

Hamilton County Hospital
A Component Unit of Hamilton County, Kansas
Accountants' Report and Financial Statements
December 31, 2009 and 2008



Hamilton County Hospital
A Component Unit of Hamilton County, Kansas
December 31, 2009 and 2008

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Independent Accountants' Report on Financial Statements

Board of Trustees
Hamilton County Hospital
Syracuse, Kansas

We have audited the accompanying balance sheets of Hamilton County Hospital, a component unit of Hamilton County, Kansas, as of December 31, 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 Hamilton County Hospital as of December 31, 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 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

May 6, 2010

Hamilton County Hospital
A Component Unit of Hamilton County, Kansas
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash	\$ 397,693	\$ 283,999
Patient accounts receivable, net of allowance; 2009 – \$187,000, 2008 – \$140,000	448,833	789,259
Estimated amounts due from Medicare and Medicaid	100,000	55,000
Supplies	106,621	88,266
Prepaid expenses and other	69,010	76,768
Total current assets	1,122,157	1,293,292
Capital Assets, Net	1,774,170	1,784,216
Other Assets		
Purchase of RHC provider number	78,000	102,000
Deferred financing costs	17,393	-
Total assets	\$ 2,991,720	\$ 3,179,508
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 148,672	\$ 49,132
Accounts payable	421,190	226,702
Accrued expenses	279,211	274,021
Estimated amounts due to Medicare	145,000	670,000
Total current liabilities	994,073	1,219,855
Long-term Debt	698,936	375,118
Total liabilities	1,693,009	1,594,973
Net Assets		
Invested in capital assets, net of related debt	926,562	1,359,966
Unrestricted	372,149	224,569
Total net assets	1,298,711	1,584,535
Total liabilities and net assets	\$ 2,991,720	\$ 3,179,508

Hamilton County Hospital
A Component Unit of Hamilton County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2009 – \$5,000, 2008 – \$65,000	\$ 5,546,601	\$ 5,042,918
Other	101,186	45,685
Total operating revenues	<u>5,647,787</u>	<u>5,088,603</u>
Operating Expenses		
Salaries and wages	3,132,984	2,944,744
Employee benefits	780,844	661,140
Purchased services and professional fees	1,354,279	1,416,242
Supplies and other	1,410,975	1,211,366
Depreciation and amortization	334,073	234,861
Total operating expenses	<u>7,013,155</u>	<u>6,468,353</u>
Operating Loss	<u>(1,365,368)</u>	<u>(1,379,750)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	1,048,704	1,525,382
Interest income	10,866	15,495
Interest expense	(26,301)	(1,750)
Noncapital grants and gifts	18,775	17,026
Total nonoperating revenues	<u>1,052,044</u>	<u>1,556,153</u>
Excess (Deficiency) of Revenue Over Expenses Before Capital Grants and Gifts and Transfer	(313,324)	176,403
Capital Grants and Gifts	-	10,000
Transfer from Hamilton County	<u>27,500</u>	<u>-</u>
Increase (Decrease) in Net Assets	(285,824)	186,403
Net Assets, Beginning of Year	<u>1,584,535</u>	<u>1,398,132</u>
Net Assets, End of Year	<u>\$ 1,298,711</u>	<u>\$ 1,584,535</u>

Hamilton County Hospital
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Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	\$ 5,317,027	\$ 5,377,992
Payments to suppliers and contractors	(2,581,363)	(2,689,271)
Payments to and on behalf of employees	(3,908,638)	(3,578,298)
Other receipts, net	101,186	45,685
Net cash used in operating activities	(1,071,788)	(843,892)
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	1,048,704	1,525,382
Purchase of rural health clinic provider number	-	(120,000)
Interest paid on amount owed to Medicare	(17,955)	-
Noncapital grants and gifts	18,775	17,026
Net cash provided by noncapital financing activities	1,049,524	1,422,408
Capital and Related Financing Activities		
Capital grants and gifts	-	10,000
Purchase of capital assets	(274,726)	(871,882)
Proceeds from issuance of long-term debt	450,000	275,000
Payment of bond costs	(17,393)	-
Interest paid on long-term debt	(8,346)	(1,750)
Principal payments on long-term debt	(24,443)	(27,500)
Net cash provided by (used in) capital and related financing activities	125,092	(616,132)
Investing Activities		
Interest income received	10,866	15,495
Net cash provided by investing activities	10,866	15,495
Increase (Decrease) in Cash	113,694	(22,121)
Cash, Beginning of Year	283,999	306,120
Cash, End of Year	\$ 397,693	\$ 283,999

