

**Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas**

Accountants' Report and Financial Statements

December 31, 2010 and 2009



Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
December 31, 2010 and 2009

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Kiowa County Memorial Hospital
Greensburg, Kansas

We have audited the accompanying basic financial statements of the Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) and its discretely presented component unit, Great Plains of Kiowa County, Inc. (Hospital), collectively a component unit of Kiowa County, Kansas, as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Board of Trustees and the Hospital. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Board of Trustees of Kiowa County Memorial Hospital as of and for the year ended December 31, 2009, were audited by other accountants whose report dated August 18, 2010, expressed an unqualified opinion on those statements.

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

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Board of Trustees and of its discretely presented component unit, the Hospital, as of December 31, 2010, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2011, on our consideration of the Board of Trustees' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Board of Trustees 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 2010 audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, 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 2010 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic financial statements taken as a whole.

BKD, LLP

August 12, 2011

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas

Balance Sheets

December 31, 2010 and 2009

Assets

	Board of Trustees		Hospital	
	2010	2009	2010	2009
Current Assets				
Cash	\$ 342,712	\$ 1,571,084	\$ 485,701	\$ 741,592
Cash held for debt service	-	-	43,691	-
Short-term certificate of deposit	65,730	64,865	-	-
Patient accounts receivable, net of allowance; 2010 – \$103,659, 2009 – \$90,361	-	-	461,229	154,769
Property taxes receivable	875,115	850,445	-	-
Estimated amounts due from third-party payers	-	-	525,000	475,000
Due from Board of Trustees	-	-	-	821,132
Due from Kansas Division of Emergency Management	20,207	50,542	-	-
Supplies	-	-	106,648	89,937
Prepaid expenses and other	429	395	145,085	46,855
	<u>1,304,193</u>	<u>2,537,331</u>	<u>1,767,354</u>	<u>2,329,285</u>
Cash Restricted for Capital Acquisitions and Specific Operating Activities	<u>-</u>	<u>-</u>	<u>82,021</u>	<u>183,100</u>
Capital Assets, Net	<u>-</u>	<u>-</u>	<u>22,290,218</u>	<u>21,823,526</u>
Other Assets				
Noncurrent portion of prepaid maintenance contract	-	-	350,229	-
Bond issuance costs, net of amortization	-	-	2,843	-
	<u>-</u>	<u>-</u>	<u>353,072</u>	<u>-</u>
Total assets	<u>\$ 1,304,193</u>	<u>\$ 2,537,331</u>	<u>\$ 24,492,665</u>	<u>\$ 24,335,911</u>

Liabilities and Net Assets

	Board of Trustees		Hospital	
	2010	2009	2010	2009
Current Liabilities				
Current maturities of long-term debt	\$ -	\$ -	\$ 26,757	\$ 72,325
Accounts payable	-	-	330,641	2,242,846
Accrued expenses	-	-	360,793	382,828
Due to Hospital	-	821,132	-	-
Deferred property tax revenue	875,115	850,445	-	-
Total current liabilities	875,115	1,671,577	718,191	2,697,999
Long-term Debt	-	-	3,738,192	1,634,904
Accrued Interest Payable - Noncurrent	-	-	145,617	85,168
Total liabilities	875,115	1,671,577	4,602,000	4,418,071
Net Assets				
Invested in capital assets, net of related debt	-	-	20,125,269	21,716,297
Restricted - expendable for				
Capital acquisitions	-	-	36,490	146,540
Debt service	-	-	43,691	-
Specific operating activities	-	-	45,531	36,560
Unrestricted	429,078	865,754	(360,316)	(1,981,557)
Total net assets	429,078	865,754	19,890,665	19,917,840
Total liabilities and net assets	\$ 1,304,193	\$ 2,537,331	\$ 24,492,665	\$ 24,335,911

