

SATANTA HOSPITAL DISTRICT
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2012 AND 2011

SATANTA HOSPITAL DISTRICT
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012 AND 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | i-iii |
| Management Discussion and Analysis | iv-vii |
| Basic Financial Statements: | |
| Statements of Net Position | 2 |
| Statements of Revenues, Expenses and Changes in Net Position | 3 |
| Statements of Cash Flows | 4 |
| Notes to Financial Statements | 5-23 |
| Supplemental Schedules: | |
| Schedules of Revenues, Expenditures and Changes in Unencumbered Cash – Actual and Budget | 25 |
| Notes to Supplementary Information | 26 |



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Satanta Hospital District
Satanta, KS 67870

We have audited the accompanying financial statements of the business-type activities of Satanta Hospital District, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the basic financial statements of Satanta Hospital District's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Satanta Hospital District's 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 adverse audit opinion on the reporting entity and unmodified audit opinion on the business-type activities of the primary government.

405 North Sixth Street | P.O. Box 699
Garden City, KS 67846
620-275-9267 | 800-627-0636
Fax: 620-275-8936 | www.lhd.com

CPAs

Charles H. Claar, Jr, CPA
Theresa Dasenbrock, CPA, CFE
David L. Hetrick, CPA
Steven D. Josserand, CPA
Gary A. Schlappe, CPA
Rodney Van Norden, CPA

Lisa L. Axman, CPA
Sarah J. Bartel, CPA
Sue A. Bradley, CPA
Susan A. Burgardt, CPA
Shannon N. Miller, CPA
Tracey Homm, CPA, CSEP
Rebecca L. Pfannenstiel, CPA
Kimberly A. Roth, CPA
Kristin J. Sekavec, CPA
Keysha Urie, CPA
Monica J. Wilson, CPA

Basis for Adverse Opinion on the Reporting Entity

The financial statements referred to above include only the primary government of Satanta Hospital District, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise Satanta Hospital District's legal entity. The financial statements do not include financial data for Satanta Hospital District's legally separate component unit, which accounting principles generally accepted in the United States of America require to be reported with the financial data of Satanta Hospital District's primary government.

Adverse Opinion on the Reporting Entity

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on the Reporting Entity paragraph, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Satanta Hospital District, as of December 31, 2012 and 2011, the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Opinion on the Business-Type Activities

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities for the primary government of Satanta Hospital District, as of December 31, 2012 and 2011, and the respective changes in financial position and, where applicable, cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that management's discussion and analysis be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Satanta Hospital District's primary government basic financial statements. The information identified in the table of contents as supplemental schedules is presented for purposes of additional analysis and is not a required part of the primary government's basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


LEWIS, HOOPER & DICK, LLC

June 18, 2013

Satanta Hospital District

Management Discussion and Analysis

For the years ended December 31, 2012 and 2011

The following information provides an overview of Satanta Hospital District's financial performance for fiscal years ending December 31, 2012 and 2011. The information contained here is intended to provide the users of these financial statements with a well rounded picture of the District's financial condition. It addresses the primary government financial statements only; the component unit is not discussed in this Management's Discussion and Analysis. A more detailed presentation is given in the District's basic financial statements, footnotes and supplementary information (pages 2-26). Responsibility for this discussion and the completeness and fairness of the information presented resides with the District.

Financial Highlights

The assets and deferred outflows of resources of the Satanta Hospital District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$7,407,508 (*net position*). Of this amount, \$3,136,824 represents unrestricted net position, which may be used to meet the District's ongoing obligations to citizens and creditors.

The District's assets and deferred outflows decreased from 2011 to 2012 by \$324,060. At December 31, 2012, total assets and deferred outflows were \$14,268,424 as compared to \$14,592,484 at December 31, 2011.

Long-term debt totaled \$2,987,032 at December 31, 2012, and \$3,371,144 at December 31, 2011, which is a decrease of \$384,112.

The District's reported net patient service revenue was \$8,244,767 for fiscal year 2012, and was \$7,577,029 for fiscal year 2011; an increase of \$667,738 or 8.81%.

The District received \$2,823,022 in property tax distributions in fiscal year 2012, and \$2,801,007 in fiscal year 2011. Specific amounts within the property tax distribution are earmarked for long-term bond obligations and employee benefits, as well as a portion of operational costs.

The District reported an excess of revenues over expenses before capital grants, contributions and additions to permanent endowments of \$387,691 for fiscal year 2012, as compared to \$76,782 for fiscal year 2011. This was an increase of \$310,909, or 404.92%.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the Satanta Hospital District's basic financial statements. The District's financial statements consist of three statements – a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District for restricted purposes by contributors, grantors, or enabling legislation.

The *statement of net position* presents financial information on all of the Satanta Hospital District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *notes to the financial statements* provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 5-23 of this report.

The discussion following is provided to allow for a more simplified understanding of the District's level of financial stability in relation to that of the previous year (fiscal year 2011).

Net Position

The District's net position is the difference between its assets and deferred outflows, and its liabilities and deferred inflows reported in the statements of net position on page 2. The District's net position increased in the past year by \$407,549, or 5.82%, compared to an increase in net position of \$116,643, or 1.69%, in the previous year, as you can see in the following table.

| | 2012 | 2011 | 2010 |
|--|----------------------|----------------------|----------------------|
| Assets: | | | |
| Current assets | \$ 6,769,921 | \$ 6,815,099 | \$ 7,564,629 |
| Noncurrent assets | 7,498,503 | 7,777,385 | 4,857,554 |
| Total assets | \$ 14,268,424 | \$ 14,592,484 | \$ 12,422,183 |
| Liabilities: | | | |
| Current liabilities | \$ 1,374,344 | \$ 1,365,356 | \$ 993,298 |
| Long-term debt | 2,987,032 | 3,371,144 | 1,895,753 |
| Total liabilities | \$ 4,361,376 | \$ 4,736,500 | \$ 2,889,051 |
| Total deferred inflows of resources | \$ 2,499,540 | \$ 2,856,025 | \$ 2,687,063 |
| Net position: | | | |
| Invested in capital assets net of related debt | \$ 4,043,052 | \$ 3,967,182 | \$ 2,752,583 |
| Restricted expendable net assets | 207,632 | 682,067 | 1,904,475 |
| Restricted nonexpendable net assets | 20,000 | 20,000 | 20,000 |
| Unrestricted | 3,136,824 | 2,330,710 | 2,206,258 |
| Total net position | \$ 7,407,508 | \$ 6,999,959 | \$ 6,883,316 |

There was a decrease in the amount of current assets of \$45,178 from 2011; while total assets decreased from \$14,592,484 at December 31, 2011, to \$14,268,424 at December 31, 2012.

