

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Accountants' Report and Financial Statements
December 31, 2010 and 2009

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
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Independent Accountants' Report

Board of Trustees
Medicine Lodge Memorial Hospital
Medicine Lodge, Kansas

We have audited the accompanying balance sheet of Medicine Lodge Memorial Hospital (Hospital), a component unit of Medicine Lodge Township, Kansas (Township), as of December 31, 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Medicine Lodge Memorial Hospital as of and for the year ended December 31, 2009, were audited by other accountants whose report dated June 9, 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 and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Hospital has not presented a management's discussion and analysis as required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of, the basic financial statements.

BKD, LLP

July 26, 2011

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Balance Sheets
December 31, 2010 and 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| Assets | | |
| Current Assets | | |
| Cash | \$ 380,188 | \$ 234,024 |
| Patient accounts receivable, net | 1,134,838 | 808,976 |
| Estimated amounts due from third-party payers | 175,000 | 381,764 |
| Other receivables | 186,300 | 177,759 |
| Supplies | 254,428 | 247,570 |
| Prepaid expenses and other | 57,215 | 57,965 |
| Total current assets | 2,187,969 | 1,908,058 |
| Noncurrent Cash and Investments | | |
| Designated by Board of Trustees | 470,818 | 769,416 |
| Restricted by donors for specific operating activities | 49,787 | 50,395 |
| Ranch land and mineral interests, at cost | 89,078 | 89,078 |
| | 609,683 | 908,889 |
| Capital Assets, Net | 1,263,367 | 1,037,803 |
| Total assets | \$ 4,061,019 | \$ 3,854,750 |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current maturities of long-term debt | \$ 73,566 | \$ 18,522 |
| Accounts payable | 78,403 | 113,739 |
| Accrued expenses | 579,880 | 489,459 |
| Total current liabilities | 731,849 | 621,720 |
| Long-term Debt | 366,795 | 63,577 |
| Total liabilities | 1,098,644 | 685,297 |
| Net Assets | | |
| Invested in capital assets, net of related debt | 823,006 | 955,704 |
| Restricted - expendable for | | |
| Specific operating activities | 49,787 | 50,395 |
| Unrestricted | 2,089,582 | 2,163,354 |
| Total net assets | 2,962,375 | 3,169,453 |
| Total liabilities and net assets | \$ 4,061,019 | \$ 3,854,750 |

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|--------------|--------------|
| Operating Revenues | | |
| Net patient service revenue | \$ 7,004,485 | \$ 6,304,689 |
| Other | 306,637 | 660,864 |
| Total operating revenues | 7,311,122 | 6,965,553 |
| Operating Expenses | | |
| Salaries and wages | 4,678,503 | 4,384,700 |
| Supplies and other | 3,184,174 | 3,346,631 |
| Depreciation and amortization | 192,347 | 133,883 |
| Total operating expenses | 8,055,024 | 7,865,214 |
| Operating Loss | (743,902) | (899,661) |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 446,924 | 429,422 |
| Noncapital grants and gifts | 30,402 | 17,424 |
| Investment income | 8,230 | 15,928 |
| Ranch income, net of expense | 59,039 | 35,346 |
| Interest expense | (7,769) | (3,051) |
| Loss on disposition of property and equipment | (2) | (9,583) |
| Total nonoperating revenues | 536,824 | 485,486 |
| Deficiency of Revenues Over Expenses Before Capital Grants and Gifts | (207,078) | (414,175) |
| Capital Grants and Gifts | - | 34,950 |
| Decrease in Net Assets | (207,078) | (379,225) |
| Net Assets, Beginning of Year | 3,169,453 | 3,548,678 |
| Net Assets, End of Year | \$ 2,962,375 | \$ 3,169,453 |

