

Kiowa Hospital District

Accountants' Report and Financial Statements

December 31, 2009 and 2008



Kiowa Hospital District
December 31, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Kiowa Hospital District
Kiowa, Kansas

We have audited the accompanying balance sheets of Kiowa Hospital District 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 District'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 Kiowa Hospital District as of December 31, 2009 and 2008, and the changes in its financial position and its 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 District'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 audits 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

May 10, 2010

Kiowa Hospital District

Management's Discussion and Analysis

Years Ended December 31, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Kiowa Hospital District (the District) provides an overview of the District's financial activities for the years ended December 31, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and cash equivalents and short-term certificates of deposit decreased in 2009 by \$347,078 or 57% and decreased in 2008 by \$322,998 or 35%.
- The District's net assets decreased in 2009 by \$281,779 or 15% and decreased in 2008 by \$162,523 or 8%.
- The District reported operating losses in both 2009 (\$781,775) and 2008 (\$703,231). The operating loss in 2009 increased by \$78,544 or 11% over 2008 and increased by \$267,084 or 61% in 2008 over 2007.
- Net nonoperating revenues decreased by \$40,712 or 8% in 2009 compared to 2008, and decreased by \$15,125 or 3% in 2008 compared to 2007.

Using This Annual Report

The District'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 District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements 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 District's finances is "Is the District 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 District'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 District's net assets and changes in them. The District's total net assets – the difference between assets and liabilities – is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District'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 District.

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 District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the balance sheet. The District's net assets decreased by \$281,818 or (15%) in 2009 over 2008 and decreased by \$162,523 (8%) in 2008 over 2007, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 345,997	\$ 403,447	\$ 556,086
Cash and cash equivalents and short-term certificate of deposit	263,889	610,967	933,965
Other current assets	1,160,534	871,486	639,703
Capital assets, net	876,697	1,001,320	931,432
Other noncurrent assets	31,151	32,972	34,793
Total assets	<u>\$ 2,678,268</u>	<u>\$ 2,920,192</u>	<u>\$ 3,095,979</u>
Liabilities			
Long-term debt	\$ 130,000	\$ 217,431	\$ 209,188
Current liabilities	933,220	805,934	827,441
Total liabilities	<u>1,063,220</u>	<u>1,023,365</u>	<u>1,036,629</u>
Net Assets			
Invested in capital assets, net of related debt	713,981	742,729	687,923
Unrestricted	901,067	1,154,098	1,371,427
Total net assets	<u>1,615,048</u>	<u>1,896,827</u>	<u>2,059,350</u>
Total liabilities and net assets	<u>\$ 2,678,268</u>	<u>\$ 2,920,192</u>	<u>\$ 3,095,979</u>

The District experienced an operating loss of \$781,814 for 2009, with nonoperating revenue of \$499,996 that resulted in a decrease in net assets of \$281,818. Further, the increased operating expenses incurred by the District in 2009, as well as the decreased usage of the Hospital and Clinic by Medicare patients, resulted in an underpayment of costs by Medicare, a primary payer of the District. This underpayment results in a current receivable from Medicare of approximately \$280,000 at the end of 2009.

Operating Results and Changes in the District's Net Assets

In 2009, the District's net assets decreased by \$281,779 or 15%, as shown in Table 2. This decrease is made up of several different components and represents a decrease of 73% compared with the decrease in net assets for 2008 of \$162,523.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	\$ 4,303,946	\$ 4,122,065	\$ 3,823,530
Other operating revenues	43,266	73,771	30,005
Total operating revenues	4,347,212	4,195,836	3,853,535
Operating Expenses			
Salaries and wages and employee benefits	2,938,796	2,639,496	2,475,552
Purchased services and professional fees	789,766	925,192	690,540
Depreciation and amortization	143,297	142,569	124,268
Other operating expenses	1,257,128	1,191,810	999,322
Total operating expenses	5,128,987	4,899,067	4,289,682
Operating Loss	(781,775)	(703,231)	(436,147)
Nonoperating Revenues (Expenses)			
Property and sales taxes	495,543	523,076	523,034
Interest income	7,199	17,619	43,503
Interest expense	(12,736)	(11,953)	(15,489)
Noncapital grants and gifts	9,990	11,966	4,785
Total nonoperating revenues	499,996	540,708	555,833
Increase (Decrease) in Net Assets	\$ (281,779)	\$ (162,523)	\$ 119,686