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

	Board of Trustees		Hospital	
	2010	2009	2010	2009
Operating Revenues				
Net patient service revenue, net of provision for uncollectible accounts; 2010 – \$196,663, 2009 – \$97,545	\$ -	\$ -	\$ 3,960,178	\$ 2,125,249
Property taxes to support operations	848,682	818,380	131,771	134,166
Other	1,350	57	228,803	79,438
Total operating revenues	<u>850,032</u>	<u>818,437</u>	<u>4,320,752</u>	<u>2,338,853</u>
Operating Expenses				
Salaries and wages	-	-	2,445,734	2,154,317
Supplies and other	1,757	516	3,048,493	2,001,553
Depreciation and amortization	-	-	1,395,543	79,654
Total operating expenses	<u>1,757</u>	<u>516</u>	<u>6,889,770</u>	<u>4,235,524</u>
Operating Income (Loss)	<u>848,275</u>	<u>817,921</u>	<u>(2,569,018)</u>	<u>(1,896,671)</u>
Nonoperating Revenues (Expenses)				
Interest income	9,440	35,004	6,209	23,449
Interest expense	-	-	(156,649)	(67,671)
Noncapital grants and gifts	-	-	53,500	587,821
Noncapital contributions between Board of Trustees and Hospital	<u>(1,333,528)</u>	<u>(1,624,971)</u>	<u>1,333,528</u>	<u>1,624,971</u>
Total nonoperating revenues (expenses)	<u>(1,324,088)</u>	<u>(1,589,967)</u>	<u>1,236,588</u>	<u>2,168,570</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants, Gifts and Contributions	(475,813)	(772,046)	(1,332,430)	271,899
Capital Grants and Gifts	548,004	10,708,512	796,388	281,711
Capital Contributions Between Board of Trustees and Hospital	<u>(508,867)</u>	<u>(10,959,119)</u>	<u>508,867</u>	<u>10,959,119</u>
Increase (Decrease) in Net Assets	(436,676)	(1,022,653)	(27,175)	11,512,729
Net Assets, Beginning of Year	<u>865,754</u>	<u>1,888,407</u>	<u>19,917,840</u>	<u>8,405,111</u>
Net Assets, End of Year	<u>\$ 429,078</u>	<u>\$ 865,754</u>	<u>\$ 19,890,665</u>	<u>\$ 19,917,840</u>

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	Board of Trustees		Hospital	
	2010	2009	2010	2009
Operating Activities				
Receipts from and on behalf of patients	\$ -	\$ -	\$ 3,603,718	\$ 2,285,830
Payments to suppliers and contractors	(1,757)	(516)	(3,470,971)	(1,861,036)
Payments to and on behalf of employees	-	-	(2,467,769)	(2,135,367)
Cash received from County	848,682	818,380	131,771	134,166
Other receipts, net	-	-	67,646	79,438
	<u>846,925</u>	<u>817,864</u>	<u>(2,135,605)</u>	<u>(1,496,969)</u>
Net cash provided by (used in) operating activities				
Noncapital Financing Activities				
Proceeds from the issuance of long-term debt	-	-	-	800,000
Noncapital grants and gifts	-	-	53,500	79,203
Noncapital contributions between Board of Trustees and Hospital	(1,333,528)	(1,355,753)	1,333,528	1,355,753
	<u>(1,333,528)</u>	<u>(1,355,753)</u>	<u>1,387,028</u>	<u>2,234,956</u>
Net cash provided by (used in) noncapital financing activities				
Capital and Related Financing Activities				
Principal paid on long-term debt	-	-	(26,976)	(37,547)
Interest paid on long-term debt	-	-	(96,200)	(8,405)
Net change in due to / from Board of Trustees, Hospital and Foundation	(821,132)	(4,363,213)	821,132	4,363,213
Funds received from Kansas Division of Emergency Management	30,335	-	-	-
Funds received from Kiowa County Health Foundation	-	1,031,277	-	-
Capital contributions between Board of Trustees and Hospital	(508,867)	(11,228,337)	508,867	11,228,337
Proceeds from the issuance of long-term debt	-	-	2,130,200	-
Payment of bond issuance costs, net	-	-	(2,843)	-
Capital grants and gifts	549,643	11,821,396	796,388	187,034
Purchase of capital assets	-	-	(3,883,906)	(16,412,564)
Insurance and other proceeds on disposal of capital assets	-	-	182,427	-
	<u>(750,021)</u>	<u>(2,738,877)</u>	<u>429,089</u>	<u>(679,932)</u>
Net cash provided by (used in) capital and related financing activities				

