

SATANTA HOSPITAL DISTRICT  
BASIC FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT  
DECEMBER 31, 2009 AND 2008

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Satanta Hospital District  
Satanta, KS 67870

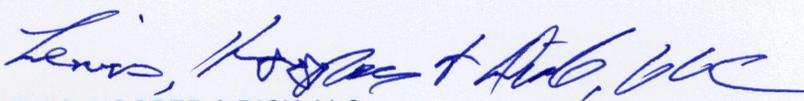
We have audited the accompanying financial statements of the business-type activity and the aggregate discretely presented component unit of the Satanta Hospital District as of and for the year ended December 31, 2009, which collectively comprise the basic financial statements of the District's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Satanta Hospital District's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the District's 2008 financial statements and, in our report dated June 11, 2009, we expressed unqualified opinions on the respective financial statements of the business-type activity and the aggregate discretely presented component unit.

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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity and the aggregate discretely presented component unit of the Satanta Hospital District as of December 31, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages ii through v is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Satanta Hospital District's basic financial statements. The information identified in the table of contents as supplemental schedules 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 audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
LEWIS, HOOPER & DICK, LLC

April 29, 2010

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# **Satanta Hospital District**

## **Management Discussion and Analysis**

### **For the years ended December 31, 2009 and 2008**

The following information provides an overview of Satanta Hospital District's financial performance for fiscal years ending December 31, 2009 and 2008. The information contained here is intended to provide the users of these financial statements with a well rounded picture of the District's financial condition. It addresses the primary government financial statements only; the component units presented are not discussed in this Management's Discussion and Analysis. A more detailed presentation is given in the District's basic financial statements, footnotes and supplementary information (pages 2-24). Responsibility for this discussion and the completeness and fairness of the information presented resides with the District.

#### **Financial Highlights**

The District's total assets decreased from 2008 to 2009, by \$602,670. At December 31, 2009, total assets were \$10,504,291 as compared to \$11,106,961 at December 31, 2008.

Long-term debt totaled \$79,535 at December 31, 2009, and \$471,988 at December 31, 2008, which is a decrease of \$392,453.

The District's reported net patient service revenue was \$8,350,111 for fiscal year 2009, and was \$8,478,743 for fiscal year 2008; a decrease of \$128,632 or 1.52%.

The District received \$2,609,199 in property tax distributions in fiscal year 2009, and \$2,381,947 in fiscal year 2008. Specific amounts within the property tax distribution are earmarked for long-term bond obligations and employee benefits, as well as a portion of operational costs.

The District reported a deficit of revenues under expenses before capital grants, contributions and additions to permanent endowments of \$82,693 for fiscal year 2009, and an excess of \$177,329 for fiscal year 2008. This was decrease of \$260,022, or 147%, compared to fiscal year 2008's excess of revenues over expenses.

#### **Using this Annual Report**

The District's financial statements consist of three statements – a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District for restricted purposes by contributors, grantors, or enabling legislation.

The discussion following is provided to allow for a more simplified understanding of the District's level of financial stability in relation to that of the previous year (fiscal year 2008).

### **Net Assets**

The District's net assets are the difference between its assets and liabilities reported in the balance sheets on page 2. The District's net assets decreased in the past year by \$56,169, or 0.82%, compared to an increase in net assets of \$217,825, or 3.27%, in the previous year, as you can see in the following table.

|  | <u>2009</u>                 | <u>2008</u>                 | <u>2007</u>                 |
|--|-----------------------------|-----------------------------|-----------------------------|
| <b>Assets:</b>                                 |                             |                             |                             |
| Current assets                                 | \$ 5,375,386                | \$ 5,632,845                | \$ 5,291,267                |
| Capital assets, net                            | <u>5,128,905</u>            | <u>5,474,116</u>            | <u>5,708,241</u>            |
| <b>Total assets</b>                            | <b><u>\$ 10,504,291</u></b> | <b><u>\$ 11,106,961</u></b> | <b><u>\$ 10,999,508</u></b> |
| <b>Liabilities:</b>                            |                             |                             |                             |
| Current liabilities                            | \$ 3,601,108                | \$ 3,755,156                | \$ 3,537,201                |
| Long-term debt                                 | <u>79,535</u>               | <u>471,988</u>              | <u>800,315</u>              |
| <b>Total liabilities</b>                       | <b><u>\$ 3,680,643</u></b>  | <b><u>\$ 4,227,144</u></b>  | <b><u>\$ 4,337,516</u></b>  |
| <b>Net assets:</b>                             |                             |                             |                             |
| Invested in capital assets net of related debt | \$ 4,654,440                | \$ 4,631,967                | \$ 4,472,958                |
| Restricted expendable net assets               | 25,355                      | 24,607                      | 20,892                      |
| Restricted nonexpendable net assets            | 20,000                      | 20,000                      | 20,000                      |
| Unrestricted                                   | <u>2,123,853</u>            | <u>2,203,243</u>            | <u>2,148,142</u>            |
| <b>Total net assets</b>                        | <b><u>\$ 6,823,648</u></b>  | <b><u>\$ 6,879,817</u></b>  | <b><u>\$ 6,661,992</u></b>  |

There was a decrease in the amount of current assets of \$257,459 from 2008; while total assets decreased from \$11,106,961 at December 31, 2008, to \$10,504,291 at December 31, 2009.

Long-term debt has decreased from \$471,988 at December 31, 2008, to \$79,535 at December 31, 2009. The annual payments being made toward the general obligation bond (enacted for the long-term care renovation project in the mid to late 1990's) obviously decrease long-term debt. The net effect resulted in decreasing the total liabilities at December 31, 2009; total liabilities at December 31, 2008, were \$4,227,144 as compared to \$3,680,643 at December 31, 2009.

