

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas

Independent Accountants' Report and Financial Statements

December 31, 2009 and 2008



Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
December 31, 2009 and 2008

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Independent Accountants' Report on Financial Statements

Board of Trustees
Hodgeman County Health Center
Jetmore, Kansas

We have audited the accompanying balance sheet of Hodgeman County Health Center (Health Center), a component unit of Hodgeman County, Kansas, as of December 31, 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Health Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Hodgeman County Health Center as of and for the year ended December 31, 2008, were audited by other accountants whose report dated May 28, 2009, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of Hodgeman County Health Center as of December 31, 2009, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Health Center 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

October 1, 2010

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash	\$ 866,791	\$ 382,770
Assets whose use is limited	76,104	69,869
Patient accounts receivable, net	910,873	650,860
Estimated amounts due from third-party payers	-	120,000
Supplies	108,253	91,540
Prepaid expenses and other	33,214	25,873
Total current assets	1,995,235	1,340,912
Assets Whose Use Is Limited Under Bond Indenture	165,254	158,330
Capital Assets, Net	6,519,634	2,965,108
Unamortized Bond Costs	12,737	15,302
Total assets	\$ 8,692,860	\$ 4,479,652
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 136,648	\$ 128,342
Accounts payable	85,126	227,593
Accrued expenses	242,791	366,742
Estimated amounts due to third-party payers	50,000	-
Total current liabilities	514,565	722,677
Long-term Debt	794,928	913,366
Total liabilities	1,309,493	1,636,043
 Net Assets		
Invested in capital assets, net of related debt	5,588,058	1,923,400
Restricted - expendable for debt service	241,358	228,199
Unrestricted	1,553,951	692,010
Total net assets	7,383,367	2,843,609
Total liabilities and net assets	\$ 8,692,860	\$ 4,479,652

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

	2009	2008
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2009 - \$234,362, 2008 - \$264,578	\$ 5,205,945	\$ 4,658,488
Bramley Place	98,286	120,624
Other	48,869	17,162
	<u>5,353,100</u>	<u>4,796,274</u>
Operating Expenses		
Salaries and wages	2,401,871	2,499,960
Employee benefits	512,450	500,059
Purchased services and professional fees	1,021,208	1,038,901
Supplies and other	1,306,813	1,218,516
Depreciation	409,422	258,910
	<u>5,651,764</u>	<u>5,516,346</u>
	<u>(298,664)</u>	<u>(720,072)</u>
Operating Loss		
Nonoperating Revenues (Expenses)		
Tax appropriations		
Ad valorem	283,321	279,000
No fund warrants	600,000	600,000
Contributions and grants	18,940	37,149
Interest income	8,299	14,649
Interest expense	(60,875)	(63,139)
	<u>849,685</u>	<u>867,659</u>
	<u>551,021</u>	<u>147,587</u>
Excess of Revenues Over Expenses Before Transfers		
	<u>3,988,737</u>	<u>1,710,023</u>
Transfers from Hodgeman County		
	<u>4,539,758</u>	<u>1,857,610</u>
Increase in Net Assets		
	<u>2,843,609</u>	<u>985,999</u>
Net Assets, Beginning of Year		
	<u>\$ 7,383,367</u>	<u>\$ 2,843,609</u>
Net Assets, End of Year		

Hodgeman County Health Center
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Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 5,115,932	\$ 4,594,555
Payments to suppliers and contractors	(2,429,000)	(2,366,262)
Payments to and on behalf of employees	(3,038,272)	(2,910,817)
Other receipts, net	<u>152,138</u>	<u>161,599</u>
Net cash used in operating activities	<u>(199,202)</u>	<u>(520,925)</u>
Noncapital Financing Activities		
Tax appropriations received	878,847	887,761
Contributions and grants received	18,940	37,149
Interest paid	<u>(5,331)</u>	<u>(2,402)</u>
Net cash provided by noncapital financing activities	<u>892,456</u>	<u>922,508</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(134,742)	(124,696)
Interest paid on long-term debt	(56,413)	(60,737)
Purchase of capital assets	<u>(13,218)</u>	<u>(7,612)</u>
Net cash used in capital and related financing activities	<u>(204,373)</u>	<u>(193,045)</u>
Investing Activities		
Interest income received	<u>6,373</u>	<u>11,546</u>
Increase in Cash	495,254	220,084
Cash, Beginning of Year	<u>541,813</u>	<u>321,729</u>
Cash, End of Year	<u>\$ 1,037,067</u>	<u>\$ 541,813</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 866,791	\$ 382,770
Cash in assets whose use is limited	<u>170,276</u>	<u>159,043</u>
Total cash	<u>\$ 1,037,067</u>	<u>\$ 541,813</u>

