Minneola Hospital District No. 2

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011

BKD LLP
CPAs & Advisors

Minneola Hospital District No. 2

December 31, 2012 and 2011

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors
Minneola Hospital District No. 2
Minneola, Kansas

We have audited the accompanying financial statements of Minneola Hospital District No. 2 (Hospital), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 provisions of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Minneola Hospital District No. 2 as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted 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 information, although not 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

Wichita, Kansas
May 13, 2013

Minneola Hospital District No. 2
Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash	$ 290,881	$ 260,945
Patient accounts receivable, net	1,004,388	1,091,483
Property taxes receivable	1,333,601	1,321,358
Estimated amounts due from third-party payers	553,785	307,000
Supplies	256,378	277,516
Prepaid expenses and other	12,740	21,955
Total current assets	3,451,773	3,280,257
Noncurrent Cash and Investments		
Designated by Board of Directors	4,093	3,999
Restricted by donors for specific operating activities	1,579	31,139
	5,672	35,138
Capital Assets, Net	1,248,345	1,315,060
Total assets	$ 4,705,790	$ 4,630,455
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 116,571	$ 138,566
Accounts payable	713,901	713,567
Accrued salaries	171,091	168,785
Accrued vacation	175,820	191,215
Accrued payroll taxes	140,835	137,744
Other accrued liabilities	92,976	52,276
Deferred revenue - property taxes	1,313,624	1,310,546
Total current liabilities	2,724,818	2,712,699
Long-term Debt	259,550	294,451
Total liabilities	2,984,368	3,007,150
Net Position		
Net investment in capital assets	872,224	882,043
Restricted - expendable for Specific operating activities	1,579	31,139
Unrestricted	847,619	710,123
Total net position	1,721,422	1,623,305
Total liabilities and net position	$ 4,705,790	$ 4,630,455

Minneola Hospital District No. 2

Statements of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue	$ 8,614,233	$ 8,814,907
Other	258,692	273,913
Total operating revenues	8,872,925	9,088,820
Operating Expenses		
Salaries and wages	4,947,544	5,104,847
Employee benefits	1,247,046	1,265,127
Supplies and other	3,640,643	3,365,199
Depreciation	269,186	292,074
Total operating expenses	10,104,419	10,027,247
Operating Loss	(1,231,494)	(938,427)
Nonoperating Revenues (Expenses)		
Property taxes	1,325,657	1,327,435
Noncapital grants and gifts	9,343	70,266
Investment income	15,816	3,986
Interest expense	(41,048)	(27,791)
Total nonoperating revenues, net	1,309,768	1,373,896
Excess of Revenues Over Expenses Before Capital Grants and Gifts	78,274	435,469
Capital Grants and Gifts	19,843	-
Increase in Net Position	98,117	435,469
Net Position, Beginning of Year	1,623,305	1,187,836
Net Position, End of Year	$ 1,721,422	$ 1,623,305

Minneola Hospital District No. 2
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 8,454,543	$ 8,563,560
Payments to suppliers and contractors	(3,609,956)	(3,378,808)
Payments to employees	(6,163,888)	(6,416,547)
Other receipts, net	258,692	273,913
Net cash used in operating activities	(1,060,609)	(957,882)
Noncapital Financing Activities		
Property taxes	1,316,492	1,316,623
Noncapital grants and gifts	9,343	70,266
Principal paid on note payable to bank	-	(15,217)
Net cash provided by noncapital financing activities	1,325,835	1,371,672
Capital and Related Financing Activities		
Capital grants and gifts	19,843	-
Principal paid on long-term debt	(144,896)	(134,795)
Interest paid on long-term debt	(41,048)	(27,791)
Proceeds for disposal of equipment	5,206	-
Purchases of capital assets	(119,677)	(74,423)
Net cash used in capital and related financing activities	(280,572)	(237,009)
Investing Activities		
Investment income	15,816	3,986
Net cash provided by investing activities	15,816	3,986
Increase in Cash	470	180,767
Cash, Beginning of Year	296,083	115,316
Cash, End of Year	$ 296,553	$ 296,083
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 290,881	$ 260,945
Cash in noncurrent cash and investments	5,672	35,138
	$ 296,553	$ 296,083