There was no new long-term debt initiated during fiscal year 2009.

### **Operating Results and Changes in Net Assets**

In 2009, the District's net assets decreased by \$56,169 or 0.82%, as shown in the following table. This decrease is made up of different components. This decrease in net assets is 1.26 times more than the increase seen in 2008.

|  | <u>2009</u>         | <u>2008</u>         | <u>2007</u>         |
|--|---------------------|---------------------|---------------------|
| Operating revenues   |                     |                     |                     |
| Net patient service revenues   | \$ 8,350,111        | \$ 8,478,743        | \$ 8,143,992        |
| Other operating revenues   | 197,599             | 236,917             | 239,999             |
| Total operating revenues   | <u>8,547,710</u>    | <u>8,715,660</u>    | <u>8,383,991</u>    |
| Operating expenses   |                     |                     |                     |
| Salaries and benefits  | 5,635,853           | 5,528,627           | 5,231,083           |
| Supplies and other expenses  | 3,347,521           | 3,176,615           | 3,377,832           |
| Other operating expenses   | 1,616,062           | 1,561,414           | 1,371,670           |
| Depreciation   | 577,731             | 599,867             | 624,074             |
| Total operating expenses   | <u>11,177,167</u>   | <u>10,866,523</u>   | <u>10,604,659</u>   |
| Operating loss   | <u>(2,629,457)</u>  | <u>(2,150,863)</u>  | <u>(2,220,668)</u>  |
| Nonoperating revenues (expenses)   |                     |                     |                     |
| Property taxes   | 2,609,199           | 2,381,947           | 2,409,547           |
| Interest income  | 13,893              | 42,861              | 81,195              |
| Other nonoperating revenues (expenses), net  | (76,328)            | (96,616)            | (117,592)           |
| Total nonoperating revenues (expenses)   | <u>2,546,764</u>    | <u>2,328,192</u>    | <u>2,373,150</u>    |
| Excess (deficit) of revenues over (under)<br>expenses before capital grants, contributions,<br>and additions to permanent endowments | (82,693)            | 177,329             | 152,482             |
| Capital grants and contributions   | <u>26,524</u>       | <u>40,496</u>       | <u>15,062</u>       |
| Increase (decrease) in net assets  | (56,169)            | 217,825             | 167,544             |
| Net assets, beginning of year  | <u>6,879,817</u>    | <u>6,661,992</u>    | <u>6,494,448</u>    |
| Net assets, end of year  | <u>\$ 6,823,648</u> | <u>\$ 6,879,817</u> | <u>\$ 6,661,992</u> |

The decrease in net patient service revenues from fiscal year 2008, to fiscal year 2009, in the amount of \$128,632 can be attributed to several items, including:

- The Hospital's total patient days declined 29.5% or 206 days from 698 patient days in 2008 to 492 in 2009. The acute inpatient days decreased from 383 in 2008 to 305 in 2009 and skilled/intermediate swing-bed days dropped from 315 in 2008 to 187 in 2009.
- The ancillary outpatient services decreased nearly 0.04% resulting in approximately \$3,635 less patient revenue from 2008 to 2009.
- The number of clinic visits at both the Satanta and Sublette clinics decreased just over 500 visits compared to the prior year. A total of 10,156 patients were seen and/or treated in 2009 as compared to 10,660 patients in 2008.
- Two areas that had negative impact on the net patient revenue for 2009 were retail pharmacy with a decrease of \$64,366 in revenue from 2008 to 2009, and a lower resident census in the Long-Term Care Unit resulted in a decrease of \$173,613 in patient revenue from 2008 to 2009.

The increase in the operating loss from fiscal year 2008 to fiscal year 2009 of \$478,594 can be primarily attributed to the same factors.

All of these factors helped contribute to the 22.3% total operating loss increase for fiscal year 2009.

The District received \$227,252 more in property taxes for fiscal year 2009 than it had for fiscal year 2008 primarily due to the increase in the District's assessed valuation, while the mill levy actually decreased 2.292 mills. When considering the property tax receipts, the District was able to prevent a larger increase its overall loss for fiscal year 2009.

**Capital Asset and Debt Administration**

At the end of 2009, the District had \$5,128,905 invested in capital assets, net of accumulated depreciation, as detailed in Note 8 to the financial statements. In 2009, the District purchased new equipment costing \$232,788. This is \$134,082 less than was spent to acquire new equipment in 2008. A large part of the 2009 acquisitions were for the following:

|                             |    |        |
|-----------------------------|----|--------|
| Land                        | \$ | 64,807 |
| Telemetry monitoring system |    | 60,341 |
| Ambulance awning            |    | 53,692 |

The year 2008's renovation projects within the hospital were completed to included completion of installation of a new nurses' call station. No new renovation projects were started in 2009.

At December 31, 2009, the District had \$498,867 in general obligation bonds and capital lease obligations outstanding. The District issued no new debt in 2009 or 2008. The District's formal debt issuances – general obligation bonds – cannot be issued without approval of the citizens of the District. The amount of debt issued is subject to limitations that apply to the District.

**Budget Information**

As discussed above, the mill levy for the District declined for the last year due to an increase in the tax base. There were no amendments to the original budgets adopted during the last two years. In addition, there have been no significant variations between the budgeted and actual results for the District's three tax levying funds as presented on page 22 of the financial statements.

**Other Economic Factors**

The outlook for the District's finances is bright for the up-coming year 2010. Although the District, as any other healthcare entity does, will have to deal with continued reimbursement challenges and rising costs of providing healthcare, we feel positive that we are working to counter those issues with increased service offerings and better efficiency.