Hodgeman County Health Center
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Statements of Cash Flows (Continued)
Years Ended December 31, 2009 and 2008

	2009	2008
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Used in Operating Activities		
Operating loss	\$ (298,664)	\$ (720,072)
Depreciation	409,422	258,910
Amortization of bond costs	2,565	(770)
Loss on disposal of capital assets	4,983	23,813
Transfer from Hodgeman County - expenses	48,093	38,989
Changes in operating assets and liabilities		
Patient accounts receivable, net	(260,013)	113,985
Estimated amounts due from/to third-party payers	170,000	(177,918)
Accounts payable and accrued expenses	(265,549)	(45,231)
Supplies and prepaid expenses	(10,039)	(12,631)
	\$ (199,202)	\$ (520,925)
 Supplemental Cash Flows Information		
Transfers from County for facility improvements and equipment	\$ 3,931,103	\$ 1,660,034
Long-term debt incurred for capital assets	\$ 24,610	\$ 17,511

Hodgeman County Health Center
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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

Hodgeman County Health Center (Health Center) is located in Jetmore, Kansas. The Health Center is a component unit of Hodgeman County (County) and governed by a Board of Trustees appointed by the County Commissioners. The Health Center consists of a hospital, long-term care unit, clinic and independent living units (Bramley Place). The Health Center provides inpatient, outpatient and emergency care services to patients/residents in the Hodgeman County area.

Basis of Accounting and Presentation

The financial statements of the Health Center 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 Health Center 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 Health Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Government Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Health Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that 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.

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Intergovernmental Revenue

The Health Center received approximately 14% and 15% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2009 and 2008, respectively. One hundred percent of these funds were used to support operations in both years.

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 Health Center 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.

Patient Accounts Receivable

The Health Center reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Health Center 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 cost, determined using the first-in, first-out method.

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. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Health Center:

Land improvements	7 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

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Unamortized Bond Costs

Unamortized bond costs represent costs incurred in connection with the issuance of bonds. Such costs are being amortized over the term of the respective bonds using the interest method.

Compensated Absences

Health Center 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 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 Health Center 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 Health Center, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. 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 Health Center has agreements with third-party payers that provide for payments to the Health Center 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 Health Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Health Center 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 Health Center is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Health Center is subject to federal income tax on any unrelated business taxable income.

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: 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 Health Center'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, \$938,121 and \$363,288 of the Health Center's bank balances of \$1,213,646 and \$638,828 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 Health Center's name	<u>\$ 938,121</u>	<u>\$ 363,288</u>

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Summary of Carrying Values

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

	2009	2008
Carrying value		
Deposits	\$ 1,107,937	\$ 610,757
Petty cash	212	212
	\$ 1,108,149	\$ 610,969
Included in the following balance sheet captions		
Cash	\$ 866,791	\$ 382,770
Assets whose use is limited	241,358	228,199
	\$ 1,108,149	\$ 610,969

Note 3: Patient Accounts Receivable, Net/Net Patient Service Revenue

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

Medicare. The hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable costs subject to certain limitations. The Health Center is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicare administrative contractor. The Health Center is recognized as a Rural Health Clinic (RHC). Under RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement is determined in a similar manner as for hospital services.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Health Center is reimbursed at tentative rates with final settlements determined after submission of annual cost reports and reviews thereof by the Kansas Health Policy Authority (KHPA). The Health Center is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

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Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. Reimbursement is 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 39% and 44% of net patient service revenues are 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 Health Center has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Health Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Patient accounts receivable are recorded net of an allowance for uncollectible accounts and an allowance for contractual adjustments at December 31, 2009 and 2008, as follows:

	2009	2008
Patient accounts receivable, gross	\$ 1,497,246	\$ 1,026,760
Allowance for uncollectible accounts	(318,891)	(187,469)
Allowance for contractual adjustments	(267,482)	(188,431)
Patient accounts receivable, net	<u>\$ 910,873</u>	<u>\$ 650,860</u>