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|-------------------|---------------------|
| Operating Activities | | |
| Receipts from and on behalf of patients and third-party payers | \$ 6,885,387 | \$ 6,673,902 |
| Payments to suppliers | (3,225,618) | (3,323,743) |
| Payments to and on behalf of employees | (4,588,082) | (4,385,947) |
| Other receipts (payments), net | <u>298,096</u> | <u>647,026</u> |
| Net cash used in operating activities | <u>(630,217)</u> | <u>(388,762)</u> |
| Noncapital Financing Activities | | |
| Property taxes supporting operations | 446,924 | 467,267 |
| Noncapital grants and gifts | <u>30,402</u> | <u>17,424</u> |
| Net cash provided by noncapital financing activities | <u>477,326</u> | <u>484,691</u> |
| Capital and Related Financing Activities | | |
| Capital grants and gifts | - | 34,950 |
| Principal paid on long-term debt | (31,931) | (35,303) |
| Interest payments on long-term debt | (7,769) | (3,051) |
| Purchases of capital assets | <u>(27,720)</u> | <u>(275,483)</u> |
| Net cash used in capital and related financing activities | <u>(67,420)</u> | <u>(278,887)</u> |
| Investing Activities | | |
| Ranch operations | 59,039 | 35,346 |
| Investment income | <u>8,230</u> | <u>15,928</u> |
| Net cash provided by investing activities | <u>67,269</u> | <u>51,274</u> |
| Decrease in Cash | (153,042) | (131,684) |
| Cash, Beginning of Year | <u>1,053,835</u> | <u>1,185,519</u> |
| Cash, End of Year | <u>\$ 900,793</u> | <u>\$ 1,053,835</u> |
| Reconciliation of Cash to the Balance Sheets | | |
| Cash in current assets | \$ 380,188 | \$ 234,024 |
| Cash in noncurrent cash and investments | <u>520,605</u> | <u>819,811</u> |
| Total cash | <u>\$ 900,793</u> | <u>\$ 1,053,835</u> |

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2010 and 2009

| | 2010 | 2009 |
|---|---------------------|---------------------|
| Reconciliation of Operating Loss to Net Cash | | |
| Used in Operating Activities | | |
| Operating loss | \$ (743,902) | \$ (899,661) |
| Depreciation and amortization | 192,347 | 133,883 |
| Provision for uncollectible accounts | 175,000 | 257,199 |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | (500,862) | 115,778 |
| Estimated amounts due from and to third-party payers | 206,764 | (3,764) |
| Other receivables | (8,541) | (13,838) |
| Supplies | (6,858) | 10,397 |
| Prepaid expenses and other | 750 | 7,587 |
| Accounts payable and accrued expenses | 55,085 | 3,657 |
| Net cash used in operating activities | <u>\$ (630,217)</u> | <u>\$ (388,762)</u> |
| Supplemental Cash Flows Information | | |
| Capital lease obligations incurred for capital assets | \$ 390,193 | \$ 97,000 |
| Capital asset acquisitions included in accounts payable | \$ - | \$ 18,171 |

Medicine Lodge Memorial Hospital
A Component Unit of Medicine Lodge Township, 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

Medicine Lodge Memorial Hospital (Hospital) is owned by Medicine Lodge Township (Township) and governed by a Board of Trustees who are appointed by the Medicine Lodge City Council and the Board of Medicine Lodge Township and is a component unit of the Township. The Hospital provides short-term acute care services and outpatient services and operates a medical clinic.

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, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as property taxes, investment 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), including those that were issued after 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. There are no cash equivalents at December 31, 2010 and 2009.

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Effective October 3, 2008, the FDIC's insurance limits increased to \$250,000. The increase in federally insured limits, previously set to expire December 31, 2013, was made permanent July 21, 2010, by the Dodd-Frank Act. The Hospital's cash accounts exceeded federally insured limits but were fully collateralized by pledged securities at December 31, 2010 and 2009.

Property Taxes

The Hospital received approximately 6% in 2010 and 2009 of its financial support from property taxes.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property taxes is recognized in the year for which the taxes are levied.

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Patient Accounts Receivable

The Hospital reports patient accounts receivable for the services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

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. Patient service revenue is recorded at established rates with contractual adjustments, charity care and other adjustments deducted to arrive at net patient service revenue before the 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.