**Contact Information**

If you have any questions about this report or need additional financial information, please contact the Administrator or the Director of Finance at Satanta District Hospital, 401 Cheyenne, Satanta, KS 67870 or at (620) 649-2761.

## BASIC FINANCIAL STATEMENTS

SATANTA HOSPITAL DISTRICT  
Balance Sheets  
December 31, 2009 and 2008

|   | District      |               |
|---|---------------|---------------|
|   | 2009          | 2008          |
| <u>ASSETS</u>   |               |               |
| CURRENT ASSETS  |               |               |
| Cash and cash equivalents   | \$ 1,032,305  | \$ 1,753,599  |
| Short-term investments  | -             | -             |
| Donor restricted cash   | 45,355        | 44,606        |
| Accounts receivable, less allowance for doubtful accounts<br>of \$281,919 and \$371,171 | 931,221       | 760,731       |
| Due from Medicare and Medicaid for contractual adjustments                              | 485,702       | 22,908        |
| Uncollected current property taxes receivable   | 2,399,796     | 2,536,938     |
| Inventories   | 372,795       | 448,657       |
| Prepaid expenses  | 108,212       | 65,406        |
| TOTAL CURRENT ASSETS  | 5,375,386     | 5,632,845     |
| CAPITAL ASSETS, net of accumulated depreciation   | 5,128,905     | 5,474,116     |
| TOTAL ASSETS  | \$ 10,504,291 | \$ 11,106,961 |
| <u>LIABILITIES AND NET ASSETS</u>   |               |               |
| CURRENT LIABILITIES   |               |               |
| Accounts payable  | \$ 136,523    | \$ 223,679    |
| Accrued payroll   | 138,511       | 122,056       |
| Accrued compensated absences  | 216,870       | 216,439       |
| Other accrued expenses  | 195,076       | 180,370       |
| Accrued interest payable  | 5,519         | 10,944        |
| Current portion of long-term debt   | 394,930       | 370,161       |
| Deferred revenue - routine services   | 113,883       | 94,569        |
| Deferred revenue - current property taxes   | 2,399,796     | 2,536,938     |
| TOTAL CURRENT LIABILITIES   | 3,601,108     | 3,755,156     |
| LONG-TERM DEBT, net of current maturities   | 79,535        | 471,988       |
| TOTAL LIABILITIES   | 3,680,643     | 4,227,144     |
| NET ASSETS  |               |               |
| Invested in capital assets net of related debt  | 4,654,440     | 4,631,967     |
| Restricted:   |               |               |
| Expendable for capital acquisitions   | 17,432        | 20,265        |
| Expendable for employee activities  | 2,890         | 2,488         |
| Expendable for scholarships   | 5,033         | 1,854         |
| Nonexpendable permanent endowments  | 20,000        | 20,000        |
| Unrestricted  | 2,123,853     | 2,203,243     |
| TOTAL NET ASSETS  | 6,823,648     | 6,879,817     |
| TOTAL LIABILITIES AND NET ASSETS  | \$ 10,504,291 | \$ 11,106,961 |

The accompanying Notes to Financial Statements are an integral part of this statement.



SATANTA HOSPITAL DISTRICT  
 Statements of Revenues, Expenses and Changes in Net Assets  
 For the years ended December 31, 2009 and 2008

|   | District     |              |
|---|--------------|--------------|
|   | 2009         | 2008         |
| <b>OPERATING REVENUES</b>   |              |              |
| <b>PATIENT SERVICE REVENUES</b>   |              |              |
| Routine services - hospital   | \$ 248,590   | \$ 339,435   |
| Routine services - LTCU   | 1,327,337    | 1,500,950    |
| Ancillary services - Satanta Clinic   | 681,397      | 669,373      |
| Ancillary services - Sublette Clinic  | 337,535      | 353,194      |
| Ancillary services - retail pharmacy  | 1,949,411    | 2,013,777    |
| Ancillary services - other  | 4,098,264    | 4,298,194    |
| Total patient service revenues  | 8,642,534    | 9,174,923    |
| Adjustments to patient service revenues:  |              |              |
| Contractual adjustments - Medicare and Medicaid   | 354,361      | 49,665       |
| Contractual adjustments - Blue Cross  | (474,321)    | (595,958)    |
| Administrative adjustments  | (172,463)    | (149,887)    |
| Total adjustments to patient service revenues   | (292,423)    | (696,180)    |
| <b>NET PATIENT SERVICE REVENUES</b>   | 8,350,111    | 8,478,743    |
| <b>OTHER OPERATING REVENUES</b>   |              |              |
| Cafeteria sales   | 15,485       | 16,049       |
| Other   | 182,114      | 220,868      |
| <b>TOTAL OPERATING REVENUES</b>   | 8,547,710    | 8,715,660    |
| <b>OPERATING EXPENSES</b>   |              |              |
| Salaries  | 4,666,895    | 4,606,754    |
| Employee benefits   | 968,958      | 921,873      |
| Supplies and other expenses   | 3,347,521    | 3,176,615    |
| Professional service  | 1,448,756    | 1,378,373    |
| Provision for uncollectible accounts  | 167,306      | 183,041      |
| Depreciation  | 577,731      | 599,867      |
| <b>TOTAL OPERATING EXPENSES</b>   | 11,177,167   | 10,866,523   |
| <b>OPERATING LOSS</b>   | (2,629,457)  | (2,150,863)  |
| <b>NONOPERATING REVENUES (EXPENSES)</b>   |              |              |
| Property taxes  | 2,609,199    | 2,381,947    |
| Interest income   | 13,893       | 42,861       |
| Gain (loss) on disposal of assets   | (268)        | 187          |
| Interest expense and fees   | (76,060)     | (96,803)     |
| <b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>   | 2,546,764    | 2,328,192    |
| <b>EXCESS (DEFICIT) OF REVENUES OVER (UNDER)<br/>EXPENSES BEFORE CAPITAL GRANTS,<br/>CONTRIBUTIONS, AND ADDITIONS TO<br/>PERMANENT ENDOWMENTS</b> |              |              |
|   | (82,693)     | 177,329      |
| Capital grants and contributions  | 26,524       | 40,496       |
| <b>INCREASE (DECREASE) IN NET ASSETS</b>  | (56,169)     | 217,825      |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | 6,879,817    | 6,661,992    |
| <b>NET ASSETS, END OF YEAR</b>  | \$ 6,823,648 | \$ 6,879,817 |

