

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas

Accountants' Report and Financial Statements

September 30, 2009 and 2008



Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
September 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Greenwood County Hospital
Eureka, Kansas

We have audited the accompanying balance sheets of Greenwood County Hospital, a component unit of the County of Greenwood, Kansas, as of September 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 Greenwood County Hospital as of September 30, 2009 and 2008, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

February 13, 2010

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Management's Discussion and Analysis
Years Ended September 30, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Greenwood County Hospital (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2009, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Cash, short-term investments and short-term certificates of deposit increased by \$1,091 or 73% in 2009 and increased by \$352 or 31% in 2008.
- The Hospital's net assets decreased by \$73 or 1% in 2009 and decreased by \$157 or 2% in 2008.
- The Hospital reported an operating loss in 2009 of \$660 and in 2008 of \$831. The operating loss in 2009 decreased by \$171, and the operating loss in 2008 increased by \$302 from the operating loss reported in 2007.
- Net nonoperating revenues decreased by \$62 in 2009 and increased by \$22 in 2008.

Using This Annual Report

The Hospital's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statement using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets – the difference between assets and liabilities – are one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the balance sheet. The Hospital's net assets decreased by \$73 (1%) in 2009 and decreased by \$157 (2%) in 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Cash and short-term certificates of deposit	\$ 2,592	\$ 1,501	\$ 1,149
Patient accounts receivable, net	1,666	2,586	2,521
Other current assets	686	937	907
Capital assets, net	2,476	2,569	2,838
Other noncurrent assets	79	91	100
	<u>\$ 7,499</u>	<u>\$ 7,684</u>	<u>\$ 7,515</u>
Liabilities and Net Assets			
Other current liabilities	\$ 1,054	\$ 1,166	\$ 840
	<u>1,054</u>	<u>1,166</u>	<u>840</u>
Net Assets			
Invested in capital assets, net of related debt	2,433	2,569	2,838
Unrestricted	4,012	3,949	3,837
	<u>6,445</u>	<u>6,518</u>	<u>6,675</u>
Total net assets	<u>\$ 7,499</u>	<u>\$ 7,684</u>	<u>\$ 7,515</u>
Total liabilities and net assets	<u>\$ 7,499</u>	<u>\$ 7,684</u>	<u>\$ 7,515</u>

A significant change in the Hospital's assets is the increase in cash and short-term certificates of deposit in 2009. The increase was due to a significant decrease in patient accounts receivable in 2009. Cash and short-term certificates of deposit increased by \$1,091 or 73% in 2009. Net patient accounts receivable decreased by \$1,030 or 40% in 2009. Total assets decreased by \$295 or 4% in 2009 and increased by \$169 or 2% in 2008.

Operating Results and Changes in the Hospital's Net Assets

In 2008, the Hospital's net assets decreased by \$73 or 1% in 2009 and by \$157 or 2% in 2008 as shown in Table 2. This increase is made up of several different components as described below.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts	\$ 11,924	\$ 11,150	\$ 11,012
Other	94	72	75
Total operating revenues	<u>12,018</u>	<u>11,222</u>	<u>11,087</u>
Operating Expenses			
Salaries and wages and employee benefits	7,991	7,433	6,839
Purchased services	1,555	1,429	1,418
Depreciation	347	383	388
Supplies and other	2,785	2,808	2,971
Total operating expenses	<u>12,678</u>	<u>12,053</u>	<u>11,616</u>
Operating Loss	<u>(660)</u>	<u>(831)</u>	<u>(529)</u>
Nonoperating Revenues (Expenses)			
Sales tax revenue	570	605	571
Interest income	18	35	43
Interest expense	(1)	(1)	-
Noncapital gifts	-	10	13
Total nonoperating revenues	<u>587</u>	<u>649</u>	<u>627</u>
Capital Appropriations - Greenwood County	<u>-</u>	<u>25</u>	<u>-</u>
Increase (Decrease) in Net Assets	(73)	(157)	98
Net Assets, Beginning of Year	<u>6,518</u>	<u>6,675</u>	<u>6,577</u>
Net Assets, End of Year	<u>\$ 6,445</u>	<u>\$ 6,518</u>	<u>\$ 6,675</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income or loss – generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital reported an operating loss in both 2009 and 2008. This is consistent with the Hospital's recent operating history of generating large operating losses. The Hospital was formed and is operating primarily to serve residents of Greenwood County and the surrounding area. The Hospital receives sales tax revenue to provide sufficient resources to enable the facility to finance capital needs, provide emergency care, serve lower income residents and other residents.