Operating Losses

The first component of the overall change in the District'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. In each of the past two years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Kiowa and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2009 increased by \$78,544 or 11% as compared to 2008 and increased in 2008 by \$267,084 or 61% as compared to 2007. The primary components of the operating losses are:

- An increase in total operating revenue of \$151,376 or 4% in 2009 over 2008 and an increase of \$342,301 or 9% in 2008 over 2007.
- A decrease in purchased services and professional fees of \$135,426 or 15% in 2009 over 2008 and an increase of \$234,652 or 34% in 2008 over 2007.
- An increase in salaries and wages and employee benefits expense of \$299,300 or 11% in 2009 over 2008 and an increase of \$163,944 or 7% in 2008 over 2007.

The increase in total operating revenues in 2009 as compared to 2008 relates to increases in Medicare payments as costs increased. An increase in room rates also took place in April 2009.

Purchased services and professional fees decreased in 2009 as compared to 2008 in part because the Manor was able to decrease some agency usage by hiring and retaining staff. Contracted agency costs decreased by \$151,033 in 2009 over 2008 and increased by \$206,580 in 2008 over 2007.

The increase in salaries, wages and employee benefits is attributable to replacing contract labor with nursing staff and wage increases among the different levels of staff, helping to bring wages in line with the KHA Survey results.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, sales tax, noncapital gifts and interest expense. A sales tax of 1% was approved by the voters in the city of Kiowa for the District through 2008. Property and sales tax revenues of \$495,543 were recorded by the District in 2009.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2009, 2008 and 2007, discussed earlier, with two exceptions. Cash provided by the collections of accounts receivable was improved in 2009 and 2008 as compared to down in 2007 due to changes in payment rates from Medicare.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the District had \$876,697 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2009, the District purchased capital assets (primarily new equipment) costing \$113,411.

Debt

At December 31, 2009, the District had \$170,000 in certificates of participation. The District's formal debt issuances, certificates of participation, are subject to limitations imposed by state law.

Other Economic Factors

The decrease of one mid-level staff had a modest impact on patient volumes from 2009 and 2008 compared to 2007.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District business administration by telephoning 620.825.4131.

Kiowa Hospital District
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 263,889	\$ 498,677
Short-term certificate of deposit	-	112,290
Patient accounts receivable, net of allowance; 2009 - \$436,000, 2008 - \$385,000	345,997	403,447
Estimated amounts due from third-party payers	300,000	138,000
Property and sales taxes receivable	612,657	473,797
Supplies	185,356	199,671
Prepaid expenses and other	62,521	60,018
Total current assets	1,770,420	1,885,900
Capital Assets, Net	876,697	1,001,320
Other Assets		
Land held for investment	23,867	23,867
Debt issuance costs, net of amortization	7,284	9,105
	31,151	32,972
Total assets	\$ 2,678,268	\$ 2,920,192
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 40,000	\$ 50,265
Accounts payable	117,874	156,037
Accrued expenses	162,689	143,734
Deferred tax revenue	612,657	455,898
Total current liabilities	933,220	805,934
Long-term Debt	130,000	217,431
Total liabilities	1,063,220	1,023,365
Net Assets		
Invested in capital assets, net of related debt	713,981	742,729
Unrestricted	901,067	1,154,098
Total net assets	1,615,048	1,896,827
Total liabilities and net assets	\$ 2,678,268	\$ 2,920,192

Kiowa Hospital District
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2009 and 2008

	2009	2008
Operating Revenues		
Net patient service revenues, net of provision for uncollectible accounts; 2009 - \$118,837, 2008 - \$129,249	\$ 4,303,946	\$ 4,122,065
Other	43,266	73,771
Total operating revenues	4,347,212	4,195,836
Operating Expenses		
Salaries and wages	2,576,926	2,350,170
Employee benefits	361,870	289,326
Purchased services and professional fees	789,766	925,192
Supplies and other	645,386	602,614
Drugs	184,828	208,167
Food	79,286	83,845
Insurance	80,656	76,820
Utilities and telephone	114,919	130,852
Repairs and maintenance	64,994	89,512
Depreciation and amortization	143,297	142,569
Loss on disposal of fixed assets	87,059	-
Total operating expenses	5,128,987	4,899,067
Operating Loss	(781,775)	(703,231)
Nonoperating Revenues (Expenses)		
Property and sales taxes	495,543	523,076
Interest income	7,199	17,619
Interest expense	(12,736)	(11,953)
Noncapital grants and gifts	9,990	11,966
Total nonoperating revenues	499,996	540,708
Decrease in Net Assets	(281,779)	(162,523)
Net Assets, Beginning of Year	1,896,827	2,059,350
Net Assets, End of Year	\$ 1,615,048	\$ 1,896,827