Medicine Lodge Memorial Hospital
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Notes to Financial Statements
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Supplies

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

Noncurrent Cash and Investments

As of December 31, 2010 and 2009, noncurrent cash and investments included assets held by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes. Noncurrent cash and investments also include assets restricted by donors and grantors.

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 and leasehold improvements 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 | 20 years |
| Buildings | 10-50 years |
| Fixed equipment | 10-20 years |
| Moveable equipment | 5-20 years |

Compensated Absences

Hospital policies permit most employees to accumulate vacation 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. 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 three components. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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Income Taxes

As an essential government function of the County, 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.

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.

Reclassifications

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

Subsequent Events

Subsequent events have been evaluated through July 26, 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 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.

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Notes to Financial Statements
December 31, 2010 and 2009

At December 31, 2010 and 2009, respectively, \$569,698 and \$750,850 of the Hospital's bank balances of \$997,066 and \$1,152,066 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 Hospital's name | \$ 569,698 | \$ 750,850 |

Summary of Carrying Values

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

| | 2010 | 2009 |
|--|-------------|--------------|
| Carrying value | | |
| Deposits | \$ 899,918 | \$ 1,052,960 |
| Petty cash | 875 | 875 |
| | \$ 900,793 | \$ 1,053,835 |
| Included in the following balance sheet captions | | |
| Cash in current assets | \$ 380,188 | \$ 234,024 |
| Designated by Board of Trustees | 470,818 | 769,416 |
| Restricted by donors | 49,787 | 50,395 |
| | \$ 900,793 | \$ 1,053,835 |

Note 3: 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 licensed as a Critical Access Hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

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Medicaid. The Medicaid state plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital is reimbursed at tentative rates with final settlements determined after submission of an annual cost report by the Hospital and reviews thereof by the Kansas Health Policy Authority. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network.

Approximately 66% and 71% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009. 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.

During March 2010, President Obama signed into law the *Patient Protection and Affordable Care Act* and the *Health Care and Education Tax Credits Reconciliation Act of 2010*. Together, these two acts will reform the health care system and will impact payments received by health care providers. Any reductions in payments may be offset by reductions in bad debts and charity care, as the number of uninsured Americans is reduced. However, the overall impact on the Hospital of the health care reform is not presently determinable.

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

Net patient service revenue consists of the following for the years ended December 31:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------------|---------------------|---------------------|
| Gross patient service revenue | \$ 7,615,618 | \$ 7,782,669 |
| Contractual adjustments | | |
| Medicare | 120,136 | (378,791) |
| Medicaid | (126,161) | (84,207) |
| Other adjustments | (399,262) | (742,637) |
| Charity care | (30,846) | (15,146) |
| Provision for uncollectible accounts | <u>(175,000)</u> | <u>(257,199)</u> |
| | <u>\$ 7,004,485</u> | <u>\$ 6,304,689</u> |

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Notes to Financial Statements
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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 December 31 consisted of:

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|-------------------|
| Medicare | \$ 572,903 | \$ 477,889 |
| Medicaid | 46,442 | 40,373 |
| Blue Cross | 140,610 | 142,827 |
| Other third-party payers | 406,032 | 422,300 |
| Self-pay | 725,820 | 592,372 |
| | <u>1,891,807</u> | <u>1,675,761</u> |
| Less allowance for contractual adjustments | (106,609) | (221,807) |
| Less allowance for uncollectible accounts | <u>(650,360)</u> | <u>(644,978)</u> |
| | <u>\$ 1,134,838</u> | <u>\$ 808,976</u> |

The mix of gross patient accounts receivables from patient and third-party payers at December 31 consisted of:

| | <u>2010</u> | <u>2009</u> |
|--------------------------|-------------|-------------|
| Medicare | 30% | 33% |
| Medicaid | 2% | 3% |
| Blue Cross | 8% | 10% |
| Other third-party payers | 22% | 14% |
| Self-pay | 38% | 40% |
| | <u>100%</u> | <u>100%</u> |

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The Hospital is currently in the architectural planning phase for a construction/remodel project that proposes to remodel approximately 17,000 existing square footage and adding another 17,000 square feet. This project is projected to cost approximately \$9 million when completed. Expected ground breaking to take place in October 2011 and be completed by April 2013.