The operating loss for 2009 decreased by \$171 as compared to 2008. The operating loss for 2008 increased by \$302 as compared to 2007.

The primary components of the decrease in operating loss for 2009 are:

- Gross inpatient revenue increased by \$4,356 or 23%. Charge rates were increased by approximately 30% overall. Inpatient and swing-bed admissions decreased by 89 in 2008, a decrease of 9%.
- Home health revenue has continued to increase as a result of being a top-rated home health agency by Medicare.

Gross patient service revenue increased by \$1,530 due to acquiring the physician clinics in 2007 and \$330 in 2008. One clinic was not acquired until March 2007, and 2008 reflected the first full year of ownership. Hospital outpatient revenue from laboratory, radiology, emergency services, physical therapy, etc. increased by \$467 in 2008 and by \$555 in 2007. Home health revenue increased slightly. The total Hospital net patient revenue increased by \$126 in 2008.

Hospital expenses increased in all categories of expenses due to the full year impact of the rural health clinics acquired in 2007. Two clinics were acquired in March 2007. The Hospital experienced an increase in supply costs, pharmaceutical expenses, health insurance premiums and hourly salaries. The Hospital has experienced continual challenges to maintain competitive salaries. The Hospital is keeping the salaries competitive with the Wichita market.

Operating expenses increased by \$437 in 2008. The majority of the increase came from the acquisition of the rural health clinics.

The primary components of the increase in operating loss for 2008 are:

- Gross inpatient revenue decreased by \$67 or 1%. Inpatient and swing-bed admissions decreased by 89 in 2008, a decrease of 9%. One physician left the Hospital in 2006 and was not replaced until May 2007; his practice has been slowly developing.
- Home health revenue increased as a result of being a top-rated home health agency by Medicare which increased reimbursement.
- The Hospital acquired three rural health clinics and opened a new clinic in 2007. Two clinics were in operation seven months in 2007 and twelve months in 2008.
- The Hospital experienced a 5% increase in employee health insurance premiums.
- The cost of operating the nuclear medicine department increased by \$25 due to a change in contracting.
- The cost of staffing the laboratory department increased by \$171 mostly due to using contract workers to help with a significant staff shortage.

Net patient service revenue increased due to an increase in outpatient revenue which increased by 6% from the previous year. The Hospital experienced substantial increases in outpatient revenue for radiology, laboratory, pharmacy and emergency services. Home health revenue declined because of a reduction in Medicare payments and a shift to hospice care.

Employee salaries and wages and benefits increased in 2007. The increase reflected on all categories during the acquisition of the rural health clinics. The Hospital's retention and recruitment efforts allowed the Hospital to maintain a viable staffing level which added to the Hospital's cost increases. The Hospital's efforts to be competitive with wages and benefits are necessary because of the shortage of nurses and other health care professionals in the area and the United States.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. Major components of the Hospital's costs are expenditures for general supplies, medical supplies, professional fees and prescription drug cost. The cost of supplies and drugs continued to increase. Some of the major factors contributing to the increased medical supply and drug costs include an aging population and the introduction of new drugs that cannot be obtained in generic form.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales taxes received by the Hospital and investment income, both of which decreased in 2009 as compared to 2008, and 2008 remained relatively constant compared to 2007. The Greenwood County, Kansas Commission discontinued property tax (intergovernmental) funding for the Hospital in January 2005.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, except for the change in patient accounts receivable and amounts due from Medicare for cost report settlements. This resulted in an increase in available cash of \$780 in 2009 and an increase in available cash of \$319 for 2008.

Capital Assets

In 2009, the Hospital purchased fixed assets costing \$254 consisting of several equipment purchases. In 2008, the Hospital purchased fixed assets costing \$117 consisting of several equipment purchases.

Other Economic Factors

Greenwood County and adjacent counties continue to have modest population declines and weak economic performances.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 620.583.7451.

