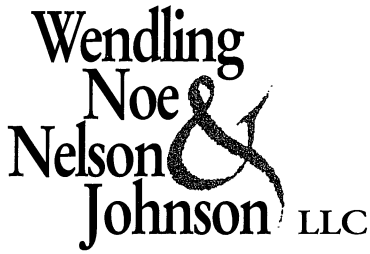


FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
MARCH 31, 2012 AND 2011

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Mitchell County Hospital Health Systems

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Mitchell County Hospital Health Systems as of and for the years ended March 31, 2012 and 2011, which collectively comprise the Health System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Health System's management. Our responsibility is to express opinions 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the discretely presented component unit of Mitchell County Hospital Health Systems as of March 31, 2012 and 2011, and their respective results of operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Health System 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 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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
September 12, 2012

FINANCIAL STATEMENTS

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS

BALANCE SHEETS

March 31,

ASSETS

	2012		2011	
	Health System	Component unit	Health System	Component unit
CURRENT ASSETS				
Cash and cash equivalents	\$ 2,295,285	\$ 43,870	\$ 2,550,098	\$ 43,413
Investments		2,573,786		2,510,476
Assets limited as to use	283,006		703,179	
Patient accounts receivable, net of allowance for uncollectible accounts of \$1,249,614 in 2012 and \$413,434 in 2011	4,744,106		3,554,343	
Estimated third-party payor settlements	452,000		195,000	
Other receivables	8,526		23,628	
Inventories	403,506		349,199	
Prepaid expenses	276,844		211,990	
Total current assets	8,463,273	2,617,656	7,587,437	2,553,889
ASSETS LIMITED AS TO USE				
Internally designated				
For capital assets	4,185,551		4,288,821	
For self-funded employee health insurance	161,679			
Under bond agreements	1,230,002		2,121,766	
By contributors				
For specific operating activities	19,147		21,848	
For capital asset acquisitions	400,139		611,969	
	5,996,518	-	7,044,404	-
Less amounts required to meet current obligations	283,006		703,179	
Total assets limited as to use	5,713,512	-	6,341,225	-
CAPITAL ASSETS, NET	19,262,795	-	19,457,249	-
OTHER ASSETS				
Other receivables	8,000		3,617	
Prepaid expenses			10,771	
Deferred financing costs, less accumulated amortization of \$78,019 in 2012 and \$50,938 in 2011	244,012		271,093	
Total other assets	252,012	-	285,481	-
Total assets	\$ 33,691,592	\$ 2,617,656	\$ 33,671,392	\$ 2,553,889

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	2012		2011	
	Health System	Component unit	Health System	Component unit
CURRENT LIABILITIES				
Current maturities of long-term obligations	\$ 1,245,947	\$ -	\$ 1,146,033	\$ -
Accounts payable	508,290		491,005	
Capital asset acquisitions payable			593,027	
Accrued salaries and benefits	1,104,807		1,071,126	
Accrued compensated absences	861,899		808,956	
Accrued interest payable	51,695		52,850	
Total current liabilities	3,772,638	-	4,162,997	-
LONG-TERM OBLIGATIONS, less current maturities	12,639,405		12,600,120	
Total liabilities	16,412,043	-	16,763,117	-
NET ASSETS				
Invested in capital assets, net of related debt	5,621,455		5,389,162	
Restricted				
For debt service	1,230,002		2,121,766	
For specific operating activities	11,008		10,872	
For capital asset acquisitions	400,139		611,969	
Unrestricted	10,016,945	2,617,656	8,774,506	2,553,889
Total net assets	17,279,549	2,617,656	16,908,275	2,553,889
Total liabilities and net assets	\$33,691,592	\$ 2,617,656	\$33,671,392	\$ 2,553,889

