

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
LOGAN COUNTY HOSPITAL
DECEMBER 31, 2009 AND 2008

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LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
Years ended December 31, 2009 and 2008

Our discussion and analysis of the financial performance of Logan County Hospital provides a narrative overview of the Hospital's financial activities for the years ended December 31, 2009 and 2008. Please read it in conjunction with the accompanying basic financial statements.

Financial highlights

The Hospital's net assets decreased during 2009 and increased during 2008 with a \$147,573 or 4.2 percent decrease in 2009 and a \$234,593 or 7.1 percent increase in 2008.

The Hospital reported operating losses of \$451,588 and \$143,369 for 2009 and 2008, respectively.

Using these financial statements

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by or for the benefit of the Hospital, and resources restricted for specific purposes by contributors, grantors, and other outside parties.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's net assets - the difference between assets and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Assets, liabilities, and net assets

The Hospital's balance sheets as of the end of each of the last three years are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets			
Current assets	\$ 2,032,891	\$ 2,088,832	\$ 1,966,476
Assets limited as to use	1,175,094	1,305,742	942,957
Capital assets, net	1,759,248	2,102,223	1,914,155
Other assets	<u>41,638</u>	<u>45,000</u>	<u>43,800</u>
 Total assets	 <u>\$ 5,008,871</u>	 <u>\$ 5,541,797</u>	 <u>\$ 4,867,388</u>
 Liabilities			
Current liabilities	\$ 962,897	\$ 1,192,479	\$ 938,629
Long-term obligations	<u>677,280</u>	<u>833,051</u>	<u>647,085</u>
 Total liabilities	 <u>\$ 1,640,177</u>	 <u>\$ 2,025,530</u>	 <u>\$ 1,585,714</u>
 Net assets	 <u>\$ 3,368,694</u>	 <u>\$ 3,516,267</u>	 <u>\$ 3,281,674</u>

In aggregate, the Hospital's unrestricted cash and invested cash (including limited use assets held by the Board of Trustees) total \$1,183,784 and \$1,691,251 as of December 31, 2009 and 2008, respectively. These represent 52 days and 80 days, respectively, of average cash expenses during each of the years then ended. The median value for similar hospitals is 76 days.

The Hospital's net patient accounts receivable were 69 percent of current assets as of December 31, 2009, 70 percent as of December 31, 2008, and 60 percent as of December 31, 2007. The average number of days of net patient revenue represented by them was 64 days, 70 days, and 64 days as of December 31, 2009, 2008, and 2007, respectively. The median value for similar hospitals is 60 days.

At the end of 2009, the Hospital has \$1,759,248 invested in capital assets, net of accumulated depreciation. This is \$342,975 less than at the end of 2008. The value of new capital assets placed in service totaled \$28,245, \$576,942, and \$909,959 during 2009, 2008, and 2007, respectively.

The Hospital financed \$375,000 and \$218,814 of equipment acquisitions with capital lease obligations during 2008 and 2007, respectively. It also entered into an agreement with Logan County during 2007 to finance \$572,624 of improvements to Logan County Manor.

The Hospital's net assets decreased during 2009 and increased during 2008 (a decrease of \$147,573 or 4.2 percent during 2009 and an increase of \$234,593 or 7.1 percent during 2008). The percentage of total assets financed with net assets, or equity, was 67.3 percent, 63.4 percent, and 67.4 percent as of December 31, 2009, 2008, and 2007, respectively.

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

Operating results and changes in net assets

The Hospital's operating results and changes in net assets for each of the last three years are summarized as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 8,175,827	\$ 7,977,961	\$ 7,024,557
Operating expenses	<u>8,627,415</u>	<u>8,121,330</u>	<u>7,305,352</u>
Operating loss	(451,588)	(143,369)	(280,795)
Interest expense	(44,053)	(50,936)	(3,680)
County tax proceeds	270,000	270,000	270,000
Other nonoperating revenues	66,193	83,735	79,297
Capital grants and contributions	<u>11,875</u>	<u>75,163</u>	<u>34,965</u>
Change in net assets	<u>\$ (147,573)</u>	<u>\$ 234,593</u>	<u>\$ 99,787</u>

The first, and most significant, component of the overall change in the Hospital's net assets is its operating income or loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services.