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

	Board of Trustees		Hospital	
	2010	2009	2010	2009
Investing Activities				
Interest income received	9,012	34,059	6,209	23,449
Net (increase) decrease in certificates of deposit and cash restricted by grantor/donor	(760)	(26,207)	101,079	143,038
Net cash provided by investing activities	8,252	7,852	107,288	166,487
Increase (Decrease) in Cash	(1,228,372)	(3,268,914)	(212,200)	224,542
Cash, Beginning of Year	1,571,084	4,839,998	741,592	517,050
Cash, End of Year	<u>\$ 342,712</u>	<u>\$ 1,571,084</u>	<u>\$ 529,392</u>	<u>\$ 741,592</u>
Reconciliation of Cash to the Balance Sheets				
Cash	\$ 342,712	\$ 1,571,084	\$ 485,701	\$ 741,592
Cash held for debt service	-	-	43,691	-
Total cash	<u>\$ 342,712</u>	<u>\$ 1,571,084</u>	<u>\$ 529,392</u>	<u>\$ 741,592</u>
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities				
Operating income (loss)	\$ 848,275	\$ 817,921	\$ (2,569,018)	\$ (1,896,671)
Depreciation and amortization	-	-	1,395,543	79,654
Gain on disposal of capital assets	-	-	(161,157)	-
Other	(1,350)	(57)	-	-
Changes in operating assets and liabilities				
Patient accounts receivable, net	-	-	(306,460)	34,081
Estimated amounts due from and to third-party payers	-	-	(50,000)	126,500
Accounts payable and accrued expenses	-	-	20,657	135,147
Supplies, prepaid expenses and other	-	-	(465,170)	24,320
Net cash provided by (used in) operating activities	<u>\$ 846,925</u>	<u>\$ 817,864</u>	<u>\$ (2,135,605)</u>	<u>\$ (1,496,969)</u>
Supplemental Cash Flows Information				
Capital lease obligations incurred for capital assets	\$ -	\$ -	\$ -	\$ 13,000
Capital asset acquisitions included in accounts payable	\$ -	\$ -	\$ 114,829	\$ 2,069,726
Donation of capital assets	\$ -	\$ -	\$ -	\$ 94,677

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

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

Nature of Operations and Reporting Entity

The Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) is a component unit of Kiowa County, Kansas (County) and was organized by the Kiowa County Commissioners to operate Kiowa County Memorial Hospital (KCMH) and to control the use of tax appropriations. The Board of Trustees is elected by the voters of the County.

The Board of Trustees leases KCMH to Great Plains of Kiowa County, Inc. (Hospital or GPKC). The Hospital is located in Greensburg, Kansas, and provides acute, swing-bed and physician clinic services. The Hospital is licensed as a Critical Access Hospital (CAH) and is managed by Great Plains Health Alliance, Inc. (GPHA) (*Note 10*). During January 2010, the County issued Hospital Revenue Bonds Series 2010-A. The bond obligations are payable from and secured by the revenues of the Hospital (*Note 7*). As the Board of Trustees can access the resources of the Hospital to pay the bond obligations, the Hospital is considered a component unit of the Board of Trustees and thus included in the financial statements of the Board of Trustees using discrete presentation. Prior to 2009, the Hospital and the Board of Trustees issued separate financial statements.