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS

STATEMENTS OF REVENUES, EXPENSES, AND

CHANGES IN NET ASSETS

Year ended March 31,

	2012		2011	
	Health System	Component unit	Health System	Component unit
Operating revenues				
Net patient service revenue	\$23,868,649	\$ -	\$22,553,536	\$ -
Other	<u>348,793</u>		<u>293,909</u>	<u>52</u>
Total operating revenues	<u>24,217,442</u>	<u>-</u>	<u>22,847,445</u>	<u>52</u>
Operating expenses				
Salaries and wages	11,094,746		10,587,654	
Employee benefits	2,360,195		2,534,482	
Supplies and other expenses	7,877,710	41,015	7,622,120	45,862
Depreciation and amortization	<u>2,251,135</u>		<u>1,827,298</u>	
Total operating expenses	<u>23,583,786</u>	<u>41,015</u>	<u>22,571,554</u>	<u>45,862</u>
Operating income (loss)	<u>633,656</u>	<u>(41,015)</u>	<u>275,891</u>	<u>(45,810)</u>
Nonoperating revenues and expenses				
County tax appropriations	127,031		126,121	
Investment income	61,625	104,782	79,950	309,897
Interest expense	(565,787)		(404,786)	
Noncapital grants and contributions	60,559		63,815	
Other	<u>7,220</u>		<u>(7,712)</u>	
Total nonoperating revenues and expenses	<u>(309,352)</u>	<u>104,782</u>	<u>(142,612)</u>	<u>309,897</u>
Excess of revenues over expenses before capital grants and contributions and transfers	324,304	63,767	133,279	264,087
Capital grants and contributions	46,970		37,457	
Transfer to Mitchell County			<u>(92,810)</u>	
Change in net assets	371,274	63,767	77,926	264,087
Net assets beginning of year	<u>16,908,275</u>	<u>2,553,889</u>	<u>16,830,349</u>	<u>2,289,802</u>
Net assets end of year	<u>\$17,279,549</u>	<u>\$ 2,617,656</u>	<u>\$16,908,275</u>	<u>\$ 2,553,889</u>

The accompanying notes are an integral part of these statements.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS

STATEMENTS OF CASH FLOWS

Year ended March 31,

	2012		2011	
	Health System	Component unit	Health System	Component unit
Cash flows from operating activities				
Receipts from and on behalf of patients	\$22,421,886	\$ -	\$22,493,993	\$ -
Payments to or on behalf of employees	(13,361,711)		(12,874,243)	
Payments for supplies and services	(7,968,815)	(41,015)	(7,436,380)	(45,862)
Other receipts and payments	<u>352,906</u>		<u>292,145</u>	<u>52</u>
Net cash provided (used) by operating activities	<u>1,444,266</u>	<u>(41,015)</u>	<u>2,475,515</u>	<u>(45,810)</u>
Cash flows from noncapital financing activities				
County tax appropriations	127,031		126,121	
Noncapital grants and contributions	60,559		63,815	
Transfer to Mitchell County	<u></u>	<u></u>	<u>(92,810)</u>	<u></u>
Net cash provided by noncapital financing activities	<u>187,590</u>	<u>-</u>	<u>97,126</u>	<u>-</u>
Cash flows from capital and related financing activities				
Acquisition of capital assets	(2,631,337)		(8,109,627)	
Capital lease obligations incurred	1,508,578			
Repayments of long-term obligations	(1,378,257)		(1,105,147)	
Interest paid	(563,134)		(545,950)	
Capital grants and contributions	258,800		666,937	
Proceeds from sale of capital assets	<u>21,000</u>	<u></u>	<u>10,001</u>	<u></u>
Net cash used by capital and related financing activities	<u>(2,784,350)</u>	<u>-</u>	<u>(9,083,786)</u>	<u>-</u>

The accompanying notes are an integral part of these statements.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS

STATEMENTS OF CASH FLOWS - CONTINUED

Year ended March 31,

	2012		2011	
	Health System	Component unit	Health System	Component unit
Cash flows from investing activities				
Changes in				
Internally designated funds	\$ (63,780)	\$ -	\$ (1,666,188)	\$ -
Assets held under bond agreements	892,173		5,528,082	
Assets restricted by contributors	2,701		9,691	
Investments		(27,880)		4,760
Investment income received	<u>66,587</u>	<u>69,352</u>	<u>96,124</u>	<u>52,223</u>
Net cash provided by investing activities	<u>897,681</u>	<u>41,472</u>	<u>3,967,709</u>	<u>56,983</u>
Net change in cash and cash equivalents	(254,813)	457	(2,543,436)	11,173
Cash and cash equivalents at beginning of year	<u>2,550,098</u>	<u>43,413</u>	<u>5,093,534</u>	<u>32,240</u>
Cash and cash equivalents at end of year	<u>\$ 2,295,285</u>	<u>\$ 43,870</u>	<u>\$ 2,550,098</u>	<u>\$ 43,413</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 633,656	\$ (41,015)	\$ 275,891	\$ (45,810)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	2,251,135		1,827,298	
Provision for bad debts	1,840,463		1,911,991	
Changes in				
Patient accounts receivable	(3,030,226)		(2,068,534)	
Other receivables	10,719		151,595	
Estimated third-party payor settlements	(257,000)		97,000	
Inventories	(54,307)		(29,790)	
Prepaid expenses	(54,083)		19,348	
Accounts payable and accrued expenses	<u>103,909</u>		<u>290,716</u>	
Net cash provided (used) by operating activities	<u>\$ 1,444,266</u>	<u>\$ (41,015)</u>	<u>\$ 2,475,515</u>	<u>\$ (45,810)</u>

The accompanying notes are an integral part of these statements.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting entity

Mitchell County Hospital Health Systems (the Health System) is owned by Mitchell County, Kansas (the County), and governed by a seven-member Board of Trustees appointed by the Board of County Commissioners of the County. The Health System is located in Beloit, Kansas, and provides acute care, swing-bed, geropsychiatric, skilled nursing, and long-term care services. The Health System can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Health System is a component unit of the County.

The component unit discussed in Note A2 is included in the Health System's reporting entity because of the nature and significance of its relationship with the Health System.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Health System.

Mitchell County Community Hospital Endowment Fund (the Endowment Fund) is a not-for-profit membership corporation organized to endow the Mitchell County Community Hospital and its successors and to otherwise provide charitable support of health care, hospital, and related services in Mitchell County, Kansas. The sole member of the Endowment Fund is the Health System. The Endowment Fund is governed by a five-member Board of Directors, of which two members are also members of the Health System's Board of Trustees, and the other three members are the members of the Endowment Management Committee (the Committee). The day-to-day operating and investing decisions of the Endowment Fund are carried out by the Committee. Members of the Committee are appointed by the Board of County Commissioners of the County. Principal distributions from the Endowment Fund can only be made with approval of all members of the Committee and a majority of the Board of Directors. The Endowment Fund's bylaws restrict principal distributions to 10 percent of unrestricted net assets in one calendar year and 30 percent of unrestricted net assets in any period of ten consecutive calendar years.

Financial data of the Endowment Fund are presented as of December 31, 2011 and 2010, and for the years then ended.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

4. Basis of accounting

The Health System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

The Health System opted during 2012 to early adopt Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Accordingly, the Health System will no longer apply post-November 30, 1989 FASB Statements and Interpretations. The provisions of GASB Statement No. 62 have been applied retroactively to all periods presented in these financial statements.

5. Cash and cash equivalents

The Health System considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

The Health System provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Health System estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at cost as determined using the first-in, first-out method.

8. Investments and investment income

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value based upon quoted prices in active markets for identical assets. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenue when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees under a self-insurance arrangement for employee health insurance and for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets whose use is limited under bond agreements; and assets restricted by contributors for a particular purpose. Amounts that are required for obligations classified as current liabilities are reported in current assets.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

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 useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

11. Costs of borrowing

Interest costs (including amortization of deferred financing costs and deferred refunding losses) incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets. Costs incurred in connection with the issuance of long-term debt (including deferred refunding losses) are amortized using the interest method over the term of the related debt.