Kiowa Hospital District
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	\$ 4,199,396	\$ 4,086,704
Payments to suppliers and contractors	(2,079,293)	(2,086,018)
Payments to employees	(2,920,008)	(2,738,537)
Other receipts, net	<u>137,824</u>	<u>73,811</u>
Net cash used in operating activities	<u>(662,081)</u>	<u>(664,040)</u>
Noncapital Financing Activities		
Property and sales taxes supporting operations	513,442	519,542
Noncapital grants and gifts	<u>9,990</u>	<u>11,966</u>
Net cash provided by noncapital financing activities	<u>523,432</u>	<u>531,508</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(97,696)	(46,097)
Interest paid on long-term debt obligations	(12,569)	(10,669)
Purchase of capital assets	<u>(107,363)</u>	<u>(151,319)</u>
Net cash used in capital and related financing activities	<u>(217,628)</u>	<u>(208,085)</u>
Investing Activities		
Interest income	7,199	17,619
Proceeds from sale of fixed assets	2,000	-
Purchase of short-term certificate of deposit	-	(112,290)
Maturity of short-term certificate of deposit	<u>112,290</u>	<u>107,704</u>
Net cash provided by investing activities	<u>121,489</u>	<u>13,033</u>
Decrease in Cash and Cash Equivalents	(234,788)	(327,584)
Cash and Cash Equivalents, Beginning of Year	<u>498,677</u>	<u>826,261</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 263,889</u></u>	<u><u>\$ 498,677</u></u>

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

	2009	2008
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used In) Operating Activities		
Operating loss	\$ (781,775)	\$ (703,231)
Depreciation	141,476	140,749
Amortization of debt issue costs	1,821	1,821
Loss on disposal of capital assets	87,058	40
Changes in operating assets and liabilities		
Patient accounts receivable, net	57,450	152,639
Estimated amounts due from and to third-party payers	(162,000)	(188,000)
Supplies and prepaid expenses	19,312	(11,387)
Accounts payable and accrued expenses	(25,423)	(56,671)
Net cash used in operating activities	\$ (662,081)	\$ (664,040)
Supplemental Cash Flows Information		
Capital lease incurred for fixed assets	\$ -	\$ 59,358
Capital assets included in accounts payable	\$ 6,048	\$ -

Kiowa Hospital District
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

Kiowa Hospital District (the District) was organized to provide acute health care services for the benefit of the community members, primarily in Barber County, Kansas. The District's facilities are operated by a Board of Directors elected by the qualified voters of the District. The Hospital Division (Hospital) primarily earns revenues by providing inpatient and outpatient services to residents of Barber County, Kansas, and the surrounding communities. In addition, residential long-term care services are provided under a separate license by the Manor Division (Manor) of the District's operations.

Basis of Accounting and Presentation

The financial statements of the District 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 sales taxes), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District 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 District 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 District 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.

Kiowa Hospital District

Notes to Financial Statements

December 31, 2009 and 2008

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2009 and 2008, cash equivalents consisted primarily of certificates of deposit with original maturities of 92 days or less.

Property and Sales Taxes

The District received approximately 11% of its financial support in both 2009 and 2008 from the proceeds of property and sales taxes. One hundred percent (100%) of these funds were used to support operations in both years.

Property taxes are assessed in November and are received beginning in January of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Sales tax revenue is recognized based on sales taxes collected by the city of Kiowa's retailers in the District's accounting period. The sales tax levy for the benefit of the District ended on December 31, 2008.

Risk Management

The District 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 other than workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District 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.

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Capital Assets

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

Land improvements	5 – 40 years
Buildings	5 – 56 years
Fixed equipment	3 – 43 years
Major moveable equipment	3 – 15 years

Compensated Absences

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

Net Assets

Net assets of the District 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 Revenues

The District has agreements with third-party payers that provide for payments to the District 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.