The accompanying Notes to Financial Statements are an integral part of this statement.

| Foundation |            |
|------------|------------|
| 2009       | 2008       |
| \$ -       | \$ -       |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| -          | -          |
| 325        | 408        |
| 325        | 408        |
| 24,713     | 45,045     |
| -          | 9,581      |
| 9,137      | 13,093     |
| 23,120     | 5,837      |
| -          | -          |
| -          | -          |
| 56,970     | 73,556     |
| (56,645)   | (73,148)   |
| -          | -          |
| 673        | 2,701      |
| -          | -          |
| -          | -          |
| 673        | 2,701      |
| (55,972)   | (70,447)   |
| 47,747     | 83,382     |
| (8,225)    | 12,935     |
| 101,311    | 88,376     |
| \$ 93,086  | \$ 101,311 |

SATANTA HOSPITAL DISTRICT  
Statements of Cash Flows  
For the years ended December 31, 2009 and 2008

|   | 2009           | 2008           |
|---|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                |                |
| Receipts from and on behalf of patients   | \$ 7,568,835   | \$ 8,638,090   |
| Payments to suppliers and contractors   | (5,804,629)    | (5,415,550)    |
| Payments to employees   | (4,650,009)    | (4,608,371)    |
| Other receipts and payments, net  | 197,599        | 236,917        |
| NET CASH USED BY OPERATING ACTIVITIES   | (2,688,204)    | (1,148,914)    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                  |                |                |
| Property taxes  | 2,609,199      | 2,381,947      |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                         |                |                |
| Capital grants and contributions  | 26,524         | 40,496         |
| Principal paid on long-term debt  | (409,519)      | (434,967)      |
| Interest paid on long-term debt   | (39,650)       | (60,849)       |
| Proceeds from sale of property and equipment  | -              | 1,315          |
| Purchases of property and equipment   | (232,788)      | (366,870)      |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES                               | (655,433)      | (820,875)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                |                |
| Interest income   | 13,893         | 42,861         |
| Net purchases from investing activities   | -              | 771,000        |
| NET CASH PROVIDED BY INVESTING ACTIVITIES   | 13,893         | 813,861        |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                    | (720,545)      | 1,226,019      |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR  | 1,798,205      | 572,186        |
| CASH AND CASH EQUIVALENTS, END OF YEAR  | \$ 1,077,660   | \$ 1,798,205   |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS</b>                |                |                |
| Cash and cash equivalents in current assets   | \$ 1,032,305   | \$ 1,753,599   |
| Donor restricted assets   | 45,355         | 44,606         |
| <b>TOTAL CASH AND CASH EQUIVALENTS</b>  | \$ 1,077,660   | \$ 1,798,205   |
| <b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>       |                |                |
| Operating loss  | \$ (2,629,457) | \$ (2,150,863) |
| Adjustments to reconcile operating loss to net cash flows used in operating activities: |                |                |
| Depreciation  | 577,731        | 599,867        |
| Provision for uncollectible accounts  | 167,306        | 183,041        |
| Changes in:   |                |                |
| Accounts receivable   | (337,796)      | (189,201)      |
| Due from Medicare and Medicaid for contractual adjustments                              | (462,794)      | 390,344        |
| Inventories   | 75,862         | (45,414)       |
| Prepaid expenses  | (42,806)       | 5,510          |
| Accounts payable  | (87,156)       | 99,517         |
| Accrued payroll   | 16,455         | (2,991)        |
| Accrued compensated absences  | 431            | 1,374          |
| Other accrued expenses  | 14,706         | 1,698          |
| Deferred revenue-routine services   | 19,314         | (41,796)       |
| NET CASH USED BY OPERATING ACTIVITIES   | \$ (2,688,204) | \$ (1,148,914) |

The accompanying Notes to Financial Statements are an integral part of this statement.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

1. Summary of significant accounting policies

The Satanta Hospital District is a tax levying municipality which operates as the Satanta District Hospital located in Satanta, Kansas. The District is a health care facility organized as a district hospital pursuant to K.S.A. 80-2113 and includes the operation of the hospital and long-term care unit, Satanta clinic, and Sublette clinic. They are operated from facilities owned and leased by the Satanta Hospital District.

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The District's reports are based on all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

The more significant of the District's accounting policies are described below.

A. Financial reporting entity

The Satanta Hospital District is governed by an elected five-member board. As required by accounting principles generally accepted in the United States of America, these financial statements present the Satanta Hospital District (the primary government) and its component units. Component units are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

The following organization is a discretely presented component unit of the District and is included in the component unit's column in the District's basic financial statements. It is reported in a separate column to emphasize that it is a not-for-profit entity legally separate from the District. The discretely presented component unit has a December 31st year end.

Haskell County Health Foundation has its own Board of Directors, who operates independently from the District. Haskell County Health Foundation (a nonprofit corporation) was formed in 1999 under the laws of the State of Kansas, for the purpose of developing and supporting health services in Haskell County, Kansas. The purpose of Haskell County Health Foundation as a charitable organization is to promote health care. This is accomplished by providing monetary and service support for health services and programs. Haskell County Health Foundation is a separate, legal entity that prepares and operates under its own budget. The Satanta Hospital District has the power to appoint Haskell County Health Foundation's board members. The Board of Directors is responsible for the management and fiscal accountability of Haskell County Health Foundation. The Foundation does not issue separate financial statements.