Minneola Hospital District No. 2
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,231,494)	$ (938,427)
Depreciation	269,186	292,074
Provision for uncollectible accounts	102,162	204,203
Changes in operating assets and liabilities		
Patient accounts receivable, net	(15,067)	(338,550)
Estimated amounts due from third-party payers	(246,785)	(117,000)
Supplies	21,138	(8,134)
Prepaid expenses and other	9,215	42,584
Accounts payable and accrued expenses	31,036	(94,632)
Net cash used in operating activities	$ (1,060,609)	$ (957,882)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ 88,000	$ 290,194

Minneola Hospital District No. 2
Notes to Financial Statements
December 31, 2012 and 2011

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

Nature of Operations and Reporting Entity

Minneola Hospital District No. 2 (Hospital) is a municipality of the state of Kansas and is governed by a Board of Directors (Board) who is elected by the residents of the District. The Hospital consists of an acute care hospital, long-term care unit, rural health clinics and independent living units located in Minneola, Kansas and the surrounding area. The Hospital is licensed as a Critical Access Hospital (CAH).

Basis of Accounting and Presentation

The financial statements of the Hospital 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 first applies restricted assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

Budgetary Principles

The Hospital is required by state statutes to adopt annual budgets on or before August 25 for the ensuing calendar year. The Board 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.

For budget purposes, the general and debt service funds utilize the modified accrual basis of accounting. The modification in such method from the accrual basis is that revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances 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 material encumbrances at December 31, 2012 and 2011. Budgeted revenue and expenditure amounts represent the original budget adopted by the Board.

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 considers all liquid investments with original maturities of three months or less or that have not been designated by the Board for capital acquisitions to be cash equivalents. There were no cash equivalents at December 31, 2012 and 2011.

Property Taxes

The Hospital received approximately 13% of its financial support from property taxes in 2012 and 2011.

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. Property owners have the option of paying one half or the full amount of the taxes levied on or before December 20 during the year levied with the balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the county treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31, such taxes are a lien on the property and are recorded as taxes receivable, net of amounts received and anticipated delinquencies. Taxes receivable are also deferred and amortized ratably to income throughout the fiscal year.

Risk Management

The Hospital 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.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Noncurrent cash and investments consist of funds internally designated by the Board for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Noncurrent cash and investments also include assets held by the Hospital auxiliary and restricted funds by grantors and donors.

Investment income includes interest income on investments carried at other than fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital 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. The following estimated useful lives are being used by the Hospital:

Land improvements	12-15 years
Buildings	10-50 years
Fixed equipment	5-30 years
Moveable equipment	5-30 years

Compensated Absences

The Hospital's policies permit employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in the case of accumulated vacation, 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 and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists 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 position includes noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted expendable.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital 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 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 does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's 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'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 December 31, 2012 and 2011, respectively, none of the Hospital's bank balances of $343,733 and $301,605 were exposed to custodial credit risk.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	2012	2011
Cash	$ 289,751	$ 259,815
Noncurrent cash and investments	5,672	35,138
	$ 295,423	$ 294,953

As of December 31, 2012 and 2011, noncurrent cash and investments are comprised of cash and certificates of deposits, with maturities of less than three years, of $3,750 and $3,739, respectively.