12. Estimated health insurance claims payable

The Health System is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for health insurance claims payable are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

13. Grants and contributions

From time to time, the Health System receives grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

14. Restricted resources

When the Health System has both restricted and unrestricted resources available to finance a particular program, it is the Health System's policy to use restricted resources before unrestricted resources.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

15. Net assets

Net assets of the Health System 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 balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net assets" are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health System, including amounts deposited with trustees as required by bond agreements. "Unrestricted net assets" are remaining net assets that do not meet the definitions of the other two components of net assets.

16. Operating revenues and expenses

The Health System's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Health System's principal activity. Nonexchange revenues, including noncapital grants and contributions and the county tax appropriations are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

17. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

18. Charity care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

19. Income taxes

The Health System is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

The Endowment Fund is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2012 and 2011

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

20. Subsequent events

The Health System has evaluated subsequent events through September 12, 2012, which is the date the financial statements were available to be issued.

NOTE B - NET PATIENT SERVICE REVENUE

The Health System has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the balance sheets as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Health System is a critical access hospital for purposes of the Medicare program. Hospital services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies. Inpatient geropsychiatric services rendered to Medicare beneficiaries are paid at prospectively determined rates per day. Skilled nursing services rendered to Medicare beneficiaries in the Health System's long-term care unit are paid at prospectively determined rates per day. The Health System is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits or reviews thereof by the Medicare administrative contractor. The Health System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Health System's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2010.

Medicaid - Hospital and inpatient geropsychiatric services rendered to Medicaid beneficiaries not enrolled in a Medicaid managed care plan are paid under cost reimbursement methodologies. Services rendered to all other Medicaid beneficiaries are paid at prospectively determined rates. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for the preceding calendar year. The Health System is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health System and reviews thereof by the state Medicaid agency. The Health System's Medicaid cost reports have been audited or reviewed by the state Medicaid agency through March 31, 2008.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE B - NET PATIENT SERVICE REVENUE - Continued

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

A summary of gross and net patient service revenue follows:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ 42,973,260	\$ 41,536,392
Contractual adjustments	(17,160,398)	(16,899,079)
Provision for bad debts	(1,840,463)	(1,911,991)
Charity care	<u>(103,750)</u>	<u>(171,786)</u>
Net patient service revenue	<u>\$ 23,868,649</u>	<u>\$ 22,553,536</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 60 percent and 6 percent, respectively, of the Health System's net patient service revenue during 2012, and 61 percent and 5 percent, respectively, of the Health System's net patient service revenue during 2011. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Health System, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of the Health System.

At March 31, 2012, the carrying amount of the Health System's bank deposits, including certificates of deposit, was \$7,885,773 and the bank balances were \$8,145,587. Of the bank balances, \$716,406 was covered by federal depository insurance and \$7,429,181 was covered by collateral held by a third-party bank.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

The Health System's bank deposits are included in the financial statements under the following categories:

Cash and cash equivalents	\$ 2,295,185
Assets limited as to use	
Internally designated	
For capital assets	4,180,169
For self-funded employee health insurance	161,679
Under bond agreements	1,229,593
By contributors	<u>19,147</u>
	<u>\$ 7,885,773</u>

NOTE D - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2012</u>	<u>2011</u>
Internally designated for capital assets		
Cash	\$ 2,775,644	\$ 2,885,051
Certificates of deposit	1,404,525	1,393,017
Accrued interest receivable	<u>5,382</u>	<u>10,753</u>
	<u>\$ 4,185,551</u>	<u>\$ 4,288,821</u>
Internally designated for self-funded employee health insurance		
Cash	<u>\$ 161,679</u>	<u>\$ -</u>
Under bond agreements		
Cash	\$ 113,187	\$ 1,005,360
Certificates of deposit	1,116,406	1,116,406
Accrued interest receivable	<u>409</u>	<u></u>
	<u>\$ 1,230,002</u>	<u>\$ 2,121,766</u>
By contributors for specific operating activities		
Cash	\$ 8,139	\$ 10,976
Certificates of deposit	<u>11,008</u>	<u>10,872</u>
	<u>\$ 19,147</u>	<u>\$ 21,848</u>