Long-term debt has decreased from \$3,371,144 at December 31, 2011, to \$2,987,032 at December 31, 2012. The payment of principal on the general obligation bond for the planned assisted living facility project was the reason for this decrease in long-term debt. The timing of billings due to software changes also resulted in a decrease in unearned revenue for routine services. The net effects resulted in decreasing the total liabilities and deferred inflows at December 31, 2012; total liabilities and deferred inflows at December 31, 2011, were \$7,592,525 as compared to \$6,860,916 at December 31, 2012.

New long-term debt initiated for capital leases during fiscal year 2012, totaled \$95,240.

Operating Results and Changes in Net Position

In 2012, the District's net position increased by \$407,549 or 5.82%, as shown in the following table. This increase is made up of different components. This increase in net position is 3.49 times more than the increase seen in 2011.

| | 2012 | 2011 | 2010 |
|--|--------------|--------------|--------------|
| Operating revenues | | | |
| Net patient service revenues | \$ 8,244,767 | \$ 7,577,029 | \$ 6,830,456 |
| Other operating revenues | 1,982,201 | 2,076,400 | 2,182,069 |
| Total operating revenues | 10,226,968 | 9,653,429 | 9,012,525 |
| Operating expenses | | | |
| Salaries and benefits | 6,417,992 | 6,377,960 | 6,030,850 |
| Supplies and other expenses | 3,346,461 | 3,572,880 | 3,346,274 |
| Other operating expenses | 2,080,784 | 1,784,696 | 1,475,536 |
| Depreciation | 706,920 | 558,483 | 575,217 |
| Total operating expenses | 12,552,157 | 12,294,019 | 11,427,877 |
| Operating loss | (2,325,189) | (2,640,590) | (2,415,352) |
| Nonoperating revenues (expenses) | | | |
| Property taxes | 2,823,022 | 2,801,007 | 2,480,909 |
| Interest income | 6,927 | 23,349 | 15,156 |
| Other nonoperating revenues (expenses), net | (117,069) | (106,984) | (51,771) |
| Total nonoperating revenues (expenses) | 2,712,880 | 2,717,372 | 2,444,294 |
| Excess of revenues over expenses before capital grants, contributions, and additions to permanent endowments | 387,691 | 76,782 | 28,942 |
| Capital grants and contributions | 19,858 | 39,861 | 30,726 |
| Increase in net position | 407,549 | 116,643 | 59,668 |
| Net position, beginning of year | 6,999,959 | 6,883,316 | 6,823,648 |
| Net position, end of year | \$ 7,407,508 | \$ 6,999,959 | \$ 6,883,316 |

The increase in net patient service revenues from fiscal year 2011 to fiscal year 2012 in the amount of \$667,738 can be attributed to several items, including:

- The Hospital's total patient days increased 37.5% or 282 days from 751 patient days in 2011 to 1,033 in 2012. The acute inpatient days increased from 365 in 2011 to 398 in 2012 and skilled/intermediate swing-bed days increased from 386 in 2011 to 635 in 2012.
- The number of clinic visits at both the Satanta and Sublette clinics increased 105 visits compared to the prior year. A total of 11,842 patients were seen and/or treated in 2012 as compared to 11,737 patients in 2011.
- Two areas that had positive impact on the net patient revenue for 2012 were miscellaneous ancillary services with an increase of \$718,383 in revenue from 2011 to 2012, and a higher resident census in the Long-Term Care Unit resulted in an increase of \$50,664 in patient revenue from 2011 to 2012.

The decrease in the operating loss from fiscal year 2011 to fiscal year 2012 of \$315,401 can be primarily attributed to an increase in operating revenues.

All of these factors helped contribute to the 11.94% total operating loss decrease for fiscal year 2012.

The District received \$22,015 more in property taxes for fiscal year 2012 than it had for fiscal year 2011 due to the increase in the District's assessed valuation of \$11,540,053. When considering the property tax receipts, the District was able to increase its overall net position for fiscal year 2012.

Capital Asset and Debt Administration

At the end of 2012, the District had \$7,449,211 invested in capital assets, net of accumulated depreciation, as detailed in Note 3G to the financial statements. In 2012, the District purchased new equipment costing \$184,931. This is \$506,116 less than was spent to acquire new equipment in 2011. A large part of the 2012 acquisitions were for the following:

| | |
|-----------------------------|------------|
| e-MDs hardware and software | \$ 107,572 |
|-----------------------------|------------|

A new renovation project for an assisted living facility was started in 2010 and completed in 2012, resulting in the capitalization of construction in progress totaling \$3,243,396 in 2012.

At December 31, 2012, the District had \$3,390,041 in general obligation bonds and capital lease obligations outstanding. The District issued \$95,240 in new debt in 2012 and \$2,061,605 in new debt in 2011. The District's formal debt issuances – general obligation bonds – cannot be issued without approval of the citizens of the District. The amount of debt issued is subject to limitations that apply to the District.

Budget Information

The mill levy for the District remained constant for the last year despite a drop in the tax base. An amendment to the original budget adopted during 2012 was done to increase the expenditure authority for the employee benefit account to allow for the transfer of cash to close the tax levying account. There have been no significant variations between the budgeted and actual results for the District's three tax levying funds as presented on page 25 of the financial statements.

Other Economic Factors

The outlook for the District's finances is bright for the upcoming year 2013. Although the District, as any other healthcare entity does, will have to deal with continued reimbursement challenges and rising costs of providing healthcare, we feel positive that we are working to counter those issues with increased service offerings and better efficiency.

Contact Information

If you have any questions about this report or need additional financial information, please contact the Administrator or the Director of Finance at Satanta District Hospital, 401 Cheyenne, Satanta, KS 67870 or at (620) 649-2761.