Basis of Accounting and Presentation

The financial statements of the Board of Trustees and the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Interest income, interest on capital assets-related debt and noncapital grants and gifts are included in nonoperating revenues and expenses. The Board of Trustees and Hospital first apply restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Board of Trustees 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 Board of Trustees has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

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 Board of Trustees and Hospital consider all liquid investments with original maturities of three months or less other than cash restricted for capital acquisitions and specific operating activities to be cash equivalents. There were no cash equivalents at December 31, 2010 and 2009.

Intergovernmental Revenue

The Board of Trustees and Hospital received approximately 15% in 2010 and 6% in 2009 of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2010 and 2009. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. 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.

Board of Trustees of Kiowa County Memorial Hospital A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2010 and 2009

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	5 – 20 years
Buildings	5 – 30 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 20 years

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations.

Bond Issuance Costs

Bond issuance costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. 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 absences liabilities are computed using the regular pay rates in effect at the balance sheet date.

Net Assets

Net assets are classified into three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by any outstanding borrowings and related accounts used to finance the purchase or construction of those assets. Restricted expendable net assets are assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors, including amounts as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt or restricted, expendable.

Board of Trustees' net assets are unrestricted, but by nature, are to be used solely for the benefit of the Hospital. The funds are used by the Hospital for capital purchases and for operations as approved by action of the Board of Trustees.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

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.

Income Taxes

As an essential government function of the County, the Board of Trustees 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 Board of Trustees is subject to federal income tax on any unrelated business taxable income.

The Hospital has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Hospital files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

Excess (Deficiency) of Revenues Over Expenses

The accompanying statements of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from the receipt of tax appropriations and exchange transactions associated with providing health care services. Nonexchange revenues, including interest income and contributions and grants received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services other than financing costs.

Reclassifications

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation. The reclassifications had no effect on the changes in net assets.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2010 and 2009

Subsequent Events

Subsequent events have been evaluated through August 12, 2011, which is the date the financial statements were available to be issued.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Board of Trustees' 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, 2010 and 2009, respectively, \$117,348 and \$1,319,558 of the Board of Trustees' bank balances of \$408,442 and \$1,635,949 were exposed to custodial credit risk as follows:

	2010	2009
Collateral held by pledging financial institution's trust department or agent in other than the Board of Trustees' name	<u>\$ 117,348</u>	<u>\$ 1,319,558</u>

Summary of Carrying Values

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

	2010	2009
Carrying value Deposits	<u>\$ 408,442</u>	<u>\$ 1,635,949</u>
Included in the following balance sheet captions		
Cash	<u>\$ 342,712</u>	<u>\$ 1,571,084</u>
Short-term certificates of deposit	<u>65,730</u>	<u>64,865</u>
	<u>\$ 408,442</u>	<u>\$ 1,635,949</u>

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2010 and 2009

Note 3: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2010 and 2009, consisted of:

	2010	2009
Medicare	\$ 305,290	\$ 26,476
Medicaid	27,104	21,713
Blue Cross	27,806	15,379
Other third-party payers	49,467	34,442
Self-pay	155,221	147,120
	564,888	245,130
Less allowance for uncollectible accounts	103,659	90,361
	\$ 461,229	\$ 154,769

The mix of net receivables from patients and third-party payers at December 31, 2010 and 2009, is:

	2010	2009
Medicare	66%	17%
Medicaid	0%	1%
Other third-party payers	15%	31%
Self-pay	19%	51%
	100%	100%

Note 4: 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 CAH. Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable costs subject to certain limitations. The 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. The clinics are recognized as Rural Health Clinics (RHC). Under

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas

Notes to Financial Statements

December 31, 2010 and 2009

RHC rules, clinic services are paid based on allowable costs subject to certain limitations. Tentative reimbursement and final settlement is determined in a similar manner as for hospital services.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to Medicaid program beneficiaries who are not part of a Medicaid managed care network. Services rendered to Medicaid managed care patients are reimbursed under a prospective reimbursement methodology. Medicaid RHC services are reimbursed under a cost-based methodology. The Hospital and RHC are reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Health Policy Authority.