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE D - ASSETS LIMITED AS TO USE - Continued

	<u>2012</u>	<u>2011</u>
By contributors for capital asset acquisitions		
Cash held by Mitchell County	\$ 61	\$ 19,167
Regional Medical Foundation	400,078	592,802
Pledges receivable	<u>400,139</u>	<u>611,969</u>

NOTE E - INVESTMENTS

The Endowment Fund's investments are stated at fair value based upon quoted prices in active markets for identical assets. The composition of its investments is as follows:

	<u>2012</u>	<u>2011</u>
Common stocks	\$ 1,552,206	\$ 1,468,109
Mutual funds (equity and fixed income)	<u>1,021,580</u>	<u>1,042,367</u>
	<u>\$ 2,573,786</u>	<u>\$ 2,510,476</u>

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE F - CAPITAL ASSETS

Capital asset additions, retirements, and balances are as follows:

	2012			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 42,774	\$ -	\$ -	\$ 42,774
Land improvements	614,975	18,450		633,425
Buildings	17,843,822	1,731,560		19,575,382
Fixed equipment	5,365,678			5,365,678
Major movable equipment	<u>9,853,527</u>	<u>2,038,959</u>	<u>991,545</u>	<u>10,900,941</u>
Totals at historical cost	<u>33,720,776</u>	<u>3,788,969</u>	<u>991,545</u>	<u>36,518,200</u>
Less accumulated depreciation and amortization				
Land improvements	301,858	35,965		337,823
Buildings	5,455,595	978,987		6,434,582
Fixed equipment	3,556,293	238,654		3,794,947
Major movable equipment	<u>6,953,327</u>	<u>997,529</u>	<u>977,765</u>	<u>6,973,091</u>
	<u>16,267,073</u>	<u>2,251,135</u>	<u>977,765</u>	<u>17,540,443</u>
Construction in progress	17,453,703	1,537,834	13,780	18,977,757
	<u>2,003,546</u>	<u>(1,718,508)</u>		<u>285,038</u>
Capital assets, net	<u>\$19,457,249</u>	<u>\$ (180,674)</u>	<u>\$ 13,780</u>	<u>\$19,262,795</u>

	2011			
	<u>Beginning balance</u>	<u>Transfers and additions</u>	<u>Retirements</u>	<u>Ending balance</u>
Land	\$ 42,774	\$ -	\$ -	\$ 42,774
Land improvements	609,572	13,628	8,225	614,975
Buildings	10,837,906	7,159,172	153,256	17,843,822
Fixed equipment	5,119,031	317,114	70,467	5,365,678
Major movable equipment	<u>8,646,390</u>	<u>1,458,256</u>	<u>251,119</u>	<u>9,853,527</u>
Totals at historical cost	<u>25,255,673</u>	<u>8,948,170</u>	<u>483,067</u>	<u>33,720,776</u>
Less accumulated depreciation and amortization				
Land improvements	276,036	33,818	7,996	301,858
Buildings	5,005,191	602,677	152,273	5,455,595
Fixed equipment	3,363,355	246,904	53,966	3,556,293
Major movable equipment	<u>6,260,547</u>	<u>943,899</u>	<u>251,119</u>	<u>6,953,327</u>
	<u>14,905,129</u>	<u>1,827,298</u>	<u>465,354</u>	<u>16,267,073</u>
Construction in progress	10,350,544	7,120,872	17,713	17,453,703
	<u>2,741,939</u>	<u>(738,393)</u>		<u>2,003,546</u>
Capital assets, net	<u>\$13,092,483</u>	<u>\$ 6,382,479</u>	<u>\$ 17,713</u>	<u>\$19,457,249</u>

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE F - CAPITAL ASSETS - Continued

Construction in progress at March 31, 2012, consists primarily of costs incurred to date for computer hardware and software not yet placed into service.

