

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

Accountants' Report and Financial Statements

September 30, 2009 and 2008

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

September 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Directors
Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Marion, Kansas

We have audited the accompanying balance sheets of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center and its discretely presented component unit as of September 30, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center and its discretely presented component unit as of September 30, 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 Hospital has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

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

January 22, 2010

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Balance Sheets September 30, 2009 and 2008

	2009	2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,846,472	\$ 1,530,421
Short-term certificates of deposit	666,772	332,392
Patient accounts receivable, net of allowance; 2009 – \$337,000, 2008 – \$260,000	785,999	980,551
Estimated amounts due from third party payers	185,000	-
Supplies	112,559	114,979
Prepaid expenses and other	93,265	89,593
Total current assets	3,690,067	3,047,936
Long-term Certificates of Deposit	-	215,393
Capital Assets, Net	1,713,154	1,977,784
Total assets	\$ 5,403,221	\$ 5,241,113
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 277,794	\$ 329,144
Accounts payable	189,550	252,570
Accrued expenses	497,386	443,813
Estimated amounts due to third party payers	-	60,000
Total current liabilities	964,730	1,085,527
Long-term Debt	152,598	434,519
Total liabilities	1,117,328	1,520,046
 Net Assets		
Invested in capital assets, net of related debt	1,282,762	1,214,121
Unrestricted	3,003,131	2,506,946
Total net assets	4,285,893	3,721,067
Total liabilities and net assets	\$ 5,403,221	\$ 5,241,113

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
St. Luke Hospital Foundation
Statements of Financial Position
September 30, 2009 and 2008**

	2009	2008
Assets		
Cash	\$ 70,330	\$ 136,804
Short-term certificates of deposit	57,394	54,471
Long-term certificates of deposit	55,402	55,845
Total assets	\$ 183,126	\$ 247,120
 Unrestricted Net Assets	 \$ 183,126	 \$ 247,120

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2009 and 2008**

	2009	2008
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2009 – \$206,000, 2008 – \$62,000	\$ 6,821,857	\$ 6,529,630
Other	102,394	128,774
Total operating revenues	6,924,251	6,658,404
Operating Expenses		
Salaries and wages	3,140,362	3,098,327
Employee benefits	583,594	622,016
Purchased services and professional fees	1,575,993	1,472,858
Supplies and other	1,414,514	1,433,922
Depreciation	412,737	346,447
Total operating expenses	7,127,200	6,973,570
Operating Loss	(202,949)	(315,166)
Nonoperating Revenues (Expenses)		
Property taxes	711,086	720,736
Interest income	35,385	50,520
Interest expense	(26,015)	(28,882)
Noncapital grants and gifts	47,319	28,651
Total nonoperating revenues	767,775	771,025
Increase in Net Assets	564,826	455,859
Net Assets, Beginning of Year	3,721,067	3,265,208
Net Assets, End of Year	\$ 4,285,893	\$ 3,721,067

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
St. Luke Hospital Foundation
Statements of Activities
Years Ended September 30, 2009 and 2008**

	2009	2008
Unrestricted Revenues, Gains and Other Support		
Contributions	\$ 16,150	\$ 9,576
Interest income	3,828	7,162
Total revenues, gains and other support	19,978	16,738
Unrestricted Expenses		
Support to St. Luke Hospital and Living Center	83,972	2,386
Total expenses	83,972	2,386
Change in Unrestricted Net Assets	(63,994)	14,352
Unrestricted Net Assets, Beginning of Year	247,120	232,768
Unrestricted Net Assets, End of Year	\$ 183,126	\$ 247,120

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

Statements of Cash Flows

Years Ended September 30, 2009 and 2008

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	\$ 6,771,409	\$ 6,481,676
Payments to suppliers and contractors	(3,070,127)	(2,844,742)
Payments to and on behalf of employees	(3,670,383)	(3,661,265)
Other receipts (payments), net	102,394	102,242
Net cash provided by operating activities	133,293	77,911
Noncapital Financing Activities		
Property taxes supporting operations	711,086	720,736
Noncapital grants and gifts	47,319	28,651
Net cash provided by noncapital financing activities	758,405	749,387
Capital and Related Financing Activities		
Principal paid on capital lease	(333,271)	(238,029)
Interest paid on capital lease	(26,015)	(28,882)
Purchase of capital assets	(132,759)	(433,190)
Proceeds from disposal of capital assets	-	26,532
Net cash used in capital and related financing activities	(492,045)	(673,569)
Investing Activities		
Interest income	35,385	50,520
Purchase of certificates of deposit	(968,239)	(367,437)
Maturities of certificates of deposit	849,252	655,793
Net cash provided by (used in) investing activities	(83,602)	338,876
Increase in Cash and Cash Equivalents	316,051	492,605
Cash and Cash Equivalents, Beginning of Year	1,530,421	1,037,816
Cash and Cash Equivalents, End of Year	\$ 1,846,472	\$ 1,530,421