Approximately 86% and 75% of net patient service revenue was from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009, 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.

The Hospital's net patient service revenue is computed as follows for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 2,077,261	\$ 1,580,302
Plus (less)		
Medicare contractual adjustments	2,117,505	664,972
Medicaid contractual adjustments	110,690	109,260
Other contractual adjustments	(114,215)	(104,388)
Charity care	(18,574)	(12,947)
Administrative discounts	(15,826)	(14,405)
Provision for uncollectible accounts	<u>(196,663)</u>	<u>(97,545)</u>
Net patient service revenue	<u>\$ 3,960,178</u>	<u>\$ 2,125,249</u>

**Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas**

Notes to Financial Statements

December 31, 2010 and 2009

In July 2008, the Board of Trustees along with the Hospital signed a contract with a construction manager to build a new hospital at an estimated cost of \$20,520,000. The construction project, financed with insurance proceeds, federal and state grants, long-term debt and contributions, was completed in March 2010.

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 7: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, FEMA	\$ 1,600,000	\$ -	\$ -	\$ 1,600,000	\$ -
Revenue bonds payable	-	2,130,200	-	2,130,200	-
Capital lease obligations	107,229	-	72,480	34,749	26,757
Total long-term debt	<u>\$ 1,707,229</u>	<u>\$ 2,130,200</u>	<u>\$ 72,480</u>	<u>\$ 3,764,949</u>	<u>\$ 26,757</u>

**Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas**

Notes to Financial Statements

December 31, 2010 and 2009

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, FEMA	\$ 800,000	\$ 800,000	\$ -	\$ 1,600,000	\$ -
Capital lease obligations	131,776	13,000	37,547	107,229	72,325
Total long-term debt	<u>\$ 931,776</u>	<u>\$ 813,000</u>	<u>\$ 37,547</u>	<u>\$ 1,707,229</u>	<u>\$ 72,325</u>

Note Payable, FEMA

In 2007, the Hospital entered into an agreement with the Federal Emergency Management Agency (FEMA) to issue a Community Disaster Loan to help assist with operations of the Hospital. The note bears interest at 4%, principal and interest are due October 2012. The loan was issued in installments with \$800,000 being issued in each of 2008 and 2009. The Community Disaster Loan program has a provision for loan cancellation if the governmental entity to which it was issued has insufficient revenues during the full three fiscal years following the disaster to meet the operating budget of said governmental entity. The Hospital sustained operating losses in each of 2008, 2009, and 2010 and plans to apply for loan cancellation in 2011.

The debt service requirements as of December 31, 2010, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2011	\$ -	\$ -	\$ -
2012	<u>1,856,000</u>	<u>1,600,000</u>	<u>256,000</u>
	<u>\$ 1,856,000</u>	<u>\$ 1,600,000</u>	<u>\$ 256,000</u>

Revenue Bonds Payable

In 2010, the County entered into an agreement with the United States Department of Agriculture (USDA) to issue bonds to assist with the financing of the new hospital construction (see Note 6). The bonds bear interest at 4%, are due semi-annually in increasing principal amounts with final bonds maturing January 2049. The Hospital, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the Kansas State Treasurer, acting as the paying agent. The financed assets and related bond indebtedness have been included in the accompanying financial statements as assets and liabilities of the Hospital. The bonds are secured by a first and prior lien upon the gross revenues of the Hospital.

Bonds may be redeemed in advance of their maturity at 100% of face value.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

The bond indentures require certain covenants, including financial, to be met. The financial covenants include a rate covenant that requires a debt service coverage ratio of 1.0 to be met and monthly deposits be made to separate accounts for debt service payments and to fund a debt service reserve. During 2010, the Hospital did not meet the debt service coverage ratio of 1.0 nor were monthly deposits made to the debt service reserve account. In the case of the rate covenant not being met, the bond indenture requires that the Board of Trustees and Hospital employ a consultant to make recommendations with respect to the Hospital's rates and charges, with the Hospital to follow the recommendations, if feasible. The monthly deposits were made beginning in 2011 and the required funding has been met as of the date of this report.