BASIC FINANCIAL STATEMENTS

SATANTA HOSPITAL DISTRICT
Statements of Net Position
December 31, 2012 and 2011

| | <u>2012</u> | <u>2011</u> |
|---|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,958,530 | \$ 1,624,470 |
| Donor restricted cash | 61,705 | 64,578 |
| Restricted cash for capital project | 165,927 | 637,489 |
| Accounts receivable, less allowance for doubtful accounts of \$393,241 and \$399,673 | 1,505,771 | 1,149,160 |
| Due from Medicare and Medicaid | 94,606 | 157,600 |
| Uncollected current property taxes receivable | 2,499,540 | 2,727,805 |
| Inventories | 406,509 | 365,048 |
| Prepaid expenses | 77,333 | 88,949 |
| TOTAL CURRENT ASSETS | <u>6,769,921</u> | <u>6,815,099</u> |
| NONCURRENT ASSETS | | |
| Deferred bond costs | 49,292 | 60,849 |
| Capital assets, net of accumulated depreciation | 7,449,211 | 7,716,536 |
| TOTAL NONCURRENT ASSETS | <u>7,498,503</u> | <u>7,777,385</u> |
| TOTAL ASSETS | <u>\$ 14,268,424</u> | <u>\$ 14,592,484</u> |
| <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 168,460 | \$ 262,090 |
| Accrued payroll | 145,471 | 141,673 |
| Accrued compensated absences | 241,464 | 257,584 |
| Other accrued expenses | 107,707 | 230,610 |
| Due to Medicare and Medicaid | 211,017 | - |
| Accrued interest payable | 31,806 | 34,340 |
| Current portion of long-term debt | 468,419 | 439,059 |
| TOTAL CURRENT LIABILITIES | 1,374,344 | 1,365,356 |
| LONG-TERM DEBT, net of current maturities | <u>2,987,032</u> | <u>3,371,144</u> |
| TOTAL LIABILITIES | <u>4,361,376</u> | <u>4,736,500</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unearned revenue - routine services | - | 128,220 |
| Unearned revenue - current property taxes | 2,499,540 | 2,727,805 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>2,499,540</u> | <u>2,856,025</u> |
| NET POSITION | | |
| Invested in capital assets net of related debt | 4,043,052 | 3,967,182 |
| Restricted: | | |
| Expendable for capital acquisitions | 198,805 | 675,722 |
| Expendable for employee activities | 677 | 723 |
| Expendable for grant activities | 5,000 | - |
| Expendable for scholarships | 3,150 | 5,622 |
| Nonexpendable permanent endowments | 20,000 | 20,000 |
| Unrestricted | 3,136,824 | 2,330,710 |
| TOTAL NET POSITION | <u>7,407,508</u> | <u>6,999,959</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 14,268,424</u> | <u>\$ 14,592,484</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|---------------------|---------------------|
| OPERATING REVENUES | | |
| PATIENT SERVICE REVENUES | | |
| Routine services - hospital | \$ 558,010 | \$ 383,680 |
| Routine services - LTCU | 1,855,529 | 1,804,865 |
| Ancillary services - Satanta Clinic | 884,348 | 822,303 |
| Ancillary services - Sublette Clinic | 393,075 | 394,259 |
| Ancillary services - other | 5,236,168 | 4,517,785 |
| Total patient service revenues | 8,927,130 | 7,922,892 |
| Adjustments to patient service revenues: | | |
| Contractual adjustments - Medicare and Medicaid | 9,103 | 335,739 |
| Contractual adjustments - Blue Cross | (491,517) | (503,886) |
| Administrative adjustments | (199,949) | (177,716) |
| Total adjustments to patient service revenues | (682,363) | (345,863) |
| NET PATIENT SERVICE REVENUES | 8,244,767 | 7,577,029 |
| OTHER OPERATING REVENUES | | |
| Retail pharmacy sales | 1,740,311 | 1,909,984 |
| Cafeteria sales | 23,605 | 19,254 |
| Other | 218,285 | 147,162 |
| TOTAL OPERATING REVENUES | 10,226,968 | 9,653,429 |
| OPERATING EXPENSES | | |
| Salaries | 5,247,320 | 5,163,701 |
| Employee benefits | 1,170,672 | 1,214,259 |
| Supplies and other expenses | 3,346,461 | 3,572,880 |
| Professional service | 1,801,851 | 1,467,812 |
| Provision for uncollectible accounts | 278,933 | 316,884 |
| Depreciation | 706,920 | 558,483 |
| TOTAL OPERATING EXPENSES | 12,552,157 | 12,294,019 |
| OPERATING LOSS | (2,325,189) | (2,640,590) |
| NONOPERATING REVENUES (EXPENSES) | | |
| Property taxes | 2,823,022 | 2,801,007 |
| Interest income | 6,927 | 23,349 |
| Gain on disposal of assets | 6,750 | 3,066 |
| Interest expense and fees | (123,819) | (110,050) |
| TOTAL NONOPERATING REVENUES (EXPENSES) | 2,712,880 | 2,717,372 |
| EXCESS OF REVENUES OVER EXPENSES BEFORE CAPITAL GRANTS, CONTRIBUTIONS, AND ADDITIONS TO PERMANENT ENDOWMENTS | 387,691 | 76,782 |
| CAPITAL GRANTS AND CONTRIBUTIONS | 19,858 | 39,861 |
| INCREASE IN NET POSITION | 407,549 | 116,643 |
| NET POSITION, BEGINNING OF YEAR | 6,999,959 | 6,883,316 |
| NET POSITION, END OF YEAR | <u>\$ 7,407,508</u> | <u>\$ 6,999,959</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

| | 2012 | 2011 |
|---|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from and on behalf of patients | \$ 7,755,014 | \$ 7,155,576 |
| Payments to suppliers and contractors | (6,565,362) | (6,126,694) |
| Payments to employees | (5,259,642) | (5,139,111) |
| Other receipts and payments, net | 1,982,201 | 2,076,400 |
| NET CASH USED BY OPERATING ACTIVITIES | <u>(2,087,789)</u> | <u>(2,033,829)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Capital grants and contributions | 19,858 | 39,861 |
| Property taxes | 2,823,022 | 2,801,007 |
| NET CASH FROM NONCAPITAL FINANCING ACTIVITIES | <u>2,842,880</u> | <u>2,840,868</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Purchases of property and equipment | (344,355) | (2,858,794) |
| Proceeds from sale of property and equipment | 6,750 | 6,000 |
| Proceeds from issuance of long-term debt | - | 1,500,000 |
| Premium from issuance of long-term debt | - | 54,335 |
| Principal paid on long-term debt | (434,689) | (433,367) |
| Interest paid on long-term debt | (130,099) | (92,474) |
| Bond issuance costs | - | (34,719) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(902,393)</u> | <u>(1,859,019)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Interest income | 6,927 | 23,349 |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (140,375) | (1,028,631) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>2,326,537</u> | <u>3,355,168</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 2,186,162</u> | <u>\$ 2,326,537</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS | | |
| Cash and cash equivalents in current assets | \$ 1,958,530 | \$ 1,624,470 |
| Donor restricted cash | 61,705 | 64,578 |
| Restricted cash for capital project | 165,927 | 637,489 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 2,186,162</u> | <u>\$ 2,326,537</u> |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (2,325,189) | \$ (2,640,590) |
| Adjustments to reconcile operating loss to net cash flows used in operating activities: | | |
| Depreciation | 706,920 | 558,483 |
| Provision for uncollectible accounts | 278,933 | 316,884 |
| Changes in: | | |
| Accounts receivable | (635,544) | (369,650) |
| Due from Medicare and Medicaid | 62,994 | (20,678) |
| Inventories | (41,461) | (6,170) |
| Prepaid expenses | 11,616 | 600 |
| Accounts payable | (93,630) | 114,728 |
| Accrued payroll | 3,798 | 2,816 |
| Accrued compensated absences | (16,120) | 21,774 |
| Other accrued expenses | (122,903) | 19,099 |
| Due to Medicare and Medicaid | 211,017 | - |
| Deferred revenue-routine services | (128,220) | (31,125) |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (2,087,789)</u> | <u>\$ (2,033,829)</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies

The Satanta Hospital District is a tax levying municipality which operates as the Satanta District Hospital located in Satanta, Kansas. The District is a health care facility organized as a district hospital pursuant to K.S.A. 80-2113 and includes the operation of the hospital and long-term care unit, Satanta clinic, and Sublette clinic. They are operated from facilities owned and leased by the Satanta Hospital District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting entity

The Satanta Hospital District is governed by an elected five-member board. These financial statements present the Satanta Hospital District (the primary government) only. The following organization is a component unit of the District's reporting entity because of the significance of its operational or financial relationship with the District; however, it is not included in the District's primary government financial statements.

Haskell County Health Foundation has its own Board of Directors, which operates independently from the District. Haskell County Health Foundation (a nonprofit corporation) was formed in 1999 under the laws of the State of Kansas, for the purpose of developing and supporting health services in Haskell County, Kansas. The purpose of Haskell County Health Foundation as a charitable organization is to promote health care. This is accomplished by providing monetary and service support for health services and programs. Haskell County Health Foundation is a separate, legal entity that prepares and operates under its own budget. The Satanta Hospital District has the power to appoint Haskell County Health Foundation's board members. The Board of Directors is responsible for the management and fiscal accountability of Haskell County Health Foundation. The Foundation has a December 31st year end. The Foundation does not issue separate financial statements.

B. Measurement focus and basis of accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting.

C. 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.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position

1. Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Allowance for doubtful accounts

For the year ended December 31, 2012, accounts receivable in excess of five months for hospital accounts and in excess of four months for clinic accounts are charged to the allowance for doubtful accounts.

For the year ended December 31, 2011, accounts receivable in excess of four months are charged to the allowance for doubtful accounts.

3. Inventories and prepaid items

Inventories are valued at the lower of cost or market. Cost has been determined on the first-in/first-out method. The cost of inventories is recorded as expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements. The cost of prepaid items is recorded as expenses when consumed rather than when purchased.

4. Capital assets

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years.

Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. The amount of interest capitalized depends on the specific circumstances. None of the District's interest costs were capitalized in either 2012 or 2011.

Prior to January 1, 1978, capital assets were not capitalized and historical cost data is unavailable. Capital assets have been valued by management using an estimate to establish cost of assets acquired before January 1, 1978. All capital assets acquired after January 1, 1978, are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following estimated useful lives:

| | |
|-------------------------------------|----------------|
| Land improvements | 15 to 20 years |
| Buildings and building improvements | 40 years |
| Equipment | 5 to 20 years |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies (continued)

D. Assets, liabilities, deferred outflows/inflows of resources, and net position (continued)

5. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The District reports unearned revenues from two sources: routine services and property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

6. Long-term obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

7. Net position flow assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

8. Net position

Net position of the District is classified in four components. *Net position invested in capital assets net of related debt* consist of property and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the District. *Restricted nonexpendable net position* equals the principal portion of permanent endowments. *Unrestricted net position* is remaining net position that does not meet the definition of *invested in capital assets net of related debt* or *restricted in expendable or nonexpendable net position*.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies (continued)

E. Revenues and expenses

1. Net patient service revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. 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.

2. Property taxes and deferred revenue

The District received approximately 21% in 2012, and 22% in 2011, of its financial support from property taxes. These funds were used as follows:

| | 2012 | | 2011 | |
|---|--------------|-----|--------------|-----|
| Used to support operations | \$ 2,406,094 | 18% | \$ 2,404,018 | 19% |
| Used for debt service on general obligation bonds | \$ 416,928 | 3% | \$ 396,989 | 3% |

The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the counties. The County Appraiser annually determines assessed valuations based on real property transactions as recorded by the Register of Deeds and personal property holdings reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls and the County Treasurer collects the taxes for all taxing entities within the County.

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, are levied and become a lien on the property on November 1st 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 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31, 2012 and 2011, such taxes are a lien on the property and are recorded as uncollected current property taxes receivable, net of anticipated delinquencies of \$49,991 and \$54,557, respectively, with a corresponding amount recorded as unearned revenue on the statements of net position of the appropriate funds. It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the accounting period, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies (continued)

E. Revenues and expenses (continued)

3. Concentration of credit risk

The District's business activity is primarily with patients located within Haskell County, Kansas. The District grants credit without collateral to its patients, most of whom are local residents with most of those having insurance under third-party payer agreements. Revenues from patients and third-party payors were as follows:

| | 2012 | 2011 |
|--|-------------|-------------|
| Medicare and Medicaid | 28% | 26% |
| Blue Cross | 9% | 9% |
| Other third-party payors (none over 10%) | 8% | 12% |
| Patients | 55% | 53% |
| | <u>100%</u> | <u>100%</u> |

4. Grants and contributions

From time to time, the District receives grants from the State of Kansas as well as 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.

5. Endowments

Endowments are provided to the District on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the District's Board of Trustees may authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note 3A.

6. Operating and nonoperating revenues and expenses

The District's statements of revenues, expenses and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

1. Summary of significant accounting policies (continued)

E. Revenues and expenses (continued)

7. Compensated absences

The District's policy is to recognize the cost of paid time off when actually paid. Paid time off may be used for sick leave, emergency leave, vacation leave and holidays. Employees may accumulate paid time off at a maximum rate of 6.4 hours for every 72 regular hours worked; employees with 5 to 10 years or more of continuous service receive an additional 40 to 80 hours, respectively, of paid time off per year, with a maximum accumulation of 400 hours. Employees can sell back a maximum of 80 hours of accumulated paid time off per year at a reduced rate and subject to other restrictions. The District has determined the dollar amount of accumulated paid time off at December 31, 2012 and 2011, at \$241,464 and \$257,584, respectively.