NOTE G - EMPLOYEE HEALTH INSURANCE

On July 1, 2011, the Health System began sponsoring a self-insured employee health insurance plan. The Health System reinsures a portion of its risk under that plan. The reinsurance arrangement generally covers claims totaling over \$50,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Health System has retained an agent to process and settle claims. The following is a summary of the activity under this arrangement for the year ended March 31, 2012:

Estimated net health insurance claims payable at beginning of year	\$ -
Provision for the Health System's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	689,778
Participant contributions	378,640
Payments made for claims and related expenses	<u>(891,418)</u>
Estimated net health insurance claims payable at end of year (included in accrued salaries and benefits)	<u>\$ 177,000</u>

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2012</u>	<u>2011</u>
3.00% - 4.60% Mitchell County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2009; issued on April 15, 2009, in the original amount of \$6,345,000; due serially through March 1, 2029	\$ 5,620,000	\$ 5,860,000
1.50% - 6.05% Mitchell County, Kansas Public Building Commission Taxable Revenue Bonds, Series 2009-2 (Build America Bonds - direct payment to issuer); issued on October 15, 2009, in the original amount of \$7,850,000; due serially through March 1, 2029	6,920,000	7,325,000

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS - Continued

	<u>2012</u>	<u>2011</u>
Capital lease obligations; imputed interest rates from 3.60% to 8.25%; collateralized by leased equipment with an amortized cost of \$1,789,671 at March 31, 2012	\$ 1,430,306	\$ 654,985
Unamortized deferred refunding loss	13,970,306 (84,954)	13,839,985 (93,832)
Less current maturities	13,885,352 1,245,947	13,746,153 1,146,033
Long-term obligations net of current maturities	<u>\$ 12,639,405</u>	<u>\$ 12,600,120</u>

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Hospital revenue bonds</u>	<u>Total long-term obligations</u>
Outstanding at April 1, 2010	\$ 1,130,132	\$ 13,815,000	\$ 14,945,132
Principal payments	(475,147)	(630,000)	(1,105,147)
Outstanding at March 31, 2011	654,985	13,185,000	13,839,985
Obligations incurred	1,508,578		1,508,578
Principal payments	(733,257)	(645,000)	(1,378,257)
Outstanding at March 31, 2012	<u>\$ 1,430,306</u>	<u>\$ 12,540,000</u>	<u>\$ 13,970,306</u>

On September 1, 2002, the Mitchell County, Kansas, Public Building Commission (PBC) issued its Revenue Bonds, Series 2002 (the 2002 Bonds), in the amount of \$8,000,000, on behalf of the Health System pursuant to a bond resolution dated August 19, 2002. The proceeds of the 2002 Bonds were used, together with other available funds of the Health System, for the purpose of providing funds to (1) expand and renovate the existing Hospital building (the 2002 Project), (2) fund a debt service reserve fund for the 2002 Bonds, (3) pay the premium for the municipal bond insurance policy, and (4) pay certain costs related to the issuance of the 2002 Bonds.

On April 15, 2009, the PBC issued its Refunding Revenue Bonds, Series 2009 (the Refunding Bonds), in the amount of \$6,345,000, on behalf of the Health System pursuant to a bond resolution dated March 30, 2009. The proceeds of the Refunding Bonds were used, together with other available funds of the Health System, for the purpose of providing funds to (1) immediately refund the 2002 Bonds, (2) pay the premium for the municipal bond insurance policy, and (3) pay certain costs related to the issuance of the Refunding Bonds.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED

March 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS - Continued

On October 15, 2009, the PBC issued its Taxable Revenue Bonds, Series 2009-2 (the 2009-2 Bonds), in the amount of \$7,850,000, on behalf of the Health System pursuant to a bond resolution dated September 24, 2009. The proceeds of the 2009-2 Bonds were used, together with other available funds of the Health System, for the purpose of providing funds to (1) expand and renovate the existing Hospital building (the 2009 Project), and (2) pay certain costs related to the issuance of the 2009-2 Bonds. The 2009-2 Bonds are qualified "build America bonds" under Section 54AA of the Internal Revenue Code. The PBC has elected to receive a direct payment from the United States Treasury equal to 35 percent of the interest payable on the 2009-2 Bonds.