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Balance Sheets
September 30, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash	\$ 1,594,454	\$ 770,833
Short-term certificates of deposit	997,150	729,903
Patient accounts receivable, net of allowance; 2009 - \$1,400,000; 2008 - \$1,300,000	1,665,914	2,585,629
Sales tax receivable	90,747	108,637
Estimated amounts due from third-party payers	272,000	476,000
Supplies	245,099	289,040
Prepaid expenses and other	78,178	63,654
Total current assets	4,943,542	5,023,696
Capital Assets, Net	2,475,743	2,568,615
Other Assets		
Rural health clinic organization costs	38,799	55,647
Loans to nurses, net of allowance; 2009 - \$14,000; 2008 - \$14,000	40,624	36,001
	79,423	91,648
Total assets	\$ 7,498,708	\$ 7,683,959
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 419,110	\$ 578,371
Accrued expenses	634,690	587,998
Total current liabilities	1,053,800	1,166,369
Net Assets		
Invested in capital assets, net of related debt	2,432,665	2,568,615
Unrestricted	4,012,243	3,948,975
Total net assets	6,444,908	6,517,590
Total liabilities and net assets	\$ 7,498,708	\$ 7,683,959

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

	2009	2008
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2009 - \$929,871; 2008 - \$749,160	\$ 11,924,289	\$ 11,149,131
Other	94,382	71,798
Total operating revenues	12,018,671	11,220,929
Operating Expenses		
Salaries and wages	5,942,227	5,494,473
Employee benefits	2,048,768	1,938,680
Purchased services	1,554,995	1,429,223
Drugs	351,025	354,190
Medical and surgical supplies	753,287	718,384
Professional fees	24,832	131,062
Dues and subscriptions	42,405	37,148
Food	99,746	93,242
Insurance	111,476	96,518
Repairs and maintenance	306,717	284,351
Telephone	70,541	63,777
Utilities	159,322	150,610
Supplies and other	867,126	878,444
Depreciation	346,565	382,707
Total operating expenses	12,679,032	12,052,809
Operating Loss	(660,361)	(831,880)
Nonoperating Revenues (Expenses)		
Sales tax revenue	569,953	604,488
Interest income	18,263	35,423
Interest expense	(537)	(1,162)
Noncapital gifts	-	10,363
Total nonoperating revenues	587,679	649,112
Deficiency of Revenues Over Expenses Before Capital Appropriations	(72,682)	(182,768)
Capital Appropriations - Greenwood County	-	25,000
Decrease in Net Assets	(72,682)	(157,768)
Net Assets, Beginning of Year	6,517,590	6,675,358
Net Assets, End of Year	\$ 6,444,908	\$ 6,517,590

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Statements of Cash Flows
Years Ended September 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 13,048,004	\$ 11,108,603
Payments to suppliers and contractors	(4,502,169)	(3,987,776)
Payments to employees	(7,944,303)	(7,396,477)
Other receipts, net	<u>94,382</u>	<u>74,954</u>
Net cash provided by (used in) operating activities	<u>695,914</u>	<u>(200,696)</u>
Noncapital Financing Activities		
Sales taxes supporting operations	587,843	599,851
Noncapital gifts	<u>-</u>	<u>10,363</u>
Net cash provided by noncapital financing activities	<u>587,843</u>	<u>610,214</u>
Capital and Related Financing Activities		
Capital appropriations - Greenwood County	-	25,000
Interest paid	(537)	(1,162)
Purchase of capital assets	<u>(210,615)</u>	<u>(116,692)</u>
Net cash used in capital and related financing activities	<u>(211,152)</u>	<u>(92,854)</u>
Investing Activities		
Interest income	18,263	35,423
Maturities of short-term certificates of deposit	1,393,429	1,263,055
Purchases of short-term certificates of deposit	<u>(1,660,676)</u>	<u>(1,295,954)</u>
Net cash provided by (used in) investing activities	<u>(248,984)</u>	<u>2,524</u>
Increase in Cash	823,621	319,188
Cash, Beginning of Year	<u>770,833</u>	<u>451,645</u>
Cash, End of Year	<u>\$ 1,594,454</u>	<u>\$ 770,833</u>

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

	2009	2008
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used in Operating Activities		
Operating loss	\$ (660,361)	\$ (831,880)
Depreciation	346,565	382,707
Loss on disposal of capital assets	-	3,156
Changes in operating assets and liabilities		
Patient accounts receivable, net	919,715	(64,528)
Estimated amounts due from and to third-party payers	204,000	24,000
Supplies and prepaid expenses	29,417	(49,492)
Accounts payable and accrued expenses	(155,647)	326,679
Other assets and liabilities	12,225	8,662
Net cash provided by (used in) operating activities	\$ 695,914	\$ (200,696)
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 43,078	\$ -

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

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

Nature of Operations and Reporting Entity

Greenwood County Hospital (Hospital) is an acute care hospital located in Eureka, Kansas. The Hospital is a component unit of Greenwood County, Kansas (County) 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 and emergency care services to patients in the Greenwood County area. It also operates a home health agency in the same geographic 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 from property taxes, sales taxes, investment 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) that were issued on or before 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.