In addition to the financial covenants described above, the Hospital was required to submit quarterly financial reports to the USDA and the Kiowa County Clerk. No quarterly financial reports were submitted in 2010. The reports were subsequently submitted in 2011 and are up to date as of the date of this report.

The debt service requirements as of December 31, 2010, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2011	\$ 85,208	\$ -	\$ 85,208
2012	85,441	-	85,441
2013	112,660	27,452	85,208
2014	112,660	28,550	84,110
2015	112,660	29,692	82,968
2016-2020	563,298	166,781	396,517
2021-2025	563,298	203,185	360,113
2026-2030	563,298	247,219	316,079
2031-2035	563,298	300,798	262,500
2036-2040	563,298	365,900	197,398
2041-2045	563,298	445,352	117,946
2046-2049	340,950	315,271	25,679
	<u>\$ 4,229,367</u>	<u>\$ 2,130,200</u>	<u>\$ 2,099,167</u>

**Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas**

Notes to Financial Statements

December 31, 2010 and 2009

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2010 and 2009, totaled \$40,683 and \$122,274, respectively, net of accumulated depreciation of \$70,317 and \$75,858, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates of 6.00% to 8.17% together with the present value of the future minimum lease payments as of December 31, 2010:

<u>Year Ending December 31,</u>	
2011	\$ 26,254
2012	7,048
2013	3,176
2014	<u>421</u>
Total minimum lease payments	36,899
Less amount representing interest	<u>2,150</u>
 Present value of future minimum lease payments	 <u><u>\$ 34,749</u></u>

Note 8: Pension Plan

Hospital employees are eligible to participate in the GPHA defined contribution pension and tax deferred annuity plans. All employees, to be eligible for employer contributions, must have completed one year of service, with a minimum of 1,000 paid hours of service and must be at least 18 years of age. Employee contributions are mandatory beginning with the first day of service if 18 years of age or older. Benefits are funded by an annuity contract with an insurance company. Employer contributions are computed at a rate of 5% of annual compensation plus 10% of the excess over \$16,000. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5.0% of the excess over \$16,000. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Employer contributions vest at 20% per year of service with 100% vesting after five years of service. Contributions actually made by plan members and the Hospital aggregated \$90,134 and \$155,874 during 2010 and \$78,575 and \$151,569 during 2009, respectively.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

Note 9: Functional Expenses

Functional expenses for the years ended December 31, 2010 and 2009, are as follows:

	2010	2009
Health care services	\$ 4,529,041	\$ 2,855,818
General and administrative	2,517,378	1,447,377
	\$ 7,046,419	\$ 4,303,195

Note 10: Related Party Transactions

The Board of Trustees entered into an agreement to lease hospital facilities to GPKC for one dollar. The lease provides that GPKC will assume and continue operations of the Hospital and maintain all property and equipment in good condition. The lease term is for a period of five years through January 2016.

GPKC has an agreement with GPHA, the sole member of GPKC, for management services. The term runs concurrent with the agreement to lease hospital facilities between the Board of Trustees and GPKC. Fees incurred under this agreement comprised of management fees and additional services performed were \$93,721 and \$119,909 for the years ended December 31, 2010 and 2009, respectively.

GPKC has a data center access agreement with GPHA for data processing services. The initial term of the agreement was for five years beginning March 2004. During July 2008, GPKC signed an amendment with GPHA that extended the term of the agreement through July 2018. Fees incurred under this agreement totaled \$93,837 and \$86,842 for the years ended December 31, 2010 and 2009, respectively.

In February 2008, GPKC entered into an agreement with GPHA for billing services. The initial term of the agreement was for one year with automatic renewals annually unless canceled no less than 60 days prior to the end of the term. Fees incurred under this agreement totaled \$106,500 and \$110,000 for the years ended December 31, 2010 and 2009, respectively.