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Statements of Cash Flows (Continued)
Years Ended September 30, 2009 and 2008**

	2009	2008
Reconciliation of Net Operating Loss to Cash Used in Operating Activities		
Operating loss	\$ (202,949)	\$ (315,166)
Depreciation	412,737	346,447
Gain on disposal of capital assets	-	(26,532)
Changes in operating assets and liabilities		
Patient accounts receivable, net	194,552	(407,954)
Estimated amounts due from and to Medicare	(245,000)	360,000
Accounts payable and accrued expenses	(24,795)	138,926
Other assets and liabilities	(1,252)	(17,810)
	<u>\$ 133,293</u>	<u>\$ 77,911</u>
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	<u>\$ -</u>	<u>\$ 402,609</u>
Capital assets additions included in accounts payable	<u>\$ 15,348</u>	<u>\$ 12,087</u>

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements September 30, 2009 and 2008

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

Nature of Operations and Reporting Entity

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (Hospital) owns and operates an acute care hospital located in Marion, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency and residential long-term care services in the Marion County area. It also operates a home health agency in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2009 and 2008, cash equivalents consisted primarily of certificates of deposit.

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements September 30, 2009 and 2008

Property Taxes

The Hospital received approximately 9% and 10% of its financial support from property taxes in 2009 and 2008. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. 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 Hospital:

Land improvements	10 years
Buildings	10 – 50 years
Fixed equipment	3 – 20 years
Major moveable equipment	3 – 20 years

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

September 30, 2009 and 2008

Compensated Absences

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

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

Net Patient Service Revenue

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

Charity Care

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

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements September 30, 2009 and 2008

Income Taxes

As an essential government entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Foundation

St. Luke Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the Foundation's by-laws restrict its resources and related income to be used for the benefit of the Hospital. Because these resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements.

During the fiscal years ended September 30, 2009 and 2008, the Foundation provided \$83,972 and \$2,386 of support to the Hospital, respectively. Complete financial statements of the Foundation may be obtained from its administrative office at the following address: 1014 East Melvin, Marion, Kansas 66861.

Note 2: Net Patient Service Revenue

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

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

Medicaid. Prior to October 5, 2007, inpatient and outpatient services rendered to all Medicaid program beneficiaries were reimbursed under a prospective reimbursement methodology. Effective October 5, 2007, the Medicaid State Plan was amended to provide for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Health Policy Authority.

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements September 30, 2009 and 2008

Approximately 55% and 53% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2009 and 2008, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2009 and 2008, respectively, \$1,518,612 and \$1,031,169 of the Hospital's bank balance of \$2,577,786 and \$2,158,695 was exposed to custodial credit risk as follows:

	2009	2008
Uninsured and uncollateralized	\$ -	\$ 65,393
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	1,518,612	965,776
	\$ 1,518,612	\$ 1,031,169

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

**Notes to Financial Statements
September 30, 2009 and 2008**

Summary of Carrying Values

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

	<u>2009</u>	<u>2008</u>
Carrying value		
Deposits	\$ 2,513,049	\$ 2,078,036
Petty cash	195	170
	<u>\$ 2,513,244</u>	<u>\$ 2,078,206</u>

Included in the following balance sheet captions:

	<u>2009</u>	<u>2008</u>
Cash and cash equivalents	\$ 1,846,472	\$ 1,530,421
Short-term certificates of deposit	666,772	332,392
Long-term certificates of deposit	-	215,393
	<u>\$ 2,513,244</u>	<u>\$ 2,078,206</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2009 and 2008, consisted of:

	<u>2009</u>	<u>2008</u>
Medicare	\$ 215,901	\$ 350,555
Medicaid	75,137	76,422
Blue Cross	88,450	116,747
Other third-party payers	209,916	296,717
Patients	533,595	400,110
	<u>1,122,999</u>	<u>1,240,551</u>
Less allowance for uncollectible accounts	<u>337,000</u>	<u>260,000</u>
	<u>\$ 785,999</u>	<u>\$ 980,551</u>