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 Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

| | 2010 | | | | | |
|---------------------------|------------------|------------------|-------------------|----------------|----------------|------------------|
| | Beginning | | | Ending | Current | Long-term |
| | Balance | Additions | Deductions | Balance | Portion | Portion |
| Capital lease obligations | \$ 82,099 | \$ 390,193 | \$ 31,931 | \$440,361 | \$ 73,566 | \$ 366,795 |
| | 2009 | | | | | |
| | Beginning | | | Ending | Current | Long-term |
| | Balance | Additions | Deductions | Balance | Portion | Portion |
| Capital lease obligations | \$ 20,402 | \$ 97,000 | \$ 35,303 | \$ 82,099 | \$ 18,522 | \$ 63,577 |

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Scheduled payments on the capital lease obligations are as follows:

| | <u>Principal</u> | <u>Interest</u> |
|--------------------------|-------------------|------------------|
| Year Ending December 31, | | |
| 2011 | \$ 73,566 | \$ 17,536 |
| 2012 | 76,938 | 14,165 |
| 2013 | 80,548 | 10,555 |
| 2014 | 58,333 | 7,209 |
| 2015 | 51,358 | 5,080 |
| 2016 - 2017 | <u>99,618</u> | <u>3,850</u> |
| | <u>\$ 440,361</u> | <u>\$ 58,395</u> |

The following is an analysis of the financial presentation of the capital leases at December 31:

| | <u>2010</u> | <u>2009</u> |
|-------------------------------|-------------------|------------------|
| Equipment | \$ 487,193 | \$ 97,000 |
| Less accumulated depreciation | <u>51,447</u> | <u>17,783</u> |
| | <u>\$ 435,746</u> | <u>\$ 79,217</u> |

Note 8: Pension Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who have completed one year of service and are at least 21 years of age and have been paid for 1,000 hours of service for the year. Employer contributions are computed at the rate of 4.5% of annual compensation for eligible employees. The employer also makes supplemental contributions up to an additional 3% of the annual compensation of eligible employees based upon the number of years of continuous service. Benefits are funded by a money purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$134,725 and \$233,600 during 2010 and \$122,525 and \$194,679 during 2009, respectively. Benefits start vesting immediately with 100% vesting after six years of service. In case of the death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

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The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Employee contributions to the plan are computed at the rate of 3.5% of the annual compensation of the eligible employees. Contributions made by plan members totaled \$89,003 and \$57,904 during 2010 and 2009, respectively. The plan year begins on January 1 and ends December 31.

Note 9: Management Agreement

The Board of Trustees of the Hospital has a management agreement with Great Plains Health Alliance, Inc. (GPHA), whereby GPHA agreed to administer operations of the Hospital. Fees incurred under the management agreement were \$75,363 and \$76,604 for 2010 and 2009, respectively. Additional fees paid to GPHA for services provided under this agreement were \$17,584 and \$14,527 for 2010 and 2009, respectively.

The Hospital entered into an agreement with Midwest Health Systems, Inc. (MHS) for data processing services. MHS was a wholly-owned subsidiary of GPHA until it was dissolved effective October 2008. GPHA assumed the agreement which was amended for a five-year term set to expire August 2010 with annual renewal options thereafter. Fees incurred under this agreement totaled \$57,960 and \$57,500 in 2010 and 2009, respectively. Additional fees paid to GPHA for services provided under this agreement were \$16,280 and \$18,704 for 2010 and 2009, respectively.

In 2008, an addendum to the MHS agreement was entered into by the Hospital in which the Hospital is committed to pay MHS an estimated remaining amount of \$1,019,032 in data access payments over the term of the agreement.

Note 10: Risks and Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the 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.

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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 11: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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.