In connection with the new hospital construction (see *Note 5*), the Board of Trustees reimbursed the Hospital for certain construction related expenses. Such reimbursements are reflected in the 2009 balance sheet as amount due to the Hospital from the Board of Trustees.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Notes to Financial Statements
December 31, 2010 and 2009

Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 4*.

Litigation

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

Note 12: 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 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 patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

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

Supplementary Information

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Insurance Coverage
December 31, 2010 and 2009

CHUBB Insurance Group

Policy No. 3585-70-96KCO, expiring February 1, 2011:		
Property	\$	18,000,000
Boiler		6,500,000

Double Eagle Insurance

Policy No. aun9425030c, expiring November 19, 2011:		
Directors and officers		1,000,000

Conrade Insurance Group

Policy No. CAP5155662, expiring February 1, 2011:		
Trailer coverage		4,000,000

Allied Insurance

Policy No. bd7900594274, expiring June 1, 2012:		
Employee pension plan		200,000

KHA Workers' Compensation Fund, Inc.

Policy No. 8111, expiring January 1, 2011:		
Workers' compensation:		
Per accident		500,000
Per employee disease		500,000
Policy limit		500,000

Kansas Medical Mutual Insurance Company

Policy No. HPL 0015367, expiring January 1, 2011:		
Professional liability		200,000/600,000
Kansas Healthcare Stabilization Fund		300,000/900,000
General liability		1,000,000/3,000,000
Additional insureds		1,000,000/3,000,000
Employee benefits		250,000

QBE Insurance Corporation

Policy No. AHH004823, expiring November 24, 2011:		
Accident coverage - volunteers		100,000

Policies expiring in January and February 2011 were renewed for another policy term.

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2010

Cluster/Program	Federal Agency/ Pass-through Entity	CFDA Number	Amount Expended
Homeland Security Cluster:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	U.S. Department of Homeland Security	97.036	\$ 18,561
Hazard Mitigation Grant	U.S. Department of Homeland Security	97.039	<u>119,338</u>
			137,899
Community Facilities Direct Loan and Grants	U.S. Department of Agriculture	10.766	2,677,854
Health Care and other Facilities Construction Project	U.S. Department of Health and Human Services	93.887	<u>396,000</u>
			<u>\$ 3,211,753</u>

Notes to Schedule

1. This schedule includes the federal awards activity of the Board of Trustees of Kiowa County Memorial Hospital and its discretely presented component unit, Great Plains of Kiowa County, Inc., collectively a component unit of Kiowa County, Kansas, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. No federal awards were provided to subrecipients during this period.

**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Board of Trustees
Kiowa County Memorial Hospital
Greensburg, Kansas

We have audited the financial statements of the Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) and its discretely presented component unit, Great Plains of Kiowa County, Inc. (Hospital), collectively a component unit of Kiowa County, Kansas, as of and for the year ended December 31, 2010, and have issued our report thereon dated August 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Board of Trustees and Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board of Trustees or Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of Trustees or Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Board of Trustees or Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the accompanying schedule of findings and responses as item 10-01 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Board of Trustees
Kiowa County Memorial Hospital
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of Trustees and Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Board of Trustees and the Hospital in a separate letter dated August 12, 2011.

This report is intended solely for the information and use of the Board of Trustees, the Hospital and others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

August 12, 2011

Independent Accountants' Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
Kiowa County Memorial Hospital
Greensburg, Kansas

Compliance

We have audited the compliance of the Board of Trustees of Kiowa County Memorial Hospital (Board of Trustees) and its component unit, Great Plains of Kiowa County, Inc. (Hospital or GPKC) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010. The Board of Trustees and Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board of Trustees and Hospital's management. Our responsibility is to express an opinion on the compliance of the Board of Trustees and the Hospital based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board of Trustees and Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Board of Trustees and Hospital's compliance with those requirements.