2. Stewardship, compliance and accountability

A. Budget and tax cycle

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), and debt service funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments to the adopted annual operating budget for 2012 or 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All encumbered appropriations (legal budget expenditure authority) lapse at year end.

A legal operating budget is not required for capital project funds, fiduciary funds and certain special revenue funds.

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by statutes or by the use of internal spending limits established by the governing body.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

2. Stewardship, compliance and accountability (continued)

A. Budget and tax cycle (continued)

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment to the taxing units. One-half of the property taxes are due December 20th and distributed to the District by January 20th. The second half is due May 10th and distributed to the District by June 5th. Both distributions to the District are in its next budget year. The District Treasurer draws available funds from the County Treasurer's office at designated times throughout the year.

B. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretations of the law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representation of the District. No material violations of Kansas statutes were noted.

3. Detailed notes

A. Endowments and restricted net position

Restricted expendable net position is available for the following purposes:

| | 2012 | 2011 |
|---|-------------------|-------------------|
| Capital acquisitions | \$ 198,805 | \$ 675,722 |
| Employee activities | 677 | 723 |
| Grant activities | 5,000 | - |
| Scholarships | 3,150 | 5,622 |
| Total expendable, restricted net position | <u>\$ 207,632</u> | <u>\$ 682,067</u> |

Unless the contributor provides specific instructions, the Board of Trustees may authorize for expenditure the net appreciation (realized and unrealized) of the investments of its endowments. When administering its power to spend appreciation, the Board of Trustees is required to consider the District's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) for scholarships each year. The District retains the remaining amount, if any, to be used in future years when the amount chosen to be spent exceeds investment income. At December 31, 2012 and 2011, net appreciation of \$3,150 and \$5,622, respectively, is available to be spent, all of which is reported as part of restricted expendable net position.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

A. Endowments and restricted net position (continued)

Restricted nonexpendable net position as of December 31, 2012 and 2011, represents the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the District's permanent endowments are expendable to support these programs as established by the contributor:

| | 2012 | 2011 |
|--------------|-----------|-----------|
| Scholarships | \$ 20,000 | \$ 20,000 |

B. Designated net position

Of the \$3,136,824 and \$2,330,710 of unrestricted net position reported in 2012 and 2011, respectively, the following amounts have been designated by the District's Board of Trustees for the purposes specified.

| | 2012 | 2011 |
|-------------------------------|-----------|------------|
| Employee benefits | \$ 5 | \$ 42,039 |
| Bond and interest payments | 41,451 | 41,975 |
| Future expansion | 20 | 145,328 |
| Total designated net position | \$ 41,476 | \$ 229,342 |

Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

C. Deposits and investments

Cash and cash equivalents

Cash and cash equivalents consist of the following:

| | 2012 | 2011 |
|---|--------------|--------------|
| Cash | \$ 1,903,449 | \$ 1,197,857 |
| Operating savings | 20 | 145,328 |
| General tax accounts | 13,605 | 197,271 |
| Employee benefits tax accounts | 5 | 42,039 |
| Bond and interest tax accounts | 41,451 | 41,975 |
| Total cash and cash equivalents, current assets | 1,958,530 | 1,624,470 |
| Donor restricted cash | 61,705 | 64,578 |
| Restricted cash for capital project | 165,927 | 637,489 |
| Total cash and cash equivalents | \$ 2,186,162 | \$ 2,326,537 |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

C. Deposits and investments (continued)

Deposits and investments

A reconciliation of cash and investments as shown on the statements of net position for the primary government is as follows:

| | 2012 | 2011 |
|-------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 1,958,530 | \$ 1,624,470 |
| Donor restricted cash | 61,705 | 64,578 |
| Restricted cash for capital project | 165,927 | 637,489 |
| Total cash and investments | <u>\$ 2,186,162</u> | <u>\$ 2,326,537</u> |

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

Investment rate risk

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

The District had no investments of this type at December 31, 2012 and 2011.

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods".

At December 31, 2012, the District's carrying amount of deposits was \$2,186,162 and the bank balance was \$2,258,822. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$263,533 was covered by federal depository insurance, and the balance of \$1,995,289 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

C. Deposits and investments (continued)

Custodial credit risk – deposits (continued)

At December 31, 2011, the District's carrying amount of deposits \$2,326,537 and the bank balance was \$2,695,838. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$257,001 was covered by federal depository insurance, and the balance of \$2,438,837 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

Custodial credit risk - investments

Custodial credit risk for an investment is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments of this type at December 31, 2012 and 2011.

D. Charity care

Charges excluded from revenue under the District's charity care policy were \$142,201 and \$132,982 for 2012 and 2011, respectively.

E. Accounts receivable

Accounts receivable reported as current assets by the District at December 31, 2012, and 2011, consisted of the following amounts:

| | 2012 | 2011 |
|---|---------------------|---------------------|
| Receivable from patients and their insurance carriers | \$ 1,198,900 | \$ 1,053,687 |
| Receivable from Medicare | 652,862 | 410,550 |
| Receivable from Medicaid | 46,363 | 27,521 |
| | <hr/> | <hr/> |
| Total patient receivable | 1,898,125 | 1,491,758 |
| Less allowance for doubtful accounts | (393,241) | (399,673) |
| | <hr/> | <hr/> |
| Patient accounts receivable, net | 1,504,884 | 1,092,085 |
| Other miscellaneous receivables | 887 | 57,075 |
| | <hr/> | <hr/> |
| Accounts receivable, net | <u>\$ 1,505,771</u> | <u>\$ 1,149,160</u> |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

F. Due to Medicare and Medicaid for contractual adjustments

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District'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 under contract with the District. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2010. The District was designated a critical access hospital as of August 1, 2000.
- Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual Medicare cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicaid reimbursements are currently based on Medicare cost reports which have been audited by the Medicare fiscal intermediary through December 31, 2010.

Revenue from the Medicare and Medicaid programs accounted for approximately 29 percent and 5 percent, respectively, of the District's net patient revenue for the year ended December 31, 2012, and 31 percent and 5 percent, respectively, of the District's net patient revenue for the year ended December 31, 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.

