment	567,377	56,756	(24,056)	600,077
	1,981,597	93,385	(74,852)	2,000,130
Capital Assets, Net	\$ 440,132	\$ (30,338)	\$ (143)	\$ 409,651

Note 7: Capital Lease Obligations

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

	2011				Amounts Due Within One Year
	Beginning Balance	Additions	Deductions	Ending Balance	
Capital lease obligation	\$ 33,415	\$ 24,328	\$ (8,617)	\$ 49,126	\$ 10,986
	2010				Amounts Due Within One Year
	Beginning Balance	Additions	Deductions	Ending Balance	
Capital lease obligation	\$ -	\$ 37,471	\$ (4,056)	\$ 33,415	\$ 8,616

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2011 and 2010

A schedule of the cost and accumulated depreciation on equipment under capital leases at December 31, 2011 and 2010, is as follows:

	2011	2010
Moveable equipment	\$ 61,799	\$ 37,471
Accumulated amortization	(15,035)	(5,465)
	\$ 46,764	\$ 32,006

The following is a schedule by year of future minimum lease payments under the capital lease including interest together with the present value of the future minimum lease payments:

Year ending December 31,	
2012	\$ 14,519
2013	14,519
2014	9,031
2015	3,542
2016	3,542
Thereafter	17,710
Total minimum lease payments	62,863
Less amount representing interest	13,737
Present value of future minimum lease payments	\$ 49,126

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.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2011 and 2010

Note 9: Pension Plan

The Hospital District maintains a contributory defined contribution pension plan for all eligible employees. Eligibility is established by all employees 18 years of age or older who have completed one year of service. The plan provides elective employee contributions of 2.5% of the first \$16,000 of annual compensation and 5% of annual compensation in excess of \$16,000. Matching employer contributions are computed at 5% of the first \$16,000 of annual compensation and 10% of annual compensation in excess of \$16,000.

Benefits are funded by a tax deferred annuity contract issued by an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits begin to vest after one year of service with 100% vesting after five years of service. All funds contributed by the Hospital District, which are not vested, will be returned to the plan and remain in the plan to reduce future employer contributions to the plan. Contributions actually made by plan members totaled \$105,723 and \$96,730 in 2011 and 2010, respectively. Hospital District contributions totaled \$144,882 and \$156,857 in 2011 and 2010, respectively.

Note 10: Management Agreement

The Board of Directors of the Hospital District has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital District and shared services for a fee. Fees incurred under the management agreement were \$67,218 and \$64,633 for 2011 and 2010, respectively. Accounts payable to GPHA related to the agreement were \$6,297 and \$5,386 at December 31, 2011 and 2010, respectively.

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

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*.

Grisell Memorial Hospital District No. 1
Notes to Financial Statements
December 31, 2011 and 2010

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated 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.