Kiowa Hospital District

Notes to Financial Statements

December 31, 2009 and 2008

Charity Care

The District provides care at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District 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 entity, the District 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 District 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.

Subsequent Events

Subsequent events have been evaluated through May 10, 2010, which is the date the financial statements were available to be issued.

Note 2: Net Patient Service Revenues

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

Medicare. The District 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 cost subject to certain limitations. The District is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

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. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The District and Rural Health Clinic are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the District and reviews thereof by the Kansas Health Policy Authority. The District is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The District 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 63% and 64% of net patient service revenue is 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 District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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 District'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, \$0 and \$339,373 of the District's bank balances of \$332,010 and \$689,298 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 District's name	\$ -	\$ 339,373

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

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	\$ 263,889	\$ 610,967
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 263,889	\$ 498,677
Short-term certificate of deposit	-	112,290
	<u>\$ 263,889</u>	<u>\$ 610,967</u>

Note 4: Patient Accounts Receivable

The District 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	\$ 160,637	\$ 185,735
Medicaid	52,696	39,461
Blue Cross	39,107	59,031
Other third-party payers	61,061	76,771
Patients	468,496	427,449
	<u>781,997</u>	<u>788,447</u>
Less allowance for uncollectible accounts	436,000	385,000
	<u>\$ 345,997</u>	<u>\$ 403,447</u>

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Note 5: Capital Assets

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

	2009				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 26,668	\$ -	\$ -	\$ -	\$ 26,668
Land improvements	52,492	-	-	-	52,492
Buildings	1,031,113	-	-	-	1,031,113
Fixed equipment	429,638	15,497	-	-	445,135
Major moveable equipment	1,471,493	80,609	(63,028)	-	1,489,074
Construction in progress	33,820	17,305	(51,125)	-	-
	<u>3,045,224</u>	<u>113,411</u>	<u>(114,153)</u>	<u>-</u>	<u>3,044,482</u>
Less accumulated depreciation					
Land improvements	43,485	1,004	-	-	44,489
Buildings	654,396	30,081	-	-	684,477
Fixed equipment	290,942	14,414	-	-	305,356
Major moveable equipment	1,055,081	95,977	(17,595)	-	1,133,463
	<u>2,043,904</u>	<u>141,476</u>	<u>(17,595)</u>	<u>-</u>	<u>2,167,785</u>
Capital Assets, Net	<u>\$ 1,001,320</u>	<u>\$ (28,065)</u>	<u>\$ (96,558)</u>	<u>\$ -</u>	<u>\$ 876,697</u>

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

	2008				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 26,668	\$ -	\$ -	\$ -	\$ 26,668
Land improvements	52,492	-	-	-	52,492
Buildings	972,938	55,187	(148)	3,136	1,031,113
Fixed equipment	429,638	-	-	-	429,638
Major moveable equipment	1,350,423	121,670	(600)	-	1,471,493
Construction in progress	3,136	33,820	-	(3,136)	33,820
	<u>2,835,295</u>	<u>210,677</u>	<u>(748)</u>	<u>-</u>	<u>3,045,224</u>
Less accumulated depreciation					
Land improvements	42,481	1,004	-	-	43,485
Buildings	627,585	26,919	(108)	-	654,396
Fixed equipment	273,145	17,797	-	-	290,942
Major moveable equipment	960,652	95,029	(600)	-	1,055,081
	<u>1,903,863</u>	<u>140,749</u>	<u>(708)</u>	<u>-</u>	<u>2,043,904</u>
Capital Assets, Net	<u>\$ 931,432</u>	<u>\$ 69,928</u>	<u>\$ (40)</u>	<u>\$ -</u>	<u>\$1,001,320</u>

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2009 and 2008, consisted of:

	2009	2008
Payable to suppliers and contractors	\$ 117,874	\$ 156,037
Payable to or on behalf of employees (including payroll taxes and benefits)	162,689	143,734
Deferred tax revenues	612,657	455,898
	<u>\$ 893,220</u>	<u>\$ 755,669</u>

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Note 7: Medical Malpractice Coverage and Claims

The District 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 District'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: Long-term Debt