Net patient service revenue for the year ended December 31 is as follows:

	2009	2008
Gross patient service revenue	\$ 7,851,183	\$ 6,540,188
Contractual adjustments	(2,384,077)	(1,601,013)
Provision for uncollectible accounts	(234,362)	(264,578)
Administrative adjustments	(18,728)	(7,710)
Charity care	(8,071)	(8,399)
Net patient service revenue	<u>\$ 5,205,945</u>	<u>\$ 4,658,488</u>

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Notes to Financial Statements
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Note 4: Capital Assets

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

	2009			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 70,889	\$ -	\$ -	\$ 70,889
Buildings	3,656,440	3,529,965	-	7,186,405
Fixed equipment	744,922	159,848	(7,690)	897,080
Major moveable equipment	1,066,342	279,118	(137,788)	1,207,672
	<u>5,538,593</u>	<u>3,968,931</u>	<u>(145,478)</u>	<u>9,362,046</u>
Less accumulated depreciation				
Land improvements	31,776	3,560	-	35,336
Buildings	1,473,619	207,924	-	1,681,543
Fixed equipment	367,700	82,577	(3,333)	446,944
Major moveable equipment	700,390	115,361	(137,162)	678,589
	<u>2,573,485</u>	<u>409,422</u>	<u>(140,495)</u>	<u>2,842,412</u>
Capital assets, net	<u>\$ 2,965,108</u>	<u>\$ 3,559,509</u>	<u>\$ (4,983)</u>	<u>\$ 6,519,634</u>
	2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 53,378	\$ 17,511	\$ -	\$ 70,889
Buildings	2,297,399	1,360,583	(1,542)	3,656,440
Fixed equipment	781,316	25,351	(61,745)	744,922
Major moveable equipment	1,027,110	281,712	(242,480)	1,066,342
	<u>4,159,203</u>	<u>1,685,157</u>	<u>(305,767)</u>	<u>5,538,593</u>
Less accumulated depreciation				
Land improvements	28,416	3,360	-	31,776
Buildings	1,390,598	84,360	(1,339)	1,473,619
Fixed equipment	350,678	75,807	(58,785)	367,700
Major moveable equipment	826,837	95,383	(221,830)	700,390
	<u>2,596,529</u>	<u>258,910</u>	<u>(281,954)</u>	<u>2,573,485</u>
Capital assets, net	<u>\$ 1,562,674</u>	<u>\$ 1,426,247</u>	<u>\$ (23,813)</u>	<u>\$ 2,965,108</u>

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Notes to Financial Statements

December 31, 2009 and 2008

Note 5: Medical Malpractice Coverage and Claims

The Health Center 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 \$800,000 of 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 Health Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 6: Long-term Debt

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

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 755,000	\$ -	\$ 50,000	\$ 705,000	\$ 55,000
Note payable - city	16,118	-	3,392	12,726	3,461
Installment purchase agreement	8,985	-	8,985	-	-
Capital lease obligations	261,605	24,610	72,365	213,850	78,187
Total long-term debt	<u>\$ 1,041,708</u>	<u>\$ 24,610</u>	<u>\$ 134,742</u>	<u>\$ 931,576</u>	<u>\$ 136,648</u>
	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 805,000	\$ -	\$ 50,000	\$ 755,000	\$ 50,000
Note payable - bank	2,219	-	2,219	-	-
Note payable - city	-	17,511	1,393	16,118	3,392
Installment purchase agreement	17,970	-	8,985	8,985	8,985
Capital lease obligations	323,704	-	62,099	261,605	65,965
Total long-term debt	<u>\$ 1,148,893</u>	<u>\$ 17,511</u>	<u>\$ 124,696</u>	<u>\$ 1,041,708</u>	<u>\$ 128,342</u>

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Revenue Bonds Payable

Revenue bonds payable consist of Limited Care Residential Facility Revenue Bonds (Bonds) in the original amount of \$1,100,000 dated March 1, 1999, with remaining interest rates of 5.5% and 5.7%. The Bonds are payable in annual installments of principal and interest through March 1, 2019. The Bonds are payable solely from the net revenues of the Health Center and assets restricted under the bond indenture agreement. The Bonds do not constitute a general obligation of the County.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2010	\$ 93,063	\$ 55,000	\$ 38,063
2011	90,037	55,000	35,037
2012	91,875	60,000	31,875
2013	93,438	65,000	28,438
2014	94,725	70,000	24,725
2015 - 2019	<u>459,850</u>	<u>400,000</u>	<u>59,850</u>
	<u>\$ 922,988</u>	<u>\$ 705,000</u>	<u>\$ 217,988</u>