The 2012 and 2011 net patient service revenues decreased approximately \$116,920 and \$65,602, respectively, due to removal of receivables previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

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

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

G. Capital assets

Capital asset additions, retirements and balances for the years ended December 31, 2012 and 2011, were as follows:

| | Balance 12/31/11 | Additions | Retirements | Balance 12/31/12 |
|--|---------------------|--------------|--------------|---------------------|
| Cost: | | | | |
| Land | \$ 180,198 | \$ - | \$ - | \$ 180,198 |
| Hospital, nursing home, assisted living and clinic building | 8,522,287 | 3,172,040 | 6,412 | 11,687,915 |
| Hospital and clinic equipment | 2,660,433 | 113,575 | 203,795 | 2,570,213 |
| Nursing home equipment | 1,152,467 | - | 114,600 | 1,037,867 |
| Assisted living equipment | - | 71,356 | - | 71,356 |
| Construction in progress | 2,917,376 | 326,020 | 3,243,396 | - |
| Total cost | 15,432,761 | 3,682,991 | 3,568,203 | 15,547,549 |
| Less accumulated depreciation for: | | | | |
| Hospital, nursing home, assisted living and clinic building | (4,935,407) | (450,866) | (6,412) | (5,379,861) |
| Hospital and clinic equipment | (1,741,665) | (217,039) | (203,795) | (1,754,909) |
| Nursing home equipment | (1,039,153) | (32,474) | (114,600) | (957,027) |
| Assisted living equipment | - | (6,541) | - | (6,541) |
| Total accumulated depreciation | (7,716,225) | (706,920) | (324,807) | (8,098,338) |
| Net capital assets | \$ 7,716,536 | \$ 2,976,071 | \$ 3,243,396 | \$ 7,449,211 |
| | Balance 12/31/10 | Additions | Retirements | Balance 12/31/11 |
| Cost: | | | | |
| Land | \$ 180,198 | \$ - | \$ - | \$ 180,198 |
| Hospital, nursing home and clinic building | 8,514,662 | 7,625 | - | 8,522,287 |
| Hospital and clinic equipment | 2,643,598 | 631,543 | 614,708 | 2,660,433 |
| Nursing home equipment | 1,107,116 | 51,879 | 6,528 | 1,152,467 |
| Construction in progress | 160,479 | 2,756,897 | - | 2,917,376 |
| Total cost | 12,606,053 | 3,447,944 | 621,236 | 15,432,761 |
| Less accumulated depreciation for: | | | | |
| Hospital, nursing home and clinic building | (4,643,070) | (292,337) | - | (4,935,407) |
| Hospital and clinic equipment | (2,101,370) | (224,523) | (584,228) | (1,741,665) |
| Nursing home equipment | (1,004,059) | (41,623) | (6,529) | (1,039,153) |
| Total accumulated depreciation | (7,748,499) | (558,483) | (590,757) | (7,716,225) |
| Net capital assets | \$ 4,857,554 | \$ 2,889,461 | \$ 30,479 | \$ 7,716,536 |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

H. Capital projects in process

Capital projects under authorized contracts in process at December 31, 2012 and 2011, consisted of the following:

| | Project Authorization | Expended to 12-31-11 | Expended to 12-31-12 | Committed |
|---------------------------------|--------------------------|-------------------------|-------------------------|-----------|
| Assisted Living Facility | \$ 3,489,000 | \$ 2,869,251 | \$ 311,252 | \$ - |
| Nurse call and security systems | 60,157 | 48,126 | 14,767 | - |

I. Leases

Operating leases

On February 8, 2011, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2012 and 2011, totaled \$2,470 and \$2,264, respectively. Future minimum lease requirements are \$205 per month through January 2016.

On May 31, 2010, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2012 and 2011, totaled \$4,291 and \$4,648, respectively. Future minimum lease requirements are \$358 per month through April 2015.

On November 10, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2012 and 2011, totaled \$6,516 and \$6,516, respectively. Future minimum lease requirements are \$543 per month through November 2013.

On September 17, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2012 and 2011, totaled \$2,977 and \$3,225, respectively. Future minimum lease requirements are \$248 per month through September 2013.

On July 9, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2012 and 2011, totaled \$3,505 and \$3,824, respectively. Future minimum lease requirements are \$319 per month through July 2013.

On March 19, 2007, the District entered into an operating lease agreement for facilities for the Sublette Clinic. The lease is for 12 months with an annual renewal for an additional four years. No lease payments are required and there are no future minimum lease payments required under this lease agreement, although graduated liquidated damages were due if the District terminated the lease prior to June 30, 2012.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

I. Leases (continued)

Capital leases payable

The District has entered into various lease agreements to finance the acquisition of equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a summary of assets acquired through these capital lease agreements by the District at December 31, 2012:

| | |
|-------------------------------|--------------------------|
| Hospital and clinic equipment | \$ 688,064 |
| Less accumulated depreciation | <u>(189,382)</u> |
| Total | <u><u>\$ 498,682</u></u> |

The balance of this page is intentionally left blank.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

I. Leases (continued)

Capital leases payable (continued)

Capital leases payable consist of the following:

| | <u>2012</u> | <u>2011</u> |
|--|-------------------|-------------------|
| Capital lease obligation, at 5.61% imputed interest collateralized by leased equipment with cost of \$24,419 at December 23, 2010. | \$ 8,597 | \$ 16,728 |
| Capital lease obligation, at 5.19% imputed interest collateralized by leased equipment with cost of \$59,950 at January 7, 2011. | 38,618 | 48,958 |
| Capital lease obligation, at 4.22% imputed interest collateralized by leased equipment with cost of \$339,286 at January 7, 2011. | 227,764 | 291,805 |
| Capital lease obligation, at 5.93% imputed interest collateralized by leased equipment with cost of \$7,644 at May 12, 2011. | 5,343 | 6,864 |
| Capital lease obligation, at 5.89% imputed interest collateralized by leased equipment with cost of \$14,500 at June 17, 2011. | 10,360 | 13,019 |
| Capital lease obligation, at 4.98% imputed interest collateralized by leased equipment with cost of \$70,149 at July 28, 2011. | 53,111 | 67,040 |
| Capital lease obligation, at 8.00% imputed interest collateralized by leased equipment with cost of \$25,814 at December 1, 2011. | 23,905 | 25,814 |
| Capital lease obligation, at 8.00% imputed interest collateralized by leased equipment with cost of \$44,262 at December 21, 2011. | 35,763 | 44,262 |
| Capital lease obligation, at 4.15% imputed interest collateralized by leased equipment with cost of \$95,240 at July 2, 2012. | 86,580 | - |
| Total capital leases payable | 490,041 | 514,490 |
| Less current portion | 129,311 | 108,758 |
| Long-term portion | <u>\$ 360,730</u> | <u>\$ 405,732</u> |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

