

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**

Accountants' Report and Financial Statements

November 30, 2009 and 2008

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**November 30, 2009 and 2008**

**Contents**

**Independent Accountants' Report..... 1**

**Financial Statements**

Balance Sheets ..... 2  
Statements of Revenues, Expenses and Changes in Net Assets ..... 3  
Statements of Cash Flows ..... 4  
Notes to Financial Statements..... 6

## Independent Accountants' Report

Board of Trustees  
Edwards County Hospital  
Kinsley, Kansas

We have audited the accompanying balance sheets of Edwards County Hospital, a component unit of Edwards County, Kansas as of November 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Edwards County Hospital as of November 30, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

BKD LLP

April 14, 2010

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Balance Sheets**  
**November 30, 2009 and 2008**

	2009	2008
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 289,855	\$ 349,286
Patient accounts receivable, net of allowance; 2009 - \$341,000, 2008 - \$550,000	833,556	1,070,326
Estimated amounts due from third-party payers	87,000	-
Supplies	193,498	176,376
Prepaid expenses and other	15,302	55,071
Total current assets	1,419,211	1,651,059
<b>Assets Limited as to Use</b>		
Internally designated	1,147,680	1,864,717
<b>Capital Assets, Net</b>		
Total assets	\$ 4,619,547	\$ 5,387,714
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 27,999	\$ -
Accounts payable	423,295	705,424
Accrued expenses	190,730	162,628
Estimated amounts due to third-party payers	-	434,000
Deferred grant revenue	24,503	19,568
Total current liabilities	666,527	1,321,620
<b>Long-term Debt</b>		
Total liabilities	104,096	-
Total liabilities	770,623	1,321,620
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,920,561	1,871,938
Restricted - expendable for specific operating activities	-	35,860
Unrestricted	1,928,363	2,158,296
Total net assets	3,848,924	4,066,094
Total liabilities and net assets	\$ 4,619,547	\$ 5,387,714

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended November 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2009 - \$574,000, 2008 - \$1,114,000	\$ 6,304,107	\$ 5,944,800
Other	97,385	78,426
Total operating revenues	6,401,492	6,023,226
<b>Operating Expenses</b>		
Salaries and wages	2,752,045	2,354,485
Employee benefits	545,588	452,461
Purchased services and professional fees	2,069,874	2,284,345
Supplies and other	1,352,570	1,281,961
Depreciation	227,577	216,175
Total operating expenses	6,947,654	6,589,427
<b>Operating Loss</b>	(546,162)	(566,201)
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	266,435	265,141
Interest income	19,913	44,987
Interest expense	(4,741)	(1,383)
Noncapital grants and gifts	28,322	17,475
Total nonoperating revenues	309,929	326,220
<b>Deficiency of Revenues Over Expenses Before Transfers</b>	(236,233)	(239,981)
<b>Transfer from Edwards County</b>	19,063	18,448
<b>Decrease in Net Assets</b>	(217,170)	(221,533)
<b>Net Assets, Beginning of Year</b>	4,066,094	4,287,627
<b>Net Assets, End of Year</b>	\$ 3,848,924	\$ 4,066,094

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Statements of Cash Flows**  
**Years Ended November 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 6,019,877	\$ 6,339,294
Payments to suppliers and contractors	(3,674,208)	(2,991,303)
Payments to and on behalf of employees	(3,269,531)	(2,772,518)
Other receipts, net	97,385	78,426
Net cash provided by (used in) operating activities	(826,477)	653,899
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue supporting operations	266,435	265,141
Transfer from County for operations	19,063	18,448
Noncapital grants and gifts	33,257	17,476
Net cash provided by noncapital financing activities	318,755	301,065
<b>Capital and Related Financing Activities</b>		
Principal payments on long-term debt	(17,905)	(37,255)
Interest payments on long-term debt	(4,741)	(1,383)
Purchase of capital assets	(266,013)	(27,775)
Net cash used in capital and related financing activities	(288,659)	(66,413)
<b>Investing Activities</b>		
Interest income received	19,913	44,987
Net change in assets limited as to use	717,037	(768,002)
Net cash provided by (used in) investing activities	736,950	(723,015)
<b>Increase (Decrease) in Cash</b>	(59,431)	165,536
<b>Cash, Beginning of Year</b>	349,286	183,750
<b>Cash, End of Year</b>	\$ 289,855	\$ 349,286

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended November 30, 2009 and 2008**