Gross and net patient service revenue for the past three years are analyzed as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Inpatient services	\$ 3,526,566	\$ 3,648,359	\$ 3,112,056
Nursing facility services	1,822,198	1,832,310	1,642,269
Outpatient services	<u>5,564,383</u>	<u>5,210,903</u>	<u>4,389,611</u>
Gross patient service revenue	10,913,147	10,691,572	9,143,936
Contractual adjustments	(3,063,713)	(3,038,646)	(2,421,191)
Medicaid DSH payments	269,790	295,424	213,796
Provision for bad debts	<u>(284,900)</u>	<u>(323,958)</u>	<u>(234,827)</u>
Net patient service revenue	<u>\$ 7,834,324</u>	<u>\$ 7,624,392</u>	<u>\$ 6,701,714</u>

Gross revenues from inpatient services decreased 3.3 percent and increased 17.2 percent during 2009 and 2008, respectively. Total patient days decreased 8.4 percent during 2009 and increased by 19.6 percent during 2008. Charge rate increases accounted for much of the rest of the variation in gross revenues from inpatient services during each of those years. Gross revenues from nursing facility services rendered at the Logan County Manor decreased .6 percent and

LOGAN COUNTY HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS - CONTINUED
Years ended December 31, 2009 and 2008

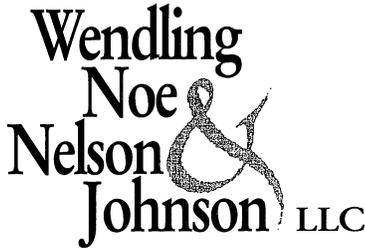
increased 11.6 percent during 2009 and 2008, respectively. Those changes were driven by changes in the numbers of residents and by increases in charge rates. The resident days at the Manor decreased by 3.3 percent during 2009 and increased by 7.6 percent during 2008. Average charge rates increased by 3.3 percent and 4.4 percent during 2009 and 2008, respectively. Substantial gains occurred for revenues from outpatient services (6.8 percent and 18.7 percent during 2009 and 2008, respectively) as a result of more outpatient volume and price increases.

The Hospital has agreements with various third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. These differences are referred to as contractual adjustments. As a percentage of gross patient service revenue they were 25.6 percent, 25.7 percent, and 24.1 percent during 2009, 2008, and 2007, respectively. These values are below those for similar hospitals (the median value is 31.2 percent) because only minimal adjustments are incurred for nursing facility services and those services account for approximately one-sixth of the Hospital's gross revenues. The Hospital's contractual adjustments for hospital services only were 30.4 percent and 31.7 percent of gross revenue during 2009 and 2008, respectively.

The provision for bad debts represented 2.6 percent, 3.0 percent, and 2.6 percent of gross patient service revenue during 2009, 2008, and 2007, respectively. The Hospital's bad debt percentages are well below those for similar hospitals.

Employee salaries and wages increased by \$222,085 or 5.7 percent during 2009 and by \$210,078 or 5.5 percent during 2008. These changes are functions of changes in numbers of employees and in pay rates. Total full-time equivalent employees increased by 1.7 percent and 1.8 percent during 2009 and 2008, respectively. Average pay rates increased by 3.9 percent and 3.6 percent during 2009 and 2008, respectively.

Supplies and other expenses increased by \$181,678 or 6.0 percent during 2009 and by \$379,640 or 14.4 percent during 2008. The changes for both years are consistent with the patient volume gains and losses experienced by the Hospital combined with the general rate of health care inflation.



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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Logan County Hospital

We have audited the accompanying balance sheets of Logan County Hospital 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. 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 Logan County Hospital, as of December 31, 2009 and 2008, and the results of its operations, changes in its net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 1 through 4 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.