I. Leases (continued)

Capital leases payable (continued)

Future minimum lease obligations and the net present value of the minimum lease payments at December 31, 2012, are as follows:

| | |
|---|-------------------|
| 2013 | \$ 149,072 |
| 2014 | 144,852 |
| 2015 | 145,984 |
| 2016 | 68,255 |
| 2017 | 16,083 |
| 2018-2021 | <u>15,036</u> |
| Total minimum lease payments | 539,282 |
| Less amount representing interest | <u>(49,241)</u> |
| Present value of future minimum lease obligations | <u>\$ 490,041</u> |

Subsequent event

Subsequent to December 31, 2012, the District entered into the following capital leases payable:

| | |
|--|-------------------|
| Capital lease obligation, at 3.50% imputed interest collateralized by leased equipment with cost of \$114,773 at January 15, 2013. | <u>\$ 114,773</u> |
|--|-------------------|

Future minimum lease obligations and the net present value of the minimum lease payments on these subsequent leases are as follows:

| | |
|---|-------------------|
| 2014 | \$ 22,966 |
| 2015 | 25,054 |
| 2016 | 25,054 |
| 2017 | 25,054 |
| 2018 | <u>25,054</u> |
| | 2,088 |
| Total minimum lease payments | 125,270 |
| Less amount representing interest | <u>(10,497)</u> |
| Present value of future minimum lease obligations | <u>\$ 114,773</u> |

J. Long-term debt

General obligation bonds

The District issues general obligation bonds to provide funds for the acquisition and construction or improvement of major capital assets. The original principal amount of general obligation bonds issued in prior years was \$3,500,000.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

J. Long-term debt (continued)

General obligation bonds (continued)

General obligation bonds are direct obligations and the full faith and credit of the District is pledged to their repayment. These bonds generally are issued as 5 to 15-year serial bonds with nearly equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

| | <u>2012</u> | <u>2011</u> |
|---|----------------------------|----------------------------|
| General obligation bonds Series 2010A, serial bonds due in annual installments of \$155,000 to \$235,000 through September 1, 2020, bearing interest at rate of 2.00% to 3.50%. | \$ 1,660,000 | \$ 1,845,000 |
| General obligation bonds Series 2011, serial bonds due in annual installments of \$130,000 to \$175,000 through September 1, 2020, bearing interest at rate of 3.00% to 4.00%. | <u>1,240,000</u> | <u>1,370,000</u> |
| Total general obligation bonds payable | 2,900,000 | 3,215,000 |
| Less current portion | <u>325,000</u> | <u>315,000</u> |
| Long-term portion | <u><u>\$ 2,575,000</u></u> | <u><u>\$ 2,900,000</u></u> |

Maturities on general obligation bonds payable at December 31, 2012, are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|----------------------------|--------------------------|----------------------------|
| 2013 | \$ 325,000 | \$ 95,419 | \$ 420,419 |
| 2014 | 335,000 | 87,519 | 422,519 |
| 2015 | 345,000 | 76,519 | 421,519 |
| 2016 | 355,000 | 65,194 | 420,194 |
| 2017 | 365,000 | 53,044 | 418,044 |
| 2018-2020 | <u>1,175,000</u> | <u>82,582</u> | <u>1,257,582</u> |
| Total | <u><u>\$ 2,900,000</u></u> | <u><u>\$ 460,277</u></u> | <u><u>\$ 3,360,277</u></u> |

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

3. Detailed notes (continued)

J. Long-term debt (continued)

Changes in long-term liabilities

Long-term liability activity for the District for the years ended December 31, 2012 and 2011, was as follows:

| | Balance 12/31/11 | Additions | Reductions | Balance 12/31/12 | Amounts Due Within One Year |
|--------------------------|---------------------|---------------------|------------------|---------------------|-----------------------------------|
| General obligation bonds | \$ 3,215,000 | \$ - | \$ 315,000 | \$ 2,900,000 | \$ 325,000 |
| Capital leases payable | 514,490 | 95,240 | 119,689 | 490,041 | 129,311 |
| Plus bond premium | 80,713 | - | 15,301 | 65,412 | 14,108 |
| Total long-term debt | 3,810,203 | 95,240 | 449,990 | 3,455,453 | \$ 468,419 |
| Less current maturities | 439,059 | 468,419 | 439,059 | 468,419 | |
| Net long-term debt | <u>\$ 3,371,144</u> | <u>\$ (373,179)</u> | <u>\$ 10,931</u> | <u>\$ 2,987,034</u> | |

| | Balance 12/31/10 | Additions | Reductions | Balance 12/31/11 | Amounts Due Within One Year |
|--------------------------|---------------------|---------------------|-------------------|---------------------|-----------------------------------|
| General obligation bonds | \$ 2,000,000 | \$ 1,500,000 | \$ 285,000 | \$ 3,215,000 | \$ 315,000 |
| Capital leases payable | 101,252 | 561,605 | 148,367 | 514,490 | 108,758 |
| Plus bond premium | 40,966 | 54,335 | 14,588 | 80,713 | 15,301 |
| Total long-term debt | 2,142,218 | 2,115,940 | 447,955 | 3,810,203 | \$ 439,059 |
| Less current maturities | 246,465 | 439,059 | 246,465 | 439,059 | |
| Net long-term debt | <u>\$ 1,895,753</u> | <u>\$ 1,676,881</u> | <u>\$ 201,490</u> | <u>\$ 3,371,144</u> | |

Interest expense

The amount of interest cost incurred and charged to expense during the year ended December 31, 2012 and 2011, was \$123,819 and \$110,050, respectively.

4. Other information

A. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

B. Commitments and contingencies

Contracts

On March 20, 2008, the District entered into a maintenance agreement for equipment. The agreement was for 3 years; a new maintenance agreement for this equipment was entered into on March 2, 2011, for an additional 3 years. Payments under these maintenance agreements for the years ended December 31, 2012 and 2011, totaled \$6,237 and \$6,237, respectively. Future minimum maintenance requirements are \$6,237 per year through March 2014.

SATANTA HOSPITAL DISTRICT
Notes to Financial Statements
December 31, 2012 and 2011

4. Other information (continued)

B. Commitments and contingencies (continued)

On December 21, 2006, the District entered into a reagent purchase agreement for an HmX with autoloader. The agreement was for 60 months; during 2012 and 2011 it was extended for one year through April 2013 and April 2012, respectively. Payments under this reagent purchase agreement for the years ended December 31, 2012 and 2011, totaled \$17,893 and \$16,874, respectively, with no future minimum maintenance requirements remaining.