B. 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.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

1. Summary of significant accounting policies (continued)

C. Enterprise fund accounting

The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", as amended, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

D. Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

E. Capital assets

Prior to January 1, 1978, capital assets were not capitalized and historical cost data is unavailable. Capital assets have been valued by management using an estimate to establish cost of assets acquired before January 1, 1978. All capital assets acquired after January 1, 1978, are recorded at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following asset lives:

|                                     |                |
|-------------------------------------|----------------|
| Land improvements                   | 15 to 20 years |
| Buildings and building improvements | 40 years       |
| Equipment                           | 5 to 20 years  |

F. Costs of borrowing

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the District's interest costs were capitalized in either 2009 or 2008.

G. Property taxes and deferred revenue

The District received approximately 24% in 2009, and 21% in 2008, of its financial support from property taxes. These funds were used as follows:

|   | 2009         |     | 2008         |     |
|---|--------------|-----|--------------|-----|
| Used to support operations                        | \$ 2,276,991 | 20% | \$ 1,998,942 | 18% |
| Used for debt service on general obligation bonds | \$ 332,208   | 3%  | \$ 383,005   | 3%  |

The determination of assessed valuations and the collections of property taxes for all political subdivisions in the State of Kansas is the responsibility of the counties. The County Appraiser annually determines assessed valuations based on real property transactions as recorded by the Register of Deeds and personal property holdings reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls and the County Treasurer collects the taxes for all taxing entities within the County.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

1. Summary of significant accounting policies (continued)

G. Property taxes and deferred revenue (continued)

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis, are levied and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing the taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, taxes levied during the current year are not due and receivable until the ensuing year. At December 31, 2009 and 2008, such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies of \$47,996 and \$50,759, respectively, with a corresponding amount recorded as deferred revenue on the balance sheets of the appropriate funds. It is not practicable to apportion delinquent taxes held by the County Treasurer at the end of the accounting period, and further, the amounts thereof are not material in relationship to the financial statements taken as a whole.

H. Budget and tax cycle

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), and debt service funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no budget amendments to the adopted annual operating budget for 2009 or 2008.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All encumbered appropriations (legal budget expenditure authority) lapse at year end.

A legal operating budget is not required for capital project funds, fiduciary funds and certain special revenue funds.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

1. Summary of significant accounting policies (continued)

H. Budget and tax cycle (continued)

Spending in funds which are not subject to the legal annual operating budget requirement are controlled by statutes or by the use of internal spending limits established by the governing body.

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment to the taxing units. One-half of the property taxes are due December 20th and distributed to the District by January 20th. The second half is due May 10th and distributed to the District by June 5th. Both distributions to the District are in its next budget year. The District Treasurer draws available funds from the County Treasurer's office at designated times throughout the year.

I. Inventory valuation

Inventories are stated at the lower of cost or market. Cost has been determined on the first-in, first-out method.

J. Doubtful accounts

Accounts receivable in excess of four months are charged to the allowance for doubtful accounts.

K. Net patient service revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews and investigations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

L. Grants and contributions

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

M. Endowments

Endowments are provided to the District on a voluntary basis by individuals and private organizations. Permanent endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, the District's Board of Trustees may authorize for expenditure the net appreciation of the investments of endowment funds, as discussed in Note 2.

N. Restricted resources

When the District has both restricted and unrestricted resources available to finance a particular program, it is the District's policy to use restricted resources before unrestricted resources.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

1. Summary of significant accounting policies (continued)

O. Net assets

Net assets of the District are classified in four components. *Net assets invested in capital assets net of related debt* consist of property and equipment net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors or contributors external to the District. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted in expendable or nonexpendable net assets*.

P. Operating revenues and expenses

The District's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange revenues, including taxes, grants and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Q. Concentration of credit risk

The District's business activity is primarily with patients located within Haskell County, Kansas. The District grants credit without collateral to its patients, most of whom are local residents with most of those having insurance under third-party payer agreements. Revenues from patients and third-party payors were as follows:

|  | 2009 | 2008 |
|--|------|------|
| Medicare and Medicaid                    | 21%  | 21%  |
| Blue Cross                               | 13%  | 12%  |
| Other third-party payors (none over 10%) | 13%  | 9%   |
| Patients                                 | 53%  | 58%  |
|  | 100% | 100% |

R. Compensated absences

The District's policy is to recognize the cost of paid time off when actually paid. Paid time off may be used for sick leave, emergency leave, vacation leave and holidays. Employees may accumulate paid time off at a maximum rate of 6.4 hours for every 72 regular hours worked; employees with 5 to 10 years or more of continuous service receive an additional 40 to 80 hours, respectively, of paid time off per year. Employees can sell back a maximum of 80 hours of accumulated paid time off per year at a reduced rate and subject to other restrictions. The District has determined the dollar amount of accumulated paid time off at December 31, 2009 and 2008, at \$216,870 and \$216,439, respectively.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

2. Endowments and restricted net assets

Restricted, expendable net assets are available for the following purposes:

|   | 2009      | 2008      |
|---|-----------|-----------|
| Capital acquisitions                    | \$ 17,432 | \$ 20,265 |
| Employee activities                     | 2,890     | 2,488     |
| Scholarships                            | 5,033     | 1,854     |
| Total expendable, restricted net assets | \$ 25,355 | \$ 24,607 |

Unless the contributor provides specific instructions, the Board of Trustees may authorize for expenditure the net appreciation (realized and unrealized) of the investments of its endowments. When administering its power to spend appreciation, the Board of Trustees is required to consider the District's "long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends and general economic conditions." Any net appreciation that is spent is required to be spent for the purposes designated by the contributor.