Topeka, Kansas
March 31, 2010

FINANCIAL STATEMENTS

LOGAN COUNTY HOSPITAL
BALANCE SHEETS
December 31,

ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT ASSETS		
Cash	\$ 8,690	\$ 385,509
Patient accounts receivable	1,405,630	1,467,450
County tax proceeds receivable	5,427	8,395
Estimated third-party payor settlements	315,402	
Inventories	200,235	176,704
Prepaid expenses	<u>97,507</u>	<u>50,774</u>
Total current assets	2,032,891	2,088,832
ASSETS LIMITED AS TO USE		
Held by Board of Trustees	1,175,094	1,305,742
CAPITAL ASSETS - NET		
	1,759,248	2,102,223
OTHER ASSETS		
Advances to medical students	<u>41,638</u>	<u>45,000</u>
	<u>\$ 5,008,871</u>	<u>\$ 5,541,797</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS

	<u>2009</u>	<u>2008</u>
CURRENT LIABILITIES		
Current maturities of long-term obligations	\$ 155,771	\$ 169,332
Accounts payable	222,922	280,234
Accrued salaries, wages, and benefits	135,266	253,677
Estimated third-party payor settlements		57,094
Deferred revenue	45,937	61,514
Accrued compensated absences	391,273	358,395
Accrued interest payable	<u>11,728</u>	<u>12,233</u>
Total current liabilities	<u>962,897</u>	<u>1,192,479</u>
LONG-TERM OBLIGATIONS, less current maturities		
	<u>677,280</u>	<u>833,051</u>
NET ASSETS		
Invested in capital assets - net of related debt	926,197	1,099,840
Unrestricted	<u>2,442,497</u>	<u>2,416,427</u>
	<u>3,368,694</u>	<u>3,516,267</u>
	<u>\$ 5,008,871</u>	<u>\$ 5,541,797</u>

LOGAN COUNTY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Year ended December 31,

	<u>2009</u>	<u>2008</u>
Operating revenues		
Net patient service revenue	\$ 7,834,324	\$ 7,624,392
Other revenue	<u>341,503</u>	<u>353,569</u>
Total operating revenues	<u>8,175,827</u>	<u>7,977,961</u>
Operating expenses		
Salaries and wages	4,097,400	3,875,315
Employee benefits	956,878	836,902
Supplies and other	3,201,917	3,020,239
Depreciation and amortization	<u>371,220</u>	<u>388,874</u>
Total operating expenses	<u>8,627,415</u>	<u>8,121,330</u>
Operating loss	<u>(451,588)</u>	<u>(143,369)</u>
Nonoperating revenues		
County tax proceeds	270,000	270,000
Interest income	33,958	29,716
Interest expense	(44,053)	(50,936)
Noncapital grants and contributions	24,723	39,168
Oil royalties	<u>7,512</u>	<u>14,851</u>
Total nonoperating revenues	<u>292,140</u>	<u>302,799</u>
Excess of revenues over expenses (expenses over revenues) before capital grants and contributions	<u>(159,448)</u>	159,430
Capital grants and contributions	<u>11,875</u>	<u>75,163</u>
Change in net assets	(147,573)	234,593
Net assets at beginning of year	<u>3,516,267</u>	<u>3,281,674</u>
Net assets at end of year	<u>\$ 3,368,694</u>	<u>\$ 3,516,267</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 7,511,031	\$ 7,803,774
Payments to or on behalf of employees	(5,139,811)	(4,656,184)
Payments for supplies and services	(3,329,493)	(2,948,240)
Other receipts and payments	<u>341,905</u>	<u>352,259</u>
Net cash provided (used) by operating activities	<u>(616,368)</u>	<u>551,609</u>
Cash flows from noncapital financing activities		
County tax proceeds	272,968	261,605
Noncapital grants and contributions	<u>24,723</u>	<u>39,168</u>
Net cash provided by noncapital financing activities	<u>297,691</u>	<u>300,773</u>
Cash flows from capital and related financing activities		
Acquisition of capital assets	(28,245)	(576,942)
Capital grants and contributions	11,875	75,163
Long-term obligations incurred		388,114
Payments on long-term obligations	(169,332)	(158,368)
Interest paid	<u>(44,558)</u>	<u>(41,357)</u>
Net cash used by capital and related financing activities	<u>(230,260)</u>	<u>(313,390)</u>
Cash flows from investing activities		
Change in assets limited as to use	130,648	(362,785)
Interest received	33,958	29,716
Oil royalties	<u>7,512</u>	<u>14,851</u>
Net cash provided (used) by investing activities	<u>172,118</u>	<u>(318,218)</u>
Net change in cash and cash equivalents	(376,819)	220,774
Cash and cash equivalents at beginning of year	<u>385,509</u>	<u>164,735</u>
Cash and cash equivalents at end of year	<u>\$ 8,690</u>	<u>\$ 385,509</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	<u>2009</u>	<u>2008</u>
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ (451,588)	\$ (143,369)
Advances to medical students considered operating activity	3,362	(1,200)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	371,220	388,874
Provision for bad debts	284,900	323,958
Changes in		
Patient accounts receivable	(223,080)	(617,025)
Inventories and other current assets	(70,264)	(23,907)
Accounts payable and accrued expenses	(158,422)	143,397
Estimated third-party payor settlements	<u>(372,496)</u>	<u>480,881</u>
Net cash provided (used) by operating activities	<u>\$ (616,368)</u>	<u>\$ 551,609</u>