As described in items 10-02 and 10-03 in the accompanying schedule of findings and questioned costs, the Board of Trustees and the Hospital did not comply with the requirements regarding quarterly submission of financial statements to the USDA and Kiowa County Clerk or make monthly deposits into a debt service account that are applicable to its Community Facilities Direct Loan. Compliance with such requirements is necessary, in our opinion, for the Board of Trustees and the Hospital to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Board of Trustees and the Hospital complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2010.

Internal Control Over Compliance

The Board of Trustees and the management of the Hospital are responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Board of Trustees and the Hospital's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board of Trustees and the Hospital's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 10-02 and 10-03. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Board of Trustees and the Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Board of Trustees or the Hospital's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, management of the Hospital, others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

August 12, 2011

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

7. The Board of Trustees and the Hospital's major programs were:

Cluster/Program	CFDA Number
Community Facilities Direct Loan and Grants	10.766
Health Care and other Facilities Construction Project	93.887

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Board of Trustees and the Hospital qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
10-01	<p>Criteria or Specific Requirement – Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition – The Hospital’s chief financial officer (CFO) has incompatible duties within the cash outflows cycle.</p> <p>Context – The CFO prepares bank reconciliations, EFT transactions and journal entries. Currently no one is reviewing these reconciliations, transactions or journal entries. The CFO also has the ability to add and modify accounts payable vendor information and sign checks.</p> <p>Effect – Potentially significant misstatements in financial statements or significant misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause – The duties regarding the CFO are not adequately segregated, and monitoring and compensating controls are insufficient.</p> <p>Recommendation – Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or compensating controls and implement those changes it deems appropriate for which benefits are deemed to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform the suggested evaluation and create new policies and procedures as appropriate.</p>	None

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
10-02	<p style="text-align: center;">CFDA No. 10.766 Community Facilities Direct Loan U.S. Department of Agriculture</p> <p>Criteria or Specific Requirement – Quarterly financial reports to the USDA and Kiowa County Clerk.</p> <p>Condition – No reports were made in 2010.</p> <p>Context – Based on the 2010 Revenue Bond Agreement, quarterly financial reports are to be submitted to the USDA and the Kiowa County Clerk. No reports were made in 2010.</p> <p>Effect – The Hospital did not meet the reporting requirements as defined in the Bond Agreement.</p> <p>Cause – The Hospital had overlooked the requirement.</p> <p>Recommendation – Set up a process to ensure that the required quarterly reports are submitted to the USDA and the Kiowa County Clerk.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Hospital administrator along with the Board of Trustees will ensure that the required quarterly reports are submitted.</p>	None
10-03	<p style="text-align: center;">CFDA No. 10.766 Community Facilities Direct Loan U.S. Department of Agriculture</p> <p>Criteria or Specific Requirement – Monthly deposits are required to be made to the debt reserve account as specified by the 2010 Revenue Bond Agreement.</p> <p>Condition – No deposits were made in 2010.</p> <p>Context – Based on the 2010 Revenue Bond Agreement, monthly deposits in the amount of \$963 shall be made until the account reaches a balance of \$115,630 or the bond is extinguished.</p> <p>Effect – The Hospital did not meet the funding requirements as defined in the Bond Agreement.</p>	\$11,556

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2010

Reference Number	Finding	Questioned Costs
	<p>Cause – The Hospital had overlooked the requirement.</p> <p>Recommendation – Set up a process to ensure that the required monthly deposits are made.</p> <p>Views of Responsible Officials and Planned Corrective Actions – The Hospital administrator along with the Board of Trustees will insure that the required transfers to the debt reserve account are made on a monthly basis.</p>	

Board of Trustees of Kiowa County Memorial Hospital
A Component Unit of Kiowa County, Kansas
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2010

The previous audit of the Hospital had two financial statement findings as follows:

Reference Number	Summary of Finding	Status
09-01	Liabilities incurred by the Hospital were not recorded in the correct period.	Resolved
09-02	Non-routine transfers of funds between the Hospital and the Board of Trustees were recorded incorrectly by the Hospital.	Resolved