On December 21, 2006, the District entered into a reagent purchase agreement for an access immunoassay system. The agreement was for 60 months; payments under this reagent purchase agreement for the years ended December 31, 2012 and 2011, totaled \$-0- and \$30,495, respectively, with no future minimum maintenance requirements remaining.

On December 16, 2005, the District entered into a maintenance agreement for a CT scanner. The agreement was for 60 months; payments under this maintenance agreement for the years ended December 31, 2012 and 2011, totaled \$-0- and \$8,500, respectively, with no future minimum maintenance requirements remaining.

On April 22, 2004, the District entered into a professional services agreement for psychiatric outpatient hospitalization service. The agreement was for 3 years with annual renewal options for an additional five years; payments under these professional services agreements for the years ended December 31, 2012 and 2011, totaled \$294,000 and \$294,000, respectively.

On December 21, 2008, the District entered into a professional services agreement for specialized hospital management services. The agreement was for 60 months; payments under these professional services agreements for the years ended December 31, 2012 and 2011, totaled \$95,291 and \$91,626, respectively. Future minimum requirements are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|-------------------------|
| 2013 | <u>\$ 99,103</u> |
| Total | <u><u>\$ 99,103</u></u> |

Litigation

The District has the potential for legal action arising from normal business activities. The District is not currently involved in any pending litigation. Management cannot predict the outcome of potential lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the District's professional liability insurance policy and would not have a material effect on the financial position of the District.

C. Post-employment health care benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. This program is offered for a maximum duration of 36 months after the employee's termination date. There is no cost to the District under this program, and there were two participants in the program at December 31, 2012.

SUPPLEMENTAL SCHEDULES

SATANTA HOSPITAL DISTRICT
Schedules of Revenues, Expenditures and Changes in Unencumbered Cash - Actual and Budget
For the years ended December 31, 2012 and 2011

| | 2012 | | Variance Over/ (Under) |
|---|------------------|---------------------|------------------------------|
| | Actual | Budget | |
| <u>GENERAL TAX ACCOUNT</u> | | | |
| REVENUES | | | |
| Property taxes | \$ 1,956,174 | \$ 1,956,275 | \$ (101) |
| Other | - | 167,082 | (167,082) |
| Interest | 4,006 | 8,900 | (4,894) |
| TOTAL REVENUES | 1,960,180 | <u>\$ 2,132,257</u> | <u>\$ (172,077)</u> |
| EXPENDITURES | | | |
| Transfer to hospital operations | 2,143,859 | <u>\$ 2,143,859</u> | <u>\$ -</u> |
| REVENUE OVER (UNDER) EXPENDITURES | (183,679) | | |
| UNENCUMBERED CASH, BEGINNING OF YEAR | 192,682 | | |
| UNENCUMBERED CASH, END OF YEAR | <u>\$ 9,003</u> | | |
| <u>EMPLOYEE BENEFIT TAX ACCOUNT</u> | | | |
| REVENUES | | | |
| Property taxes | \$ 449,920 | \$ 449,899 | \$ 21 |
| Other | - | 36,000 | (36,000) |
| Interest | 406 | 1,200 | (794) |
| TOTAL REVENUES | 450,326 | <u>\$ 487,099</u> | <u>\$ (36,773)</u> |
| EXPENDITURES | | | |
| Transfer to hospital operations | 492,360 | <u>\$ 503,138</u> | <u>\$ (10,778)</u> |
| REVENUE OVER (UNDER) EXPENDITURES | (42,034) | | |
| UNENCUMBERED CASH, BEGINNING OF YEAR | 42,039 | | |
| UNENCUMBERED CASH, END OF YEAR | <u>\$ 5</u> | | |
| <u>BOND AND INTEREST TAX ACCOUNT</u> | | | |
| REVENUES | | | |
| Property taxes | \$ 416,928 | \$ 417,583 | \$ (655) |
| Interest | 567 | - | 567 |
| TOTAL REVENUES | 417,495 | <u>\$ 417,583</u> | <u>\$ (88)</u> |
| EXPENDITURES | | | |
| Bond principal | 315,000 | \$ 315,000 | \$ - |
| Interest and fiscal fees | 103,019 | 103,019 | - |
| Cash Basis Reserve | - | - | - |
| TOTAL EXPENDITURES | 418,019 | <u>\$ 418,019</u> | <u>\$ -</u> |
| REVENUE OVER (UNDER) EXPENDITURES | (524) | | |
| UNENCUMBERED CASH, BEGINNING OF YEAR | 41,975 | | |
| UNENCUMBERED CASH, END OF YEAR | <u>\$ 41,451</u> | | |

| 2011 | | |
|-------------------|---------------------|------------------------------|
| Actual | Budget | Variance Over/ (Under) |
| \$ 1,941,813 | \$ 1,805,974 | \$ 135,839 |
| - | - | - |
| 7,449 | - | 7,449 |
| 1,949,262 | <u>\$ 1,805,974</u> | <u>\$ 143,288</u> |
| 1,816,929 | <u>\$ 1,816,929</u> | <u>\$ -</u> |
| 132,333 | | |
| 60,349 | | |
| <u>\$ 192,682</u> | | |
| | | |
| \$ 462,204 | \$ 430,072 | \$ 32,132 |
| - | - | - |
| 997 | - | 997 |
| 463,201 | <u>\$ 430,072</u> | <u>\$ 33,129</u> |
| 429,983 | <u>\$ 430,000</u> | <u>\$ (17)</u> |
| 33,218 | | |
| 8,821 | | |
| <u>\$ 42,039</u> | | |
| | | |
| \$ 396,989 | \$ 369,078 | \$ 27,911 |
| 933 | - | 933 |
| 397,922 | <u>\$ 369,078</u> | <u>\$ 28,844</u> |
| 285,000 | \$ 140,000 | \$ 145,000 |
| 51,272 | 135,663 | (84,391) |
| 26,267 | 91,500 | (65,233) |
| 362,539 | <u>\$ 367,163</u> | <u>\$ (4,624)</u> |
| 35,383 | | |
| 6,592 | | |
| <u>\$ 41,975</u> | | |

SATANTA HOSPITAL DISTRICT
Notes to Supplementary Information
December 31, 2012 and 2011

1. Explanation of differences between revenues and expenditures for budgetary accounts on a budgetary basis and GAAP

There are no differences between the budgetary basis and GAAP for revenues and expenditures of the budgetary accounts.