	<b>2009</b>	<b>2008</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (546,162)	\$ (566,201)
Depreciation	227,577	216,175
Changes in operating assets and liabilities		
Patient accounts receivable, net	236,770	(9,389)
Estimated amounts due from and to Medicare	(521,000)	403,883
Accounts payable and accrued expenses	(246,309)	616,111
Other assets and liabilities	22,647	(6,680)
	<u>\$ (826,477)</u>	<u>\$ 653,899</u>
 <b>Supplemental Cash Flows Information</b>		
Accounts payable incurred for property and equipment	<u>\$ -</u>	<u>\$ 7,718</u>
Capital lease obligations incurred for capital assets	<u>\$ 150,000</u>	<u>\$ -</u>

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

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

***Nature of Operations and Reporting Entity***

Edwards County Hospital (Hospital) is an acute care hospital located in Kinsley, Kansas. The Hospital is a component unit of Edwards County, Kansas and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and geriatric psychiatric services to patients in the Edwards County, Kansas area.

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific (such as intergovernmental revenue delivered from property taxes), interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) including those that were issued after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

***Intergovernmental Revenue***

The Hospital received approximately 4% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2009 and 2008. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

***Assets Limited as to Use***

Assets limited as to use include assets set aside by the Board of Trustees for the purchase of capital assets over which the Board retains control and may at its discretion subsequently use for other purposes.

***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 20 years
Buildings	15 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

**Compensated Absences**

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits are realized as paid time off and are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

**Net Assets**

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

**Net Patient Service Revenues**

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, includes estimated retroactive revenue adjustments and is reduced by a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

***Charity Care***

The Hospital provides care at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

***Subsequent Events***

Subsequent events have been evaluated through April 14, 2010, which is the date the financial statements were available to be issued.

**Note 2: Net Patient Service Revenues**

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

*Medicare.* The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. Inpatient gero-psychiatric services are paid at prospectively determined per diem rates. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

*Medicaid.* Prior to October 5, 2007, inpatient and outpatient services rendered to all Medicaid program beneficiaries were reimbursed under a prospective reimbursement methodology. Effective October 5, 2007, the Medicaid State Plan was amended to provide for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Health Policy Authority.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

Approximately 84% and 86% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended November 30, 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At November 30, 2009 and 2008, respectively, \$859,010 and \$1,529,586 of the Hospital's bank balances of \$1,419,353 and \$2,543,574 were exposed to custodial credit risk as follows:

	<b>2009</b>	<b>2008</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 859,010	\$ 1,529,586

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

***Summary of Carrying Values***

The carrying values of deposits shown above are included in the balance sheets as follows:

	<b>2009</b>	<b>2008</b>
Carrying value		
Deposits	\$ 1,437,315	\$ 2,213,783
Petty cash	220	220
	\$ 1,437,535	\$ 2,214,003
 Included in the following balance sheet captions		
Cash	\$ 289,855	\$ 349,286
Assets whose use is limited	1,147,680	1,864,717
	\$ 1,437,535	\$ 2,214,003

***Assets Limited as to Use***

Assets limited as to use include:

	<b>2009</b>	<b>2008</b>
Internally designated for capital expenditures		
Cash and cash equivalents	\$ 544,474	\$ 1,160,837
Short-term certificates of deposit	603,206	703,880
	\$ 1,147,680	\$ 1,864,717

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at November 30, 2009 and 2008, consisted of:

	<b>2009</b>	<b>2008</b>
Medicare	\$ 647,058	\$ 821,206
Medicaid	8,301	17,236
Blue Cross	61,929	122,295
Other third-party payers	70,218	118,668
Patients	387,050	541,328
	1,174,556	1,620,733
Less allowance for uncollectible accounts	341,000	550,407
	\$ 833,556	\$ 1,070,326

**Note 5: Capital Assets**

Capital assets activity for the years ended November 30, 2009 and 2008, were:

	<b>2009</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 44,231	\$ -	\$ -	\$ 44,231
Land improvements	123,239	-	-	123,239
Buildings	3,967,138	-	-	3,967,138
Fixed equipment	1,512,138	13,500	-	1,525,638
Major moveable equipment	1,064,986	394,795	(194,350)	1,265,431
	6,711,732	408,295	(194,350)	6,925,677
Less accumulated depreciation				
Land improvements	94,717	6,530	-	101,247
Buildings	2,352,372	121,537	-	2,473,909
Fixed equipment	1,401,976	11,206	-	1,413,182
Major moveable equipment	990,729	88,304	(194,350)	884,683
	4,839,794	227,577	(194,350)	4,873,021
Capital Assets, Net	\$ 1,871,938	\$ 180,718	\$ -	\$ 2,052,656