The accompanying notes are an integral part of these statements.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

1. Reporting entity

Logan County Hospital (the Hospital) is a county hospital located in Oakley, Kansas. The Hospital is operated under Kansas statutes as an entity legally separate from Logan County (the County). Its Board of Trustees is appointed by the Board of County Commissioners of the County. The Hospital can sue and be sued, and can buy, sell, or lease real property. The County annually levies a tax for the Hospital. Bond issuances must be approved by the County. The Hospital is a discretely presented component unit of the County for financial statement purposes.

2. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 these estimates.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," the Hospital has implemented all GASB pronouncements and only relevant pronouncements of the Financial Accounting Standards Board (FASB) issued before November 30, 1989.

4. Cash and cash equivalents

The Hospital considers all cash and invested cash to be cash equivalents, excluding any assets limited as to use.

5. Allowance for uncollectible accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

6. Supplies

Supplies inventories are stated at cost as determined on the first-in, first-out method.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

7. Assets limited as to use

Assets whose use is limited include tax appropriations received from the County that have been set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes.

8. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

9. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

10. 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 current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt."

11. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

12. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

13. Charity care

The Hospital provides care to patients who are unable to pay for services. However, the amount of charity care provided is not separately identified from the provision for bad debts.

14. Income taxes

The Hospital is a county hospital and is, therefore, exempt from federal income taxes under Section 115 of the Internal Revenue Code.

NOTE B - REIMBURSEMENT PROGRAMS

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - The Hospital is a critical access hospital for purposes of the Medicare program and is paid for services rendered to Medicare beneficiaries under various cost reimbursement methodologies. The Hospital is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2007.

Medicaid - Hospital services rendered to Medicaid beneficiaries not enrolled in a Medicaid managed care plan are paid under cost reimbursement methodologies. Services rendered to all other Medicaid beneficiaries are paid at prospectively determined rates. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information supplied by nursing facilities for preceding calendar years. The Hospital is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Health Policy Authority (KHPA). The Hospital's Medicaid cost reports have been audited or reviewed by KHPA through December 31, 2007.