Sales Tax Revenue

The Hospital received approximately 5% of its financial support from the proceeds of sales taxes during both 2009 and 2008.

Sales tax revenue is recognized based on sales taxes collected by the County's retailers in the Hospital's accounting period.

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. The Hospital's capitalization policy is to capitalize assets acquired with a cost in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Capital lease amortization is included with depreciation expense. The following estimated useful lives are being used by the Hospital:

Land improvements	8 – 15 years
Buildings and building improvements	5 – 40 years
Fixed equipment	5 – 25 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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for

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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 Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code (IRS) and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

Medicaid. Prior to October 5, 2007, inpatient and outpatient services rendered to 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. The Hospital is 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.

Approximately 63% and 67% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 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 and discounts from established charges.

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A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

Note 3: Deposits, Investments and Investment Income

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 September 30, 2009 and 2008, respectively, \$1,898,708 and \$1,289,715 of the Hospital's bank balances of \$2,682,359 and \$1,650,274 were exposed to custodial credit risk as follows:

	2009	2008
Uninsured and collateral held by pledging financial institution's agent in other than the Hospital's name	\$ 1,898,708	\$ 1,289,715
	\$ 1,898,708	\$ 1,289,715

Summary of Carrying Values

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

	2009	2008
Carrying value Deposits	\$ 2,591,604	\$ 1,500,736
Included in the following balance sheet captions		
Cash	\$ 1,594,454	\$ 770,833
Short-term certificates of deposits	997,150	729,903
	\$ 2,591,604	\$ 1,500,736

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A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

Investment Income

Investment income for the years ended September 30, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
Interest income	\$ 18,263	\$ 35,423

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 September 30, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 875,130	\$ 1,747,958
Medicaid	100,752	75,938
Blue Cross	110,372	377,607
Other third-party payers	400,780	415,174
Patients	<u>1,578,880</u>	<u>1,268,952</u>
	3,065,914	3,885,629
Less allowance for uncollectible accounts	<u>1,400,000</u>	<u>1,300,000</u>
	<u>\$ 1,665,914</u>	<u>\$ 2,585,629</u>

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

Note 5: Capital Assets

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

	2009				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 45,835	\$ -	\$ -	\$ -	\$ 45,835
Land improvements	96,206	-	-	-	96,206
Buildings and building improvements	3,589,967	148,719	-	-	3,738,686
Fixed equipment	1,037,043	53,682	-	(45,557)	1,045,168
Major moveable equipment	4,368,152	51,292	-	45,557	4,465,001
Construction in progress	-	-	-	-	-
	<u>9,137,203</u>	<u>253,693</u>	<u>-</u>	<u>-</u>	<u>9,390,896</u>
Less accumulated depreciation					
Land improvements	47,029	5,512	-	-	52,541
Buildings and building improvements	1,891,259	122,750	-	-	2,014,009
Fixed equipment	995,893	10,829	-	-	1,006,722
Major moveable equipment	<u>3,634,407</u>	<u>207,474</u>	<u>-</u>	<u>-</u>	<u>3,841,881</u>
	<u>6,568,588</u>	<u>346,565</u>	<u>-</u>	<u>-</u>	<u>6,915,153</u>
Capital assets, net	<u>\$ 2,568,615</u>	<u>\$ (92,872)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,475,743</u>

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Notes to Financial Statements
September 30, 2009 and 2008