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) for scholarships each year. The District retains the remaining amount, if any, to be used in future years when the amount chosen to be spent exceeds investment income. At December 31, 2009 and 2008, net appreciation of \$5,033 and \$1,854, respectively, is available to be spent, all of which is reported as restricted expendable net assets.

Restricted nonexpendable net assets as of December 31, 2009 and 2008, represent the principal amounts of permanent endowments, restricted to investment in perpetuity. Investment earnings from the District's permanent endowments are expendable to support these programs as established by the contributor:

|              | 2009      | 2008      |
|--------------|-----------|-----------|
| Scholarships | \$ 20,000 | \$ 20,000 |

3. Designated net assets

Of the \$2,123,853 and \$2,203,243 of unrestricted net assets reported in 2009 and 2008, respectively, the following amounts have been designated by the District's Board of Trustees for the purposes specified.

|                             | 2009       | 2008       |
|-----------------------------|------------|------------|
| Employee benefits           | \$ 207     | \$ 1,008   |
| Bond and interest payments  | 84,430     | 85,223     |
| Future expansion            | 280,051    | 329,499    |
| Total designated net assets | \$ 364,688 | \$ 415,730 |

Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

4. Deposits and investments

A. Cash and cash equivalents

Cash and cash equivalents consist of the following:

|   | 2009                | 2008                |
|---|---------------------|---------------------|
| Cash  | \$ 667,568          | \$ 1,335,333        |
| Operating savings                               | 112,822             | 147,773             |
| General tax accounts                            | 167,278             | 184,262             |
| Employee benefits tax accounts                  | 207                 | 1,008               |
| Bond and interest tax accounts                  | 84,430              | 85,223              |
| Total cash and cash equivalents, current assets | 1,032,305           | 1,753,599           |
| Donor restricted assets                         | 45,355              | 44,606              |
| Total cash and cash equivalents                 | <u>\$ 1,077,660</u> | <u>\$ 1,798,205</u> |

B. Deposits and investments

A reconciliation of cash and investments as shown on the balance sheets for the primary government is as follows:

|                             | 2009                | 2008                |
|-----------------------------|---------------------|---------------------|
| Cash and cash equivalents   | \$ 1,032,305        | \$ 1,753,599        |
| Donor restricted cash       | 45,355              | 44,606              |
| Total cash and investments  | <u>\$ 1,077,660</u> | <u>\$ 1,798,205</u> |
| Carrying amount of deposits | <u>\$ 1,077,660</u> | <u>\$ 1,798,205</u> |

A reconciliation of cash and investments as shown on the balance sheets for the Haskell County Health Foundation is as follows:

|                             | 2009             | 2008              |
|-----------------------------|------------------|-------------------|
| Cash and cash equivalents   | \$ 74,551        | \$ 15,506         |
| Short-term investments      | 18,535           | 85,805            |
| Total cash and investments  | <u>\$ 93,086</u> | <u>\$ 101,311</u> |
| Carrying amount of deposits | <u>\$ 93,086</u> | <u>\$ 101,311</u> |

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

4. Deposits and investments (continued)

B. Deposits and investments (continued)

Investment rate risk

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

The District and Haskell County Health Foundation had no investments of this type at December 31, 2009 and 2008.

Concentration of credit risk

State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk - deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State statutes require the District's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. The District has no designated "peak periods".

At December 31, 2009, the District's carrying amount of deposits was \$1,077,660 and the bank balance was \$1,304,063. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$266,339 was covered by federal depository insurance, and the balance of \$1,037,724 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

At December 31, 2008, the District's carrying amount of deposits \$1,798,205 and the bank balance was \$2,105,047. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$370,385 was covered by federal depository insurance, and the balance of \$1,734,662 was collateralized with securities held by the pledging financial institutions' agents in the District's name.

At December 31, 2009, the carrying amount of deposits for the Haskell County Health Foundation, a discretely presented component unit, was \$93,086 and the bank balance was \$93,409. All of the bank balance was covered by federal depository insurance.

At December 31, 2008, the carrying amount of deposits for the Haskell County Health Foundation, a discretely presented component unit, was \$101,311 and the bank balance was \$115,426. All of the bank balance was covered by federal depository insurance.

Custodial credit risk - investments

For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no investments of this type at December 31, 2009 and 2008.

The Haskell County Health Foundation had no investments of this type at December 31, 2009 and 2008.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

5. Charity care

Charges excluded from revenue under the District's charity care policy were \$146,625 and \$120,519 for 2009 and 2008, respectively.

6. Accounts receivable

Accounts receivable reported as current assets by the District at December 31, 2009, and 2008, consisted of the following amounts:

|   | 2009       | 2008       |
|---|------------|------------|
| Receivable from patients and their insurance carriers | \$ 911,541 | \$ 853,681 |
| Receivable from Medicare                              | 192,863    | 186,427    |
| Receivable from Medicaid                              | 47,078     | 32,398     |
| Total patient accounts receivable                     | 1,151,482  | 1,072,506  |
| Less allowance for doubtful accounts                  | (281,919)  | (371,171)  |
| Patient accounts receivable, net                      | 869,563    | 701,335    |
| Other miscellaneous receivables                       | 61,658     | 59,396     |
| Accounts receivable, net                              | \$ 931,221 | \$ 760,731 |