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE B - REIMBURSEMENT PROGRAMS - Continued

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the Hospital and other factors. The Hospital qualified for these disproportionate share payments during both 2009 and 2008.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross - Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of gross and net patient service revenue follows:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 10,913,147	\$ 10,691,572
Contractual adjustments	(3,063,713)	(3,038,646)
Medicaid disproportionate share payments	269,790	295,424
Provision for bad debts	<u>(284,900)</u>	<u>(323,958)</u>
Net patient service revenue	<u>\$ 7,834,324</u>	<u>\$ 7,624,392</u>

Revenue from the Medicare and Medicaid programs accounted for approximately 49 percent and 16 percent, respectively, of the Hospital's net patient service revenue during 2009, and 47 percent and 19 percent, respectively, of the Hospital's net patient service revenue during 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury Bills and Notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair market value equal to 100 percent of the uninsured amounts, and must be assigned for the benefit of the Hospital.

At December 31, 2009, the carrying amount of the Hospital's bank deposits was \$1,183,684 and the bank balances were \$1,335,671. Of the bank balances, \$493,133 was covered by federal depository insurance, and \$842,538 was covered by collateral held by a third-party bank, but not registered in the Hospital's name.

LOGAN COUNTY HOSPITAL
 NOTES TO FINANCIAL STATEMENTS - CONTINUED
 December 31, 2009 and 2008

NOTE C - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

The Hospital's bank deposits are included in the financial statements under the following categories:

Cash	\$	8,590
Assets limited as to use		<u>1,175,094</u>
Total bank deposits	\$	<u><u>1,183,684</u></u>

NOTE D - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Patient accounts receivable	\$ 1,731,347	\$ 1,773,535
Less allowance for uncollectible accounts	<u>(325,717)</u>	<u>(306,085)</u>
	<u>\$ 1,405,630</u>	<u>\$ 1,467,450</u>

NOTE E - ASSETS LIMITED AS TO USE

The composition of assets limited as to use is as follows:

	<u>2009</u>	<u>2008</u>
Cash	\$ 931,252	\$ 1,072,728
Certificates of deposit	<u>243,842</u>	<u>233,014</u>
	<u>\$ 1,175,094</u>	<u>\$ 1,305,742</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE F - CAPITAL ASSETS - Continued

The Hospital operates a nursing facility owned by the County under the name of Logan County Manor (the Manor). Certain equipment used to operate the Manor is also owned by the County. The Hospital incurs no rental expense for use of the property and equipment owned by the County. County owned assets are excluded from the Hospital's financial statements. Historical cost and accumulated depreciation for such assets are summarized as follows:

	<u>2009</u>	<u>2008</u>
Land, building and fixed equipment	\$ 309,187	\$ 309,187
Major movable equipment	<u>56,754</u>	<u>56,754</u>
	365,941	365,941
Less accumulated depreciation	<u>204,280</u>	<u>181,740</u>
County owned property and equipment, net	<u>\$ 161,661</u>	<u>\$ 184,201</u>

NOTE G - LONG-TERM OBLIGATIONS

Long-term obligations are summarized as follows:

	<u>2009</u>	<u>2008</u>
Agreement with Logan County for financing of Manor expansion (leasehold improvements), interest rate of 5.35% with semiannual payments of principal and interest through 2018	\$ 507,465	\$ 551,611
Capital lease obligations, imputed interest rates from 2.43% to 4.85%, collateralized by equipment with an amortized cost of \$348,836	<u>325,586</u>	<u>450,772</u>
	833,051	1,002,383
Less current maturities	<u>155,771</u>	<u>169,332</u>
Long-term obligations less current maturities	<u>\$ 677,280</u>	<u>\$ 833,051</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE G - LONG-TERM OBLIGATIONS - Continued

The following is a summary of changes in long-term obligations:

	<u>Capital lease obligations</u>	<u>Agreement with Logan County</u>	<u>Total long-term obligations</u>
Outstanding at January 1, 2008	\$ 213,128	\$ 559,509	\$ 772,637
Obligations incurred	375,000	13,114	388,114
Payments on long-term obligations	<u>(137,356)</u>	<u>(21,012)</u>	<u>(158,368)</u>
Outstanding at December 31, 2008	450,772	551,611	1,002,383
Payments on long-term obligations	<u>(125,186)</u>	<u>(44,146)</u>	<u>(169,332)</u>
Outstanding at December 31, 2009	<u>\$ 325,586</u>	<u>\$ 507,465</u>	<u>\$ 833,051</u>