	2008				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 45,835	\$ -	\$ -	\$ -	\$ 45,835
Land improvements	96,206	-	-	-	96,206
Buildings and building improvements	3,581,600	8,367	-	-	3,589,967
Fixed equipment	1,037,043	-	-	-	1,037,043
Major moveable equipment	4,249,216	108,325	(11,389)	22,000	4,368,152
Construction in progress	22,000	-	-	(22,000)	-
	<u>9,031,900</u>	<u>116,692</u>	<u>(11,389)</u>	<u>-</u>	<u>9,137,203</u>
Less accumulated depreciation					
Land improvements	41,516	5,513	-	-	47,029
Buildings and building improvements	1,757,198	134,061	-	-	1,891,259
Fixed equipment	980,722	15,171	-	-	995,893
Major moveable equipment	3,414,678	227,962	(8,233)	-	3,634,407
	<u>6,194,114</u>	<u>382,707</u>	<u>(8,233)</u>	<u>-</u>	<u>6,568,588</u>
Capital assets, net	<u>\$ 2,837,786</u>	<u>\$ (266,015)</u>	<u>\$ (3,156)</u>	<u>\$ -</u>	<u>\$ 2,568,615</u>

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30, 2009 and 2008, consisted of:

	2009	2008
Payable to suppliers and contractors	\$ 419,110	\$ 578,371
Payable to or on behalf of employees (including payroll taxes and benefits)	<u>634,690</u>	<u>587,998</u>
	<u>\$ 1,053,800</u>	<u>\$ 1,166,369</u>

Greenwood County Hospital
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Notes to Financial Statements
September 30, 2009 and 2008

Note 7: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year on a fixed premium basis. 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 \$800,000 of claims made coverage for each medical incident and \$2,400,000 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.

Note 8: Designated Net Assets

At September 30, 2009 and 2008, \$1,526,195 and \$1,348,763, respectively, of unrestricted net assets has been designated by the Hospital's Board of Trustees for capital acquisitions and specific operational purposes. 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.

Note 9: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital's Board of Trustees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital, expressed as a percentage of covered payroll, were 2.5% and 4.5%, respectively, of annual compensation up to \$7,800 plus 5.0% and 9.0%, respectively, of annual compensation over \$7,800 for 2009 and 2008. Contributions actually made by plan members and the Hospital aggregated \$251,477 and \$440,928 during 2009 and \$231,828 and \$363,145 during 2008, respectively.

Greenwood County Hospital
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Notes to Financial Statements
September 30, 2009 and 2008

Note 10: Current Economic Conditions

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

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

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

Supplementary Information

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Net Patient Service Revenue
Years Ended September 30, 2009 and 2008

	2009		
	Inpatient	Outpatient	Total
Nursing			
Hospital	\$ 1,220,103	\$ -	\$ 1,220,103
Swing-bed	576,045	-	576,045
	<u>1,796,148</u>	<u>-</u>	<u>1,796,148</u>
Operating room	4,161	308,517	312,678
Anesthesia	2,168	100,253	102,421
Radiology	126,866	448,713	575,579
Mammography	-	17,963	17,963
Nuclear medicine	19,243	74,506	93,749
Ultrasound	72,545	157,775	230,320
CAT scans	262,142	973,683	1,235,825
Magnetic imaging	29,195	473,622	502,817
Laboratory	1,822,355	3,941,146	5,763,501
Respiratory therapy	550,458	18,486	568,944
Physical therapy	217,641	472,339	689,980
Occupational therapy	100,742	73,718	174,460
Speech therapy	23,274	5,228	28,502
Electrocardiogram	30,492	71,148	101,640
Central supply	165,675	249,800	415,475
Pharmacy	661,526	430,975	1,092,501
Clinic	-	55,147	55,147
Emergency room	50,647	1,269,958	1,320,605
Observation	15,107	91,285	106,392
Rural health clinic	-	2,180,796	2,180,796
Home health agency	-	1,590,901	1,590,901
Physician private office	-	41,453	41,453
	<u>\$ 5,950,385</u>	<u>\$ 13,047,412</u>	18,997,797
Less contractual allowances and charity care			6,143,637
Less provision for uncollectible accounts			<u>929,871</u>
Net patient service revenue			<u>\$ 11,924,289</u>

2008		
Inpatient	Outpatient	Total
\$ 1,231,157	\$ -	\$ 1,231,157
630,548	-	630,548
<u>1,861,705</u>	<u>-</u>	<u>1,861,705</u>
2,960	269,061	272,021
2,599	99,480	102,079
96,159	379,576	475,735
-	20,292	20,292
10,587	72,985	83,572
44,184	127,040	171,224
228,647	819,347	1,047,994
46,068	440,402	486,470
833,759	2,067,966	2,901,725
631,902	15,165	647,067
146,423	295,852	442,275
71,942	71,740	143,682
7,119	9,780	16,899
17,820	65,340	83,160
148,701	243,530	392,231
704,470	422,425	1,126,895
-	63,782	63,782
36,737	1,045,639	1,082,376
10,053	50,877	60,930
-	1,869,868	1,869,868
-	1,246,860	1,246,860
-	42,770	42,770
<u>\$ 4,901,835</u>	<u>\$ 9,739,777</u>	14,641,612
		2,743,321
		<u>749,160</u>
		<u>\$ 11,149,131</u>