7. Due to Medicare and Medicaid for contractual adjustments

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

- Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to Medicare beneficiaries are paid based upon a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the District. The District's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 2008. The District was designated a critical access hospital as of August 1, 2000.
- Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The District is reimbursed at a tentative rate with final settlement determined after submission of annual Medicare cost reports by the District and audits thereof by the Medicare fiscal intermediary. The District's Medicaid reimbursements are currently based on Medicare cost reports which have been audited by the Medicare fiscal intermediary through December 31, 2007.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

7. Due to Medicare and Medicaid for contractual adjustments (continued)

Revenue from the Medicare and Medicaid programs accounted for approximately 20 percent and 5 percent, respectively, of the District's net patient revenue for the year ended December 31, 2009, and 25 percent and 4 percent, respectively, of the District's net patient revenue for the year ended December 31, 2008. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2009 and 2008 net patient service revenues increased/(decreased) approximately \$388,937 and (\$226,632), respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

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

8. Capital assets

Capital asset additions, retirements and balances for the years ended December 31, 2009 and 2008, were as follows:

|   | Balance<br>12/31/08 | Additions           | Retirements       | Balance<br>12/31/09 |
|---|---------------------|---------------------|-------------------|---------------------|
| Cost:   |                     |                     |                   |                     |
| Land  | \$ 37,887           | \$ 64,808           | \$ -              | \$ 102,695          |
| Hospital, nursing home<br>and clinic building | 8,441,354           | 73,308              | -                 | 8,514,662           |
| Hospital and clinic equipment                 | 2,503,102           | 191,815             | 72,740            | 2,622,177           |
| Nursing home equipment                        | 1,074,240           | 10,810              | 1,373             | 1,083,677           |
| Construction in progress                      | 106,380             | 80,596              | 185,976           | 1,000               |
| <b>Total cost</b>                             | <b>12,162,963</b>   | <b>421,337</b>      | <b>260,089</b>    | <b>12,324,211</b>   |
| Less accumulated depreciation for:            |                     |                     |                   |                     |
| Hospital, nursing home<br>and clinic building | (4,035,544)         | (303,466)           | -                 | (4,339,010)         |
| Hospital and clinic equipment                 | (1,729,208)         | (234,598)           | (72,474)          | (1,891,332)         |
| Nursing home equipment                        | (924,095)           | (42,241)            | (1,372)           | (964,964)           |
| <b>Total accumulated<br/>depreciation</b>     | <b>(6,688,847)</b>  | <b>(580,305)</b>    | <b>(73,846)</b>   | <b>(7,195,306)</b>  |
| <b>Net capital assets</b>                     | <b>\$ 5,474,116</b> | <b>\$ (158,968)</b> | <b>\$ 186,243</b> | <b>\$ 5,128,905</b> |

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

8. Capital assets (continued)

|   | <u>Balance</u><br><u>12/31/07</u> | <u>Additions</u>   | <u>Retirements</u> | <u>Balance</u><br><u>12/31/08</u> |
|---|-----------------------------------|--------------------|--------------------|-----------------------------------|
| Cost:   |                                   |                    |                    |                                   |
| Land  | \$ 37,887                         | \$ -               | \$ -               | \$ 37,887                         |
| Hospital, nursing home<br>and clinic building | 8,306,053                         | 135,301            | -                  | 8,441,354                         |
| Hospital and clinic equipment                 | 2,407,535                         | 128,092            | 32,525             | 2,503,102                         |
| Nursing home equipment                        | 1,072,145                         | 2,095              | -                  | 1,074,240                         |
| Construction in progress                      | <u>2,903</u>                      | <u>238,778</u>     | <u>135,301</u>     | <u>106,380</u>                    |
| Total cost                                    | <u>11,826,523</u>                 | <u>504,266</u>     | <u>167,826</u>     | <u>12,162,963</u>                 |
| Less accumulated depreciation for:            |                                   |                    |                    |                                   |
| Hospital, nursing home<br>and clinic building | (3,721,833)                       | (313,711)          | -                  | (4,035,544)                       |
| Hospital and clinic equipment                 | (1,525,806)                       | (234,799)          | (31,397)           | (1,729,208)                       |
| Nursing home equipment                        | <u>(870,643)</u>                  | <u>(53,452)</u>    | <u>-</u>           | <u>(924,095)</u>                  |
| Total accumulated<br>depreciation             | <u>(6,118,282)</u>                | <u>(601,962)</u>   | <u>(31,397)</u>    | <u>(6,688,847)</u>                |
| Net capital assets                            | <u>\$ 5,708,241</u>               | <u>\$ (97,696)</u> | <u>\$ 136,429</u>  | <u>\$ 5,474,116</u>               |

9. Capital projects in process

Capital projects under authorized contracts in process at December 31, 2009 and 2008, consisted of the following:

|                        | <u>Project</u><br><u>Authorization</u> | <u>Expended to</u><br><u>12-31-08</u> | <u>Expended to</u><br><u>12-31-09</u> | <u>Committed</u> |
|------------------------|--|---------------------------------------|---------------------------------------|------------------|
| Emergency power system | \$ 129,515                             | \$ 129,515                            | \$ -                                  | \$ -             |
| Nurse call system      | 131,474                                | 105,570                               | 25,904                                | -                |

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SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