The following is a yearly schedule of future minimum lease payments under capital lease obligations at December 31, 2009:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 109,398	\$ 11,651	\$ 121,049
2011	107,290	7,258	114,548
2012	101,875	2,694	104,569
2013	<u>7,023</u>	<u>28</u>	<u>7,051</u>
Total minimum lease payments	<u>\$ 325,586</u>	<u>\$ 21,631</u>	347,217
Less amounts representing interest			<u>21,631</u>
Present value of net minimum lease payments			<u>\$ 325,586</u>

Scheduled annual debt service requirements on the agreement with Logan County are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 46,373	\$ 26,540	\$ 72,913
2011	48,887	24,026	72,913
2012	51,538	21,375	72,913
2013	54,332	18,581	72,913
2014	57,278	15,636	72,914
Thereafter	<u>249,057</u>	<u>29,759</u>	<u>278,816</u>
	<u>\$ 507,465</u>	<u>\$ 135,917</u>	<u>\$ 643,382</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE H - DEFINED BENEFIT PENSION PLAN

The Hospital participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. Substantially all employees of the Hospital are eligible to participate in KPERS following the completion of one year of service. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 South Kansas Avenue, Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4 percent of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rates established by statute for calendar years 2009 and 2008 were 6.54 percent and 5.93 percent, respectively. The Hospital's employer contributions to KPERS for the years ended December 31, 2009 and 2008, were \$212,524 and \$166,055, respectively, equal to the statutory required contributions for each year.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors is summarized as follows:

	<u>2009</u>	<u>2008</u>
Medicare	40.3%	47.0%
Medicaid	5.2	6.5
Blue Cross	7.9	9.4
Other insurers	9.1	8.3
Patients	<u>37.5</u>	<u>28.8</u>
	<u>100.0%</u>	<u>100.0%</u>

LOGAN COUNTY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2009 and 2008

NOTE J - RISK MANAGEMENT

For the years ended December 31, 2009 and 2008, the Hospital was insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$300,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$900,000. All coverage is on a claims-made basis. The above policies are currently in effect through January 1, 2011.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

SUPPLEMENTAL INFORMATION



Certified Public Accountants
and Management Consultants

Brian J. Florea, CPA
Derek H. Hart, CPA
John R. Helms, CPA
Darrell D. Loyd, CPA
Eric L. Otting, CPA
John E. Wendling, CPA

Roger L. Johnson, CPA
Jere Noe, CPA
Gary D. Knoll, CPA
Adam C. Crouch, CPA
Heather R. Eichen, CPA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
ON SUPPLEMENTAL INFORMATION

Board of Trustees
Logan County Hospital

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole of Logan County Hospital as of and for the years ended December 31, 2009 and 2008, which are presented in the preceding section of this report. The supplemental information presented hereinafter 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 audit 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.