Assets whose use is limited under bond indenture consist of cash and certificates of deposit relative to the Bonds at December 31 are summarized as follows:

	2009	2008
Principal and interest fund	\$ 76,104	\$ 69,869
Bond reserve fund	115,312	113,101
Depreciation replacement fund	<u>49,942</u>	<u>45,229</u>
	241,358	228,199
Less current portion	<u>76,104</u>	<u>69,869</u>
	<u>\$ 165,254</u>	<u>\$ 158,330</u>

Note Payable – City

The note payable – city consists of an agreement with the city of Jetmore due July 2013, with monthly payments of \$307 including interest at 2%.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2010	\$ 3,683	\$ 3,461	\$ 222
2011	3,683	3,530	153
2012	3,683	3,602	81
2013	2,148	2,133	15
	<u>\$ 13,197</u>	<u>\$ 12,726</u>	<u>\$ 471</u>

Capital Lease Obligations

The Health Center is obligated under leases for equipment that are accounted for as capital leases. At the end of the lease terms, the leased assets become the assets of the Health Center. Assets under capital leases at December 31, 2009 and 2008, totaled \$190,441 and \$233,175, respectively, net of accumulated depreciation of \$264,107 and \$196,253, respectively. The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates approximating 6% together with the present value of the future minimum lease payments as of December 31, 2009:

Year Ending December 31,	
2010	\$ 89,021
2011	89,021
2012	54,078
Total minimum lease payments	<u>232,120</u>
Less amount representing interest	<u>18,270</u>
Present value of future minimum lease payments	<u>\$ 213,850</u>

Note 7: Defined Contribution Plan

The Health Center contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Health Center's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Board of Trustees. The plan provides retirement and death 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 Health Center's governing body. Contribution rates for plan members and the Health Center expressed as a percentage of covered payroll were 3% and 4%, respectively, for both 2009 and 2008. Contributions actually made by plan members and the Health Center aggregated \$86,908 and \$48,060 during 2009 and \$92,020 and \$48,386 during 2008, respectively.

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Note 8: Transfers From County

General Obligation Hospital Bonds (Bonds) were issued by the County to finance certain renovations to the existing Health Center facility. Construction began in August 2007 and was substantially completed as of March 2009. The Bonds, proceeds of which totaled \$5,800,000, are the responsibility of the County and, accordingly, have not been reflected in these financial statements.

The long-term care facility portion of the project was completed in August 2008. Accordingly, the cost of the improvements were recorded in the Health Center's 2008 financial statements as a transfer from the County. The acute care portion of the project was completed in March 2009 and has been recorded in the Health Center's 2009 financial statements as a transfer from the County.

The transfers from the County for the years ended December 31, 2009 and 2008, consisted of the following:

	2009	2008
Facility improvements (includes capitalized interest and bond cost amortization of \$167,312 and \$32,095 in 2009 and 2008, respectively)	\$ 3,529,965	\$ 1,360,583
Capitalized equipment	401,138	299,451
Project disbursements expensed	48,093	38,989
Prepaid expenses	9,541	11,000
	<u>\$ 3,988,737</u>	<u>\$ 1,710,023</u>

Note 9: Concentration of Credit Risk

The Health Center grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of gross accounts receivable from patients and third-party payers at December 31 for the Health Center is as follows:

	2009	2008
Medicare	23%	38%
Medicaid	7%	5%
Blue Cross Blue Shield	14%	10%
Other third-party payers	23%	18%
Private insurance	33%	29%
	<u>100%</u>	<u>100%</u>

Hodgeman County Health Center
A Component Unit of Hodgeman County, Kansas
Notes to Financial Statements
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Note 10: Current Economic Conditions

The current protracted economic environment presents health care providers with difficult 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 Health Center.

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 Health Center'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 Health Center's ability to maintain sufficient liquidity.

Note 11: Subsequent Events

Medicaid Rate Cuts

On December 17, 2009, the 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. Subsequent changes to the State budget will remove the rate cut for services provided on or after July 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 Health Center of the health care reform is not presently determinable.