The PBC is a municipal corporation created by the County during 2002 whose principal functions are acquiring land, and constructing, reconstructing, equipping, and furnishing buildings for lease to governmental entities, and to issue revenue bonds to finance those functions. The PBC, the County, and the Health System have entered into lease agreements in which the PBC leases the 2002 Project and the 2009 Project to the County and the Health System for rental payments sufficient to provide for the payment of principal and interest on the Refunding Bonds and the 2009-2 Bonds. The leases contain a covenant by the County to make all rental payments required under the leases from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

Timely payment of principal and interest on the Refunding Bonds is insured under a noncancelable policy insured by Assured Guaranty Corporation. The Refunding Bonds and the 2009-2 Bonds are secured by a guaranty agreement between the Endowment Fund (see Note A2) and the PBC. Under the guaranty agreement, the Endowment Fund has guaranteed the payment of principal and interest on the Refunding Bonds and the 2009-2 Bonds, not to exceed \$100,000 in any one twelve-month period.

The Health System and the County have also entered into a pledge of revenues agreement in which the Health System has pledged its net revenues to the County to secure the payment of principal and interest on the Refunding Bonds and the 2009-2 Bonds. The pledge of revenues agreement requires the Health System to make monthly deposits to a debt service account that are sufficient to pay principal and interest on the Refunding Bonds and the 2009-2 Bonds as payments are due. Such deposits were maintained and are included with assets limited as to use in the financial statements.

The pledge of revenues agreement includes a rate covenant that requires the level of rates, fees, and charges for services to be sufficient to produce net revenues, as defined, for each fiscal year equal to 100 percent of the debt service requirements for all bonds outstanding during that fiscal year. The Health System's net revenues, as defined, were equal to 222 percent and 147 percent of the debt service requirements for all bonds outstanding during the years ended March 31, 2012 and 2011, respectively.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS - Continued

Refunding of the 2002 bonds increased total future debt service requirements of the Health System by \$1,244,898 because the repayment period of the refunding debt extends seven years beyond that of the extinguished debt. This resulted in an economic loss (difference between the present value of the future debt service payments on the old and new debt) of \$159,073. As a result of the bond refunding, a deferred refunding loss of \$112,561 was recognized for the difference between the book value of the refunded debt and the amount required to extinguish that debt.

Scheduled annual debt service requirements on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 660,000	\$ 456,406	\$ 1,116,406
2014	675,000	440,100	1,115,100
2015	650,000	422,704	1,072,704
2016	670,000	404,587	1,074,587
2017	690,000	385,385	1,075,385
2018 - 2022	3,590,000	1,559,610	5,149,610
2023 - 2027	3,890,000	848,871	4,738,871
2028 - 2029	1,715,000	110,300	1,825,300
	<u>\$ 12,540,000</u>	<u>\$ 4,627,963</u>	<u>\$ 17,167,963</u>

The following is a yearly schedule of future minimum lease payments under capital leases as of March 31, 2012:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 585,947	\$ 75,104	\$ 661,051
2014	481,817	45,624	527,441
2015	159,326	23,974	183,300
2016	172,978	10,322	183,300
2017	30,238	312	30,550
Total minimum lease payments	<u>\$ 1,430,306</u>	<u>\$ 155,336</u>	1,585,642
Less amounts representing interest			<u>155,336</u>
Present value of net minimum lease payments			<u>\$ 1,430,306</u>

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE H - LONG-TERM OBLIGATIONS - Continued

Total interest costs are summarized as follows:

	<u>2012</u>	<u>2011</u>
Total interest incurred	\$ 690,823	\$ 686,612
Amortization of deferred financing costs	27,081	28,338
Amortization of deferred loss on bond refunding	<u>8,878</u>	<u>9,420</u>
	726,782	724,370
Less		
Build America bonds tax credit payment	(128,844)	(131,672)
Interest earned on borrowed funds offset against capitalized interest costs		(19,939)
Net capitalized interest costs	<u>(32,151)</u>	<u>(167,973)</u>
Interest expense	<u>\$ 565,787</u>	<u>\$ 404,786</u>

NOTE I - PENSION PLANS

The Health System sponsors two defined contribution pension plans that provide pension benefits for all of its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plans are administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plans are as follows:

An Internal Revenue Code Section 414 plan requires mandatory participation upon employment. Concurrent with the establishment of this plan, the Health System ceased to participate in the Federal Social Security System. Both employees and the Health System contribute 6.2 percent of participant compensation to the plan, subject to certain limitations. Employees are 100 percent vested in all contributions upon participation in the plan.

An Internal Revenue Code Section 403(b) tax sheltered annuity plan permits voluntary participation. Employees become eligible for employer contributions after completing one year of service. Employees may make contributions to the plan subject to maximum limits established by the Internal Revenue Service. The Health System makes matching contributions at a specified percentage of participant contributions up to a maximum of 4 percent of each participant's compensation. Employer contributions vest 20 percent per year of service and are fully vested at the end of five years of service.

Total expense incurred for these plans during the years ended March 31, 2012 and 2011, was \$1,038,209 and \$1,015,219, respectively.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE J - CONCENTRATION OF CREDIT RISK

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at March 31, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Medicare	47.3%	51.3%
Medicaid	3.8	2.3
Blue Cross	19.9	16.7
Other insurers	9.9	9.0
Patients	<u>19.1</u>	<u>20.7</u>
	<u>100.0%</u>	<u>100.0%</u>

NOTE K - RISK MANAGEMENT

For the years ended March 31, 2012 and 2011, the Health System was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Health System is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$1,000,000 per occurrence with an aggregate amount in any policy period of \$3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2012, for the policy period from January 1, 2012 to January 1, 2013.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Health System is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Health System purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L - COMMITMENTS AND CONTINGENCIES

The Health System purchases professional and general liability insurance to cover medical malpractice and other liability claims (see Note K). There are no known claims or incidents that have been asserted. No accrual for loss contingencies related to unasserted claims, if any, has been made in the financial statements as the amount of ultimate settlement, if any, cannot be reasonably estimated.

MITCHELL COUNTY HOSPITAL HEALTH SYSTEMS
NOTES TO FINANCIAL STATEMENTS - CONTINUED
March 31, 2012 and 2011

NOTE M - RELATED PARTY TRANSACTIONS

The NCK Wellness Center, Inc. (the Wellness Center), was incorporated on January 4, 2006. The Health System, the City of Beloit, and the North Central Kansas Technical College are the members of the Wellness Center which is a not-for-profit membership corporation.

The Health System incurred \$43,494 and \$43,881 in employee compensation expenses on behalf of the Wellness Center during the years ended March 31, 2012 and 2011, respectively. The Wellness Center reimbursed the Health System for \$44,600 and \$45,300 of these expenses during the years ended March 31, 2012 and 2011, respectively. The reimbursements are included in other operating revenue in the financial statements. Amounts due from the Wellness Center totaled \$3,700 and \$7,200 at March 31, 2012 and 2011, respectively, and are included in other receivables.

The County levies ad valorem taxes for the benefit of the Health System and remits these taxes as they are collected.

The Mitchell County Regional Medical Foundation (the Foundation) was incorporated on December 22, 2008. The Foundation's purpose is to foster medical needs of Mitchell County and the surrounding region, including those of the Health System. The Foundation's board of directors consists of eleven people, including the Health System's chief executive officer, the Health System's chief financial officer, and two members of the Health System's board of trustees. The Foundation is assisting with the Health System's efforts to raise donated funds to help pay for renovations and additions to the Health System's facilities. The Health System incurred expenses of \$57,221 and \$45,787 in connection with the fund-raising campaign during the years ended March 31, 2012 and 2011, respectively.