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

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of participation	\$ 205,000	\$ -	\$ 35,000	\$ 170,000	\$ 40,000
Capital lease obligations	62,696	-	62,696	-	-
Total long-term debt	\$ 267,696	\$ -	\$ 97,696	\$ 170,000	\$ 40,000
	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Certificates of participation	\$ 240,000	\$ -	\$ 35,000	\$ 205,000	\$ 35,000
Capital lease obligations	14,435	59,358	11,097	62,696	15,265
Total long-term debt	\$ 254,435	\$ 59,358	\$ 46,097	\$ 267,696	\$ 50,265

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Certificates of Participation

In 1998, the District issued Certificates of Participation (COP) to finance the acquisition of the Manor and to provide funds for the improvement of the Manor building. Under the terms of the COP, the District leases the property from Bank of New York, St. Louis, Missouri. The lease agreement between the District and Bank of New York requires the District to make the lease payments to Bank of New York as a trustee who is responsible to maintain specific principal and interest accounts. The actual principal and interest payments are made to the certificate holders by the trustee from the principal and interest accounts. Upon retirement of all the certificates, the District will own the leased property. Accordingly, the leased property and COP indebtedness have been included in the financial statements as assets and liabilities of the District. The COP is secured by substantially all of the Manor's assets. Interest rates vary from 4.90% to 5.15%; principal is due annually in increasing amounts on November 15, with final certificates maturing November 15, 2013.

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

Year Ending December 31,	Total to be Paid	Principal	Interest
2010	\$ 48,633	\$ 40,000	\$ 8,633
2011	46,633	40,000	6,633
2012	49,613	45,000	4,613
2013	47,318	45,000	2,318
	<u>\$ 192,197</u>	<u>\$ 170,000</u>	<u>\$ 22,197</u>

Note 9: Pension Plan

The District is the trustee of a 457(b) deferred compensation plan covering substantially all employees. Plan contributions are made by participating employees. The plan provides retirement benefits to plan members and their beneficiaries. Benefit provisions and contribution requirements are contained in the plan document and were established and can be amended by action of the District's governing body. Employer contributions to the plan were \$101,039 and \$90,926 for the years ended December 31, 2009 and 2008, respectively. The fair market value of employee investments at December 31, 2009 and 2008, was \$300,086 and \$177,031, respectively. These amounts are not reported as assets or liabilities of the District.

Kiowa Hospital District
Notes to Financial Statements
December 31, 2009 and 2008

Note 10: Significant Estimates and Concentrations

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 District.

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 District'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 District's ability to maintain sufficient liquidity.

Note 11: 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 District of the health care reform is not presently determinable.

Supplementary Information

Kiowa Hospital District
Net Patient Service Revenues
Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Hospital Revenues		
Inpatient	\$ 638,169	\$ 758,292
Outpatient	1,973,750	1,886,729
Clinic Revenues	511,448	537,953
Long-term Care Facility Revenues	<u>1,575,187</u>	<u>1,468,555</u>
Subtotal	4,698,554	4,651,529
Less Contractual Adjustments	275,771	400,215
Less Provision for Uncollectible Accounts	<u>118,837</u>	<u>129,249</u>
Net Patient Service Revenues	<u><u>\$ 4,303,946</u></u>	<u><u>\$ 4,122,065</u></u>

Kiowa Hospital District
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Year Ended December 31, 2009

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenues	\$ 4,199,396	\$ 3,671,574	\$ 527,822
Revenue bond proceeds	-	5,000,000	(5,000,000)
Other revenue	43,266	27,040	16,226
Total revenue	<u>4,242,662</u>	<u>8,698,614</u>	<u>(4,455,952)</u>
Operating expenses	5,128,946	9,820,462	(4,691,516)
Interest paid	12,569	-	12,569
Operating expenses	<u>5,141,515</u>	<u>9,820,462</u>	<u>(4,678,947)</u>
Operating loss	<u>(898,853)</u>	<u>(1,121,848)</u>	<u>222,995</u>
Property and sales tax revenue	495,543	483,961	11,582
Other nonoperating revenues	17,189	17,681	(492)
Total nonoperating revenues	<u>512,732</u>	<u>501,642</u>	<u>11,090</u>
Decrease of revenues over expenses	<u>\$ (386,121)</u>	<u>\$ (620,206)</u>	<u>\$ 234,085</u>

Note: The above schedule reflects a comparison of current year operations and the tax budget.