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended September 30, 2009 and 2008

Contractual Allowances and Charity Care

	<u>2009</u>	<u>2008</u>
Contractual Allowances		
Medicare	\$ 3,351,636	\$ 1,215,330
Medicaid	906,312	229,085
Blue Cross	553,539	297,639
Commercial insurance	76,479	23,385
Clinic and other	1,050,173	827,905
Charity Care	<u>205,498</u>	<u>149,977</u>
	<u>\$ 6,143,637</u>	<u>\$ 2,743,321</u>

Other Operating Revenues

	<u>2009</u>	<u>2008</u>
Cafeteria sales	\$ 44,853	\$ 35,275
Medical record fee	4,618	4,644
Grant income – operating activities	10,327	145
Rent income	15,756	17,556
Other	<u>18,828</u>	<u>14,178</u>
	<u>\$ 94,382</u>	<u>\$ 71,798</u>

Greenwood County Hospital
A Component Unit of Greenwood County, Kansas
Operating Expenses
Years Ended September 30, 2009 and 2008

	2009		Total
	Salaries	Other	
Nursing service	\$ 1,227,892	\$ 127,667	\$ 1,355,559
Operating room	21,907	118,620	140,527
Anesthesia	-	137,950	137,950
Radiology	190,814	105,007	295,821
Mammography	9,087	5,490	14,577
Nuclear medicine	25,036	56,367	81,403
Ultrasound	38,635	77,578	116,213
CAT scans	39,446	89,362	128,808
Magnetic imaging	-	133,567	133,567
Laboratory	445,431	740,588	1,186,019
Respiratory therapy	54,062	25,456	79,518
Physical therapy	24,989	372,444	397,433
Occupational therapy	-	135,998	135,998
Speech therapy	-	35,851	35,851
Electrocardiogram	-	6,799	6,799
Central supply	61,907	136,150	198,057
Pharmacy	25,302	404,562	429,864
Clinic	-	2,806	2,806
Emergency room	660,964	56,495	717,459
Rural health clinic	1,221,700	376,024	1,597,724
Home health	531,545	234,575	766,120
Hospice	-	-	-
Physician private office	35,824	8,477	44,301
Social service	11,704	2,846	14,550
Depreciation	-	346,565	346,565
Employee health and welfare	-	2,048,768	2,048,768
Administrative and general	640,922	421,131	1,062,053
Maintenance	97,971	276,251	374,222
Laundry and linen	62,769	18,803	81,572
Housekeeping	88,121	17,575	105,696
Dietary	152,711	144,772	297,483
Nursing administration	133,624	954	134,578
Medical records	139,864	71,307	211,171
	<u>\$ 5,942,227</u>	<u>\$ 6,736,805</u>	<u>\$ 12,679,032</u>

2008		
Salaries	Other	Total
\$ 1,225,519	\$ 125,774	\$ 1,351,293
51,054	103,021	154,075
-	135,336	135,336
182,973	87,416	270,389
8,594	3,736	12,330
22,544	40,972	63,516
52,165	83,144	135,309
38,288	96,144	134,432
-	138,692	138,692
354,821	839,081	1,193,902
51,346	22,728	74,074
23,538	247,727	271,265
-	175,602	175,602
-	21,109	21,109
-	6,384	6,384
57,273	114,327	171,600
23,017	400,187	423,204
-	3,828	3,828
600,706	154,369	755,075
1,030,853	340,985	1,371,838
483,064	178,977	662,041
(52)	(854)	(906)
-	-	-
13,662	2,921	16,583
-	382,707	382,707
-	1,938,680	1,938,680
578,072	420,440	998,512
98,633	268,246	366,879
66,107	16,679	82,786
95,275	21,664	116,939
156,153	136,555	292,708
140,896	844	141,740
139,972	50,915	190,887
\$ 5,494,473	\$ 6,558,336	\$ 12,052,809