Hamilton County Hospital
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Statements of Cash Flows (Continued)
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Net Operating Expenses to Net Cash Used in Operating Activities		
Operating loss	\$ (1,365,368)	\$ (1,379,750)
Depreciation and amortization	334,073	234,861
Changes in operating assets and liabilities		
Patient accounts receivable, net	340,426	(329,926)
Estimated amounts due from and to Medicare	(570,000)	665,000
Accounts payable and accrued expenses	199,678	(7,422)
Supplies and prepaid expenses	<u>(10,597)</u>	<u>(26,655)</u>
Net cash used in operating activities	<u>\$ (1,071,788)</u>	<u>\$ (843,892)</u>
 Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	<u>\$ 25,301</u>	<u>\$ 176,750</u>
Long-term debt payment made by County	<u>\$ 27,500</u>	<u>-</u>

Hamilton County Hospital
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Notes to Financial Statements
December 31, 2009 and 2008

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

Nature of Operations and Reporting Entity

Hamilton County Hospital (Hospital) is an acute care hospital located in Syracuse, Kansas. The Hospital is a component unit of Hamilton County, Kansas (County). The Hospital is operated by a Board of Trustees elected by the registered voters of the County. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care and long-term health care services to patients in the Hamilton County area. It also operates a clinic and an independent living facility.

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, 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) 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.

Intergovernmental Revenue

The Hospital received approximately 16% and 23% of its financial support from intergovernmental revenue derived from property taxes levied by the County in 2009 and 2008, respectively. One hundred percent of these funds were used to support operations of the Hospital in both years.

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Property taxes are assessed by the County 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.

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 and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Workers' Risk Cooperative for Counties. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty 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 for both workers' compensation and property and casualty risks.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	15 – 20 years
Buildings	5 – 20 years
Fixed equipment	5 – 20 years
Major moveable equipment	4 – 18 years

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Other Assets

Other assets include costs incurred in connection with the purchase of an existing Medicare rural health clinic provider number. Such costs are being amortized over a term of 60 months using the straight-line method.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

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

Net Assets

Net assets of the Hospital are classified in two 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. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

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.

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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 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 also obtained 501(c)(3) status with the IRS.

Subsequent Events

Subsequent events have been evaluated through May 6, 2010, which is the date the financial statements were available to be issued.

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 fiscal intermediary.

Medicaid. The Hospital is paid for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network on a cost reimbursement methodology. Medicaid managed care patients were reimbursed under a prospective reimbursement methodology. 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.

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Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 59% and 64% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 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 December 31, 2009 and 2008, respectively, \$330,484 and \$110,108 of the Hospital's bank balances of \$727,680 and \$580,351 were exposed to custodial credit risk as follows:

	2009	2008
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 330,484	\$ 110,108

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Summary of Carrying Values

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

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 397,428	\$ 283,734
Petty cash	265	265
	<u>\$ 397,693</u>	<u>\$ 283,999</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 146,463	\$ 474,763
Medicaid	80,171	86,787
Blue Cross	26,924	77,999
Other third-party payers	313,665	193,572
Patients	68,610	96,138
	<u>635,833</u>	<u>929,259</u>
Less allowance for uncollectible accounts	187,000	140,000
	<u>\$ 448,833</u>	<u>\$ 789,259</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2009 and 2008, was:

	2009			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 303	\$ -	\$ -	\$ 303
Land improvements	177,668	-	-	177,668
Buildings	3,248,028	251,657	(16,180)	3,483,505
Fixed equipment	1,047,166	-	-	1,047,166
Major moveable equipment	2,379,296	48,370	(12,792)	2,414,874
	<u>6,852,461</u>	<u>300,027</u>	<u>(28,972)</u>	<u>7,123,516</u>
Less accumulated depreciation				
Land improvements	160,127	1,543	-	161,670
Buildings	2,533,266	82,323	(16,180)	2,599,409
Fixed equipment	968,333	8,943	-	977,276
Major moveable equipment	1,406,519	217,264	(12,792)	1,610,991
	<u>5,068,245</u>	<u>310,073</u>	<u>(28,972)</u>	<u>5,349,346</u>
Capital Assets, Net	<u>\$ 1,784,216</u>	<u>\$ (10,046)</u>	<u>\$ -</u>	<u>\$ 1,774,170</u>
	2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 303	\$ -	\$ -	\$ 303
Land improvements	177,668	-	-	177,668
Buildings	2,966,788	281,240	-	3,248,028
Fixed equipment	1,047,166	-	-	1,047,166
Major moveable equipment	1,611,904	767,392	-	2,379,296
	<u>5,803,829</u>	<u>1,048,632</u>	<u>-</u>	<u>6,852,461</u>
Less accumulated depreciation				
Land improvements	158,583	1,544	-	160,127
Buildings	2,462,508	70,758	-	2,533,266
Fixed equipment	958,773	9,560	-	968,333
Major moveable equipment	1,271,520	134,999	-	1,406,519
	<u>4,851,384</u>	<u>216,861</u>	<u>-</u>	<u>5,068,245</u>
Capital Assets, Net	<u>\$ 952,445</u>	<u>\$ 831,771</u>	<u>\$ -</u>	<u>\$ 1,784,216</u>