Wendling Noe Nelson & Johnson LLC
Topeka, Kansas
March 31, 2010

LOGAN COUNTY HOSPITAL
 PATIENT SERVICE REVENUE
 Year ended December 31,

	2009			2008		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Acute care	\$ 600,615	\$ -	\$ 600,615	\$ 605,530	\$ -	\$ 605,530
Swing-bed skilled nursing care	382,950		382,950	461,390		461,390
Nursing facility care	1,800,791		1,800,791	1,809,206		1,809,206
Operating room	2,601	475,700	478,301		487,754	487,754
Anesthesiology	17,550	229,618	247,168	16,835	246,314	263,149
Radiology	242,318	1,144,974	1,387,292	298,976	1,161,109	1,460,085
Laboratory	501,785	1,262,570	1,764,355	520,735	1,194,069	1,714,804
Respiratory therapy	588,945	82,365	671,310	589,290	51,032	640,322
Physical therapy	201,968	588,927	790,895	202,120	489,711	691,831
Occupational therapy	82,409	31,761	114,170	50,994	35,930	86,924
Speech therapy	6,477	9,182	15,659	3,455	9,855	13,310
Electrocardiology	173,649	100,041	273,690	132,179	69,920	202,099
Medical and surgical supplies	130,117	255,236	385,353	127,391	272,265	399,656
Pharmacy	557,152	479,316	1,036,468	589,545	433,376	1,022,921
Observation	305	71,594	71,899	210	34,763	34,973
Emergency room	58,852	647,805	706,657	72,813	670,194	743,007
Physician fees	280	134,667	134,947			
Cardiac rehabilitation		50,627	50,627		54,611	54,611
Total	<u>\$ 5,348,764</u>	<u>\$ 5,564,383</u>	10,913,147	<u>\$ 5,480,669</u>	<u>\$ 5,210,903</u>	10,691,572
Contractual adjustments			(3,063,713)			(3,038,646)
Medicaid disproportionate share payments			269,790			295,424
Provision for bad debts			(284,900)			(323,958)
Net patient service revenue			<u>\$ 7,834,324</u>			<u>\$ 7,624,392</u>

LOGAN COUNTY HOSPITAL
 OTHER REVENUE
 Year ended December 31,

	<u>2009</u>	<u>2008</u>
Apartment rental income	\$ 220,712	\$ 231,899
Cafeteria sales	17,398	15,318
Meals on wheels	25,544	23,036
Supply and drug sales to outsiders	19,719	26,773
Chart fees	1,051	1,167
Clinic rental income	24,376	20,247
Other	<u>32,703</u>	<u>35,129</u>
	<u>\$ 341,503</u>	<u>\$ 353,569</u>

LOGAN COUNTY HOSPITAL
EXPENSES BY FUNCTIONAL DIVISION
Year ended December 31,

	2009			2008		
	Salaries and wages	Supplies and other expense	Total	Salaries and wages	Supplies and other expense	Total
Nursing services	\$ 737,654	\$ 95,663	\$ 833,317	\$ 701,580	\$ 97,706	\$ 799,286
Nursing administration	129,004		129,004	135,964	182	136,146
Logan County Manor	1,327,101	559,719	1,886,820	1,200,000	595,398	1,795,398
Operating room	11,779	33,706	45,485	11,361	43,021	54,382
Anesthesiology		136,063	136,063		132,625	132,625
Radiology	129,774	280,910	410,684	158,511	250,554	409,065
Laboratory	190,837	390,925	581,762	182,424	365,023	547,447
Respiratory therapy	74,082	29,162	103,244	93,081	26,771	119,852
Physical therapy	346,854	11,102	357,956	305,411	13,295	318,706
Occupational therapy	380	42,350	42,730		30,726	30,726
Speech therapy		13,665	13,665		15,719	15,719
Cardiac rehabilitation	30,548	5,365	35,913	11,048	16,581	27,629
Emergency	141,216	2,518	143,734	112,072	9,415	121,487
Medical and surgical supplies	82,981	98,423	181,404	98,108	121,308	219,416
Pharmacy	59,671	284,946	344,617	50,117	290,277	340,394
Employee benefits		956,878	956,878		836,902	836,902
Administration and general	363,517	904,140	1,267,657	359,691	690,917	1,050,608
Plant operation and maintenance	99,588	151,912	251,500	101,819	151,997	253,816
Laundry		33,834	33,834		33,884	33,884
Housekeeping	67,555	14,237	81,792	62,084	16,156	78,240
Dietary	101,951	82,744	184,695	96,679	85,412	182,091
Medical records	124,686	22,996	147,682	105,959	20,744	126,703
Social services	52,242	2,590	54,832	53,767	3,042	56,809
Apartments	25,980	4,947	30,927	35,639	9,486	45,125
Depreciation and amortization		371,220	371,220		388,874	388,874
Total	\$ 4,097,400	\$ 4,530,015	\$ 8,627,415	\$ 3,875,315	\$ 4,246,015	\$ 8,121,330