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

	2008			Ending Balance
	Beginning Balance	Additions	Disposals	
Land	\$ 44,231	\$ -	\$ -	\$ 44,231
Land improvements	123,239	-	-	123,239
Buildings	3,967,138	-	-	3,967,138
Fixed equipment	1,512,138	-	-	1,512,138
Major moveable equipment	<u>1,030,052</u>	<u>35,493</u>	<u>(559)</u>	<u>1,064,986</u>
	<u>6,676,798</u>	<u>35,493</u>	<u>(559)</u>	<u>6,711,732</u>
Less accumulated depreciation				
Land improvements	88,059	6,658	-	94,717
Buildings	2,240,962	111,410	-	2,352,372
Fixed equipment	1,391,223	10,753	-	1,401,976
Major moveable equipment	<u>903,934</u>	<u>87,354</u>	<u>(559)</u>	<u>990,729</u>
	<u>4,624,178</u>	<u>216,175</u>	<u>(559)</u>	<u>4,839,794</u>
Capital Assets, Net	<u>\$ 2,052,620</u>	<u>\$ (180,682)</u>	<u>\$ -</u>	<u>\$ 1,871,938</u>

**Note 6: Medical Malpractice Coverage and Claims**

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

**Note 7: Long-term Debt**

The following is a summary of long-term obligation transactions for the Hospital for the years ended November 30, 2009 and 2008:

		2009				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt						
	Capital lease obligations	\$ -	\$ 150,000	\$ 17,905	\$ 132,095	\$ 27,999

		2008				
		Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt						
	Capital lease obligations	\$ 37,255	\$ -	\$ 37,255	\$ -	\$ -

**Capital Lease Obligations**

The Hospital is obligated under leases for buildings and equipment that are accounted for as capital leases. Assets under capital leases at November 30, 2009, totaled \$216,667, net of accumulated depreciation of \$33,333. There were no assets under capital lease obligation at November 30, 2008. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 5% together with the present value of the future minimum lease payments as of November 30, 2009:

	Year Ending November 30,
2010	\$ 33,968
2011	33,968
2012	33,968
2013	33,968
2014	11,333
Total minimum lease payments	147,205
Less amount representing interest	15,110
Present value of future minimum lease payments	\$ 132,095

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

**Note 8: Designated Net Assets**

At November 30, 2009 and 2008, \$1,147,680 and \$1,864,717, respectively, of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion later use these net assets for other purposes. Designated net assets are reported as assets limited as to use.

**Note 9: Pension Plan**

***Plan Description***

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at 611 South Kansas Avenue, Suite 100, Topeka, Kansas, 66603-3803, or by calling 1.888.275.5737.

***Funding Policy***

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 6.54%, 5.93% and 5.31% of annual covered payroll for 2009, 2008 and 2007, respectively. The Hospital's contributions to the plan for 2009, 2008 and 2007, were \$100,358, \$105,857 and \$46,676, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

**Note 10: Significant Estimates and Concentrations**

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

***Allowance for Net Patient Service Revenue Adjustments***

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 2*.

***Malpractice Claims***

Estimates related to the accrual for medical malpractice claims are described in *Notes 1 and 6*.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to claims and lawsuits that may or do result in litigation. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of the Hospital. Events could occur that would change this estimate materially in the near term.

***Admitting Physician***

The Hospital is served by one admitting physician whose patients comprise substantially all of the Hospital's net patient service revenue.

***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

**Edwards County Hospital**  
**A Component Unit of Edwards County, Kansas**  
**Notes to Financial Statements**  
**November 30, 2009 and 2008**

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.

**Note 11: Subsequent Event**

***Medicaid Rate Cuts***

On December 17, 2009, the Kansas Health Policy Authority (KHPA) published a public notice in the Kansas Register of a 10% reduction in Medicaid reimbursement rates to be effective with service dates on or after January 1, 2010.

***Health Care Reform***

During March 2010, President Obama signed into law *the Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system and will impact payments received by hospitals. Any reductions in hospital payments may be offset by reductions in hospital bad debts and charity care, as the number of uninsured Americans is reduced. However, the overall impact on the Hospital of the health care reform is not presently determinable.