Note 3: Net Patient Service Revenue

The Hospital 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 is recognized as a 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 is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Services rendered to Medicaid program beneficiaries are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to 2011, rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately $253,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 61% and 62% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital 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 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 for the years ending December 31, 2012 and 2011:

	2012	2011
Gross patient service revenue	$ 8,842,320	$ 9,533,537
Plus (less) contractual adjustments:		
Medicare	82,660	(368,419)
Medicaid	218,344	290,899
Contractual adjustments - physician clinics	(55,915)	(38,050)
Other contractuals and adjustments	(272,886)	(301,323)
Provision for uncollectible accounts	(102,162)	(204,203)
Administrative discounts	(81,134)	(76,224)
Charity care	(16,994)	(21,310)
	$ 8,614,233	$ 8,814,907

Note 4: Patient Accounts Receivable

The Hospital 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 December 31 consisted of:

	2012	2011
Medicare	$ 409,951	$ 377,313
Medicaid	172,507	246,533
Blue Cross	148,708	183,720
Other third-party payers	102,775	136,597
Self-pay	411,868	411,454
	1,245,809	1,355,617
Less allowance for uncollectible accounts	(207,956)	(199,278)
Less allowance for contractual adjustments	(33,465)	(64,856)
	$ 1,004,388	$ 1,091,483

The mix of accounts receivables from patients and third-party payers at December 31, 2012 and 2011, is as follows:

	2012	2011
Medicare	33%	34%
Medicaid	14%	17%
Blue Cross	12%	15%
Other third-party payers	8%	9%
Self-pay	33%	25%
	100%	100%

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 79,601	$ -	$ -	$ -	$ 79,601
Land improvements	28,588	-	-	-	28,588
Buildings	2,063,733	14,105	-	31,865	2,109,703
Fixed equipment	675,796	19,837	(6,719)	-	688,914
Major moveable equipment	1,984,607	117,793	(20,824)	-	2,081,576
Construction in progress	-	55,942	-	(31,865)	24,077
	4,832,325	207,677	(27,543)	-	5,012,459
Less accumulated depreciation					
Land improvements	28,128	66	-	-	28,194
Buildings	1,554,361	50,555	-	-	1,604,916
Fixed equipment	512,370	25,870	(6,719)	-	531,521
Major moveable equipment	1,422,406	192,695	(15,618)	-	1,599,483
	3,517,265	269,186	(22,337)	-	3,764,114
Capital Assets, Net	$1,315,060	$ (61,509)	$ (5,206)	$ -	$1,248,345

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 79,601	$ -	$ -	$ -	$ 79,601
Land improvements	28,588	-	-	-	28,588
Buildings	2,059,068	5,257	(592)	-	2,063,733
Fixed equipment	679,328	-	(3,532)	-	675,796
Major moveable equipment	1,681,077	359,362	(55,832)	-	1,984,607
	4,527,662	364,619	(59,956)	-	4,832,325
Less accumulated depreciation					
Land improvements	28,062	66	-	-	28,128
Buildings	1,495,092	59,861	(592)	-	1,554,361
Fixed equipment	489,043	26,859	(3,532)	-	512,370
Major moveable equipment	1,272,948	205,290	(55,832)	-	1,422,406
	3,285,145	292,076	(59,956)	-	3,517,265
Capital Assets, Net	$1,242,517	$ 72,543	$ -	$ -	$1,315,060

Note 6: Note Payable to Bank

The Hospital periodically borrows funds from a bank to finance medical malpractice premiums on an interim basis. The note payable bore interest of 5.0% at December 31, 2011, and was collateralized by any and all refundable unearned medical malpractice premiums on the policy related to the financing agreement and matures in less than one year from issuance. The following is a summary of short-term notes payable to bank transactions for the years ended December 31:

	2012	2011
Beginning balance	$ -	$ 15,217
Deductions	-	(15,217)
Ending balance	$ -	$ -

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 433,017	$ 88,000	$ (144,896)	$ 376,121	$ 116,571	$ 259,550

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 277,618	$ 290,194	$ (134,795)	$ 433,017	$ 138,566	$ 294,451

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2012 and 2011, are as follows:

	2012	2011
Equipment	$ 539,107	$ 991,828
Less accumulated depreciation	164,418	542,358
	$ 374,689	$ 449,470

Scheduled payments on capital lease obligations are as follows:

Year Ending December 31,	
2013	$ 137,480
2014	134,168
2015	79,178
2016	42,671
2017	16,040
2018 - 2021	12,918
Total minimum lease payments	422,455
Less amount representing interest	46,334
Present value of future minimum lease payments	$ 376,121

Note 8: Pension Plan

The Hospital provides retirement benefits for its employees through 401(a) and 457(b) defined contribution plans. All employees, to be eligible, must complete one year of service (at least 1,000 paid hours) and be 21 years of age or older. Employer and employee contributions to the plans are computed at the rate of 2.5% and 4.5%, respectively, of an employee's annual compensation up to 20% of the Social Security Wage Tax Base (SSWTB) and 5% and 9%, respectively, of an employee's annual compensation in excess of 20% of the taxable wage base. Benefits are funded by a money-purchase annuity contract with an insurance company.

The plans are funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. In case of death or termination of employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital. Contributions made by plan members were $143,050 and $147,323 for 2012 and 2011, respectively. Contributions made by the Hospital were $173,170 and $176,512 for 2012 and 2011, respectively.

Note 9: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing services and central billing office services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital totaled $378,801and $219,534 in 2012 and 2011, respectively. Amounts included in accounts payable related to these services totaled $211,072 and $77,088 at December 31, 2012 and 2011, respectively.

Note 10: Compliance with Budgetary Statutes

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's enterprise fund, which are on an annualized calendar year basis as follows:

	2012		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	$ 1,325,657	$ 1,322,324	$ (3,333)
Patient related revenues	8,716,395	9,893,062	1,176,667
Investment income	15,816	2,842	(12,974)
Other	287,878	98,714	(189,164)
Total revenues	10,345,746	11,316,942	971,196
Expenses			
Patient related expenses	9,835,233	10,999,700	1,164,467
Interest expense	41,048	-	(41,048)
Capital outlay	207,677	334,475	126,798
Other	-	11,728	11,728
Total expenses	10,083,958	11,345,903	1,261,945
Excess (deficit) of revenues over expenses	$ 261,788	$ (28,961)	$ (290,749)

Minneola Hospital District No. 2

Notes to Financial Statements

December 31, 2012 and 2011

	2011		
	Actual	Budget	Variance Under (Over)
General Fund			
Revenues			
Taxes	$ 1,327,435	$ 1,330,310	$ 2,875
Patient related revenues	9,019,110	9,049,510	30,400
Investment income	3,986	8,582	4,596
Other	344,179	170,000	(174,179)
Total revenues	10,694,710	10,558,402	(136,308)
Expenses			
Patient related expenses	9,735,173	10,361,576	626,403
Interest expense	27,791	85,950	58,159
Capital outlay	364,619	100,000	(264,619)
Other	-	10,876	10,876
Total expenses	10,127,583	10,558,402	430,819
Excess (deficit) of revenues over expenses	$ 567,127	$ -	$ (567,127)
Debt Service Fund			
Revenues			
Taxes	$ -	$ -	$ -
Expenses			
Principal	15,217	-	(15,217)
Interest	-	-	-
Other	-	-	-
Total expenses	15,217	-	(15,217)
Deficit of revenues over expenses	$ (15,217)	$ -	$ 15,217
All Funds			
Excess (deficit) of revenues over expenses	$ 551,910	$ -	$ (551,910)

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with accounting principles generally accepted in the United States of America and for reporting on the budgetary basis:

	2012	2011
Increase in net position - financial basis	$ 98,117	$ 435,469
Depreciation	269,186	292,074
Provision for uncollectible accounts	102,162	204,203
Capital outlay	(207,677)	(364,619)
Principal payments on general obligation bonds	-	(15,217)
Excess of revenues over expenses	$ 261,788	$ 551,910

Note 11: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides $300,000 of coverage for each medical incident and $900,000 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's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 12: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

Note 13: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents CAHs with unprecedented 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.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of the Hospital's 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'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's ability to maintain sufficient liquidity.