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

**Notes to Financial Statements
September 30, 2009 and 2008**

Note 5: Capital Assets

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

	2009			Ending Balance
	Beginning Balance	Additions	Disposals	
Land	\$ 28,253	\$ -	\$ -	\$ 28,253
Land improvements	50,908	-	-	50,908
Buildings	2,228,030	22,191	-	2,250,221
Construction in progress	-	57,355	-	57,355
Fixed equipment	963,139	-	-	963,139
Major moveable equipment	2,574,765	68,561	(12,087)	2,631,239
	<u>5,845,095</u>	<u>148,107</u>	<u>(12,087)</u>	<u>5,981,115</u>
Less accumulated depreciation				
Land improvements	50,908	-	-	50,908
Buildings	1,379,222	75,463	-	1,454,685
Fixed equipment	880,998	22,479	-	903,477
Major moveable equipment	1,556,183	314,795	(12,087)	1,858,891
	<u>3,867,311</u>	<u>412,737</u>	<u>(12,087)</u>	<u>4,267,961</u>
Capital Assets, Net	<u>\$ 1,977,784</u>	<u>\$ (264,630)</u>	<u>\$ -</u>	<u>\$ 1,713,154</u>

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center**

**Notes to Financial Statements
September 30, 2009 and 2008**

	2008			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 28,253	\$ -	\$ -	\$ 28,253
Land improvements	50,908	-	-	50,908
Buildings	1,879,629	352,961	(4,560)	2,228,030
Fixed equipment	963,139	-	-	963,139
Major moveable equipment	2,079,840	494,925	-	2,574,765
	5,001,769	847,886	(4,560)	5,845,095
Less accumulated depreciation				
Land improvements	50,908	-	-	50,908
Buildings	1,321,124	62,658	(4,560)	1,379,222
Fixed equipment	846,741	34,257	-	880,998
Major moveable equipment	1,306,651	249,532	-	1,556,183
	3,525,424	346,447	(4,560)	3,867,311
Capital Assets, Net	\$ 1,476,345	\$ 501,439	\$ -	\$ 1,977,784

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Notes to Financial Statements
September 30, 2009 and 2008**

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended September 30, 2009 and 2008:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 763,663	\$ -	\$ (333,271)	\$ 430,392	\$ 277,794
	2008				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations	\$ 599,083	\$ 402,609	\$ (238,029)	\$ 763,663	\$ 329,144

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2009 and 2008, totaled \$558,649 and \$754,309, respectively, net of accumulated depreciation of \$1,364,111 and \$792,556, respectively. The following is a schedule by year of future minimum lease payments under capital leases including interest at rates of 4.14% to 4.69% together with the present value of the future minimum lease payments as of September 30, 2009 and 2008:

Year Ending September 30,	
2010	\$ 289,946
2011	154,839
Total minimum lease payments	444,785
Less amount representing interest	14,393
Present value of future minimum lease payments	\$ 430,392

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements September 30, 2009 and 2008

Note 8: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. 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 Hospital's governing body. Employees may contribute up to 60% of eligible compensation subject to a maximum established by the Internal Revenue Service. Contributions actually made by plan members and the Hospital aggregated \$132,947 and \$26,544, respectively, during 2009, and \$147,873 and \$27,456, respectively, during 2008.

Note 9: 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 declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

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

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

Note 10: 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. The rate cut only applies to services reimbursed on a fee-for-service basis effective January 1. Medicaid managed care programs have also provided notification to their network providers of a 10% payment shortfall. Rate cuts for services paid under these contracts are expected to take effect in March or April 2010 pending approval by the Centers for Medicare and Medicaid Services.

Supplementary Information

**Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Comparison of Revenues and Expenses (Cash Basis) – Actual and Tax Budget
Calendar Year Ended December 31, 2008**

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenue	\$ 6,624,924	\$ 6,352,733	\$ 272,191
Other revenue	<u>96,392</u>	<u>107,089</u>	<u>(10,697)</u>
Total operating revenue	<u>6,721,316</u>	<u>6,459,822</u>	<u>261,494</u>
Operating expenses	7,590,083	8,567,568	(977,485)
Interest paid	<u>30,066</u>	<u>-</u>	<u>30,066</u>
Operating expenses	<u>7,620,149</u>	<u>8,567,568</u>	<u>(947,419)</u>
Operating loss	<u>(898,833)</u>	<u>(2,107,746)</u>	<u>1,208,913</u>
Property tax revenue	762,215	708,264	53,951
Other nonoperating revenues	<u>81,387</u>	<u>155,000</u>	<u>(73,613)</u>
Total nonoperating revenues	<u>843,602</u>	<u>863,264</u>	<u>(19,662)</u>
Deficiency of revenue over expenses	<u>\$ (55,231)</u>	<u>\$ (1,244,482)</u>	<u>\$ 1,189,251</u>