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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 future.

Note 7: 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 5.93%, 5.31% and 4.81% of annual covered payroll for 2009, 2008 and 2007, respectively. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$144,179, \$121,591 and \$116,425, 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%.

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Note 8: Long-term Debt

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2009 and 2008:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable - County - 2007	\$ 247,500	\$ -	\$ 27,500	\$ 220,000	\$ 27,500
Note payable - County - 2009	-	450,000	-	450,000	90,000
Capital lease obligations	176,750	25,301	24,443	177,608	31,172
Total long-term debt	\$ 424,250	\$ 475,301	\$ 51,943	\$ 847,608	\$ 148,672

	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable - County - 2007	\$ -	\$ 275,000	\$ 27,500	\$ 247,500	\$ 27,500
Capital lease obligations	-	176,750	-	176,750	21,632
Total long-term debt	\$ -	\$ 451,750	\$ 27,500	\$ 424,250	\$ 49,132

Note Payable – County – 2007

The note payable – County – 2007 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2007 (Bonds) in the original amount of \$275,000 dated November 1, 2007. These Bonds were purchased in their entirety by Wheatland Electric Cooperative at their par value with no interest due pursuant to a Rural Economic Development Loan and Grant Program. The proceeds of this loan were used to finance equipment purchases. The Bonds are payable in annual installments of \$27,500 through November 1, 2017.

Year Ending December 31,	Total to be Paid	Principal	Interest
2010	\$ 27,500	\$ 27,500	\$ -
2011	27,500	27,500	-
2012	27,500	27,500	-
2013	27,500	27,500	-
2014	27,500	27,500	-
2015 – 2017	82,500	82,500	-
	\$ 220,000	\$ 220,000	\$ -

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Note Payable – County – 2009

The note payable – County – 2009 consists of an agreement with the County to repay on its behalf the General Obligation Bonds, Series 2009, (Bonds) in the original amount of \$450,000 dated December 22, 2009, which bear interest ranging from 1.00% to 2.70%. The Bonds are payable in semiannual installments through September 1, 2014. The Bonds are secured by the net revenues and accounts receivable of the Hospital.

The debt service requirements as of December 31, 2009, are as follows:

Year Ending December 31,	Total to be		
	Paid	Principal	Interest
2010	\$ 91,474	\$ 90,000	\$ 1,474
2011	88,900	85,000	3,900
2012	93,262	90,000	3,262
2013	92,363	90,000	2,363
2014	96,283	95,000	1,283
	<u>\$ 462,282</u>	<u>\$ 450,000</u>	<u>\$ 12,282</u>

Capital Lease Obligations

The Hospital is obligated under two leases for equipment that is accounted for as a capital lease. Assets under capital lease at December 31, 2009 and 2008, totaled \$207,375 and \$209,758, net of accumulated depreciation of \$41,453 and \$7,769, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at the rate of 5% together with the present value of the future minimum lease payments as of December 31, 2009:

Year Ending December 31,	
2010	\$ 38,412
2011	38,412
2012	35,600
2013	29,978
2014	29,978
Thereafter	29,978
Total minimum lease payments	<u>202,358</u>
Less amount representing interest	<u>24,750</u>
Present value of future minimum lease payments	<u>\$ 177,608</u>

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Note 9: Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 10: Commitments

The Hospital entered into five-year contracts with Southwind Health Resources to provide management, emergency room coverage and clinic coverage services. The contracts provide for total payments of approximately \$515,000 in the initial year with 5% increases in each subsequent year. The contracts expire on January 18, 2013.

Note 11: 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 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 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.

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.

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Note 12: Subsequent Events

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.