10. Long-term debt

A schedule of changes in the District's long-term debt for 2009 and 2008 is as follows:

|   | Balance<br>12/31/08 | Additions           | Reductions        | Balance<br>12/31/09 | Amounts<br>Due Within<br>One Year |
|---|---------------------|---------------------|-------------------|---------------------|-----------------------------------|
| General obligation bonds  | \$ 620,000          | \$ -                | \$ 310,000        | \$ 310,000          | \$ 310,000                        |
| Capital leases payable  | 288,386             | -                   | 99,519            | 188,867             | 109,332                           |
|   | 908,386             | -                   | 409,519           | 498,867             | 419,332                           |
| Less deferred loss on<br>refunding of general<br>obligation bonds, net<br>of amortization | 66,237              | -                   | 41,835            | 24,402              | 24,402                            |
| Total long-term debt  | 842,149             | -                   | 367,684           | 474,465             | <u>\$ 394,930</u>                 |
| Less current maturities   | 370,161             | 394,930             | 370,161           | 394,930             |                                   |
| Net long-term debt  | <u>\$ 471,988</u>   | <u>\$ (394,930)</u> | <u>\$ (2,477)</u> | <u>\$ 79,535</u>    |                                   |

|   | Balance<br>12/31/07 | Additions           | Reductions         | Balance<br>12/31/08 | Amounts<br>Due Within<br>One Year |
|---|---------------------|---------------------|--------------------|---------------------|-----------------------------------|
| General obligation bonds  | \$ 960,000          | \$ -                | \$ 340,000         | \$ 620,000          | \$ 310,000                        |
| Capital leases payable  | 383,354             | -                   | 94,968             | 288,386             | 101,996                           |
|   | 1,343,354           | -                   | 434,968            | 908,386             | 411,996                           |
| Less deferred loss on<br>refunding of general<br>obligation bonds, net<br>of amortization | 108,071             | -                   | 41,834             | 66,237              | 41,835                            |
| Total long-term debt  | 1,235,283           | -                   | 393,134            | 842,149             | <u>\$ 370,161</u>                 |
| Less current maturities   | 434,968             | 370,161             | 434,968            | 370,161             |                                   |
| Net long-term debt  | <u>\$ 800,315</u>   | <u>\$ (370,161)</u> | <u>\$ (41,834)</u> | <u>\$ 471,988</u>   |                                   |

A. General obligation bonds payable

General obligation bonds payable consist of the following:

|  | 2009              | 2008              |
|--|-------------------|-------------------|
| General obligation refunding bonds Series 1999,<br>serial bonds due in annual installments of<br>\$310,000 through August 1, 2010, bearing<br>interest at 4.25%. | <u>\$ 310,000</u> | <u>\$ 620,000</u> |
| Total general obligation bonds payable   | 310,000           | 620,000           |
| Less current portion   | <u>310,000</u>    | <u>310,000</u>    |
| Long-term portion  | <u>\$ -</u>       | <u>\$ 310,000</u> |

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

10. Long-term debt (continued)

A. General obligation bonds payable (continued)

Maturities on general obligation bonds payable at December 31, 2009, are as follows:

|       | Principal  | Interest | Total      |
|-------|------------|----------|------------|
| 2010  | \$ 310,000 | \$ 9,881 | \$ 319,881 |
| Total | \$ 310,000 | \$ 9,881 | \$ 319,881 |

B. Capital leases payable

The District has entered into various lease agreements to finance the acquisition of equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The following is a summary of assets acquired through these capital lease agreements by the District at December 31, 2009:

|                               |            |
|-------------------------------|------------|
| Hospital and clinic equipment | \$ 499,082 |
| Less accumulated depreciation | (329,545)  |
| Total                         | \$ 169,537 |

Capital leases payable consist of the following:

|  | 2009      | 2008       |
|--|-----------|------------|
| Capital lease obligation, at 7.00% imputed interest collateralized by leased equipment with cost of \$188,709 at December 31, 2005.  | \$ 70,345 | \$ 108,788 |
| Capital lease obligation, at 11.47% imputed interest collateralized by leased equipment with cost of \$134,750 at December 31, 2005. | 41,866    | 67,945     |
| Capital lease obligation, at 6.05% imputed interest collateralized by leased equipment with cost of \$175,623 at December 31, 2006.  | 76,656    | 111,653    |
| Total capital leases payable   | 188,867   | 288,386    |
| Less current portion   | 109,332   | 101,996    |
| Long-term portion  | \$ 79,535 | \$ 186,390 |

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

10. Long-term debt (continued)

B. Capital leases payable (continued)

Future minimum lease obligations and the net present value of the minimum lease payments at December 31, 2009, are as follows:

|   | Total      |
|---|------------|
| 2010  | \$ 119,013 |
| 2011  | 81,810     |
| Total minimum lease payments                      | 200,823    |
| Less amount representing interest                 | (11,956)   |
| Present value of future minimum lease obligations | \$ 188,867 |

11. Operating leases

On November 10, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2009 and 2008, totaled \$6,516 and \$543, respectively. Future minimum lease requirements are \$543 per month through November, 2013.

On September 17, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2009 and 2008, totaled \$2,977 and \$744, respectively. Future minimum lease requirements are \$248 per month through September, 2013.

On July 9, 2008, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2009 and 2008, totaled \$3,824 and \$1,593, respectively. Future minimum lease requirements are \$319 per month through July, 2013.

On May 5, 2006, the District entered into an operating lease agreement for a copier. The lease was for 39 months; payments under this lease agreement for the years ended December 31, 2009 and 2008, totaled \$3,317 and \$4,976, respectively. The lease expired August, 2009.

On May 13, 2005, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2009 and 2008, totaled \$3,841 and \$4,190, respectively. Future minimum lease requirements are \$349 per month through May, 2010.

On September 27, 2004, the District entered into an operating lease agreement for a copier. The lease was for 48 months; payments under this lease agreement for the year ended December 31, 2008, totaled \$1,997. The lease expired September, 2008.

On February 24, 2004, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the year ended December 31, 2008, totaled \$6,535. The lease was terminated in October, 2008.

On October 11, 2003, the District entered into an operating lease agreement for a copier. The lease was for 60 months; payments under this lease agreement for the years ended December 31, 2008, totaled \$2,614. The lease expired September, 2008.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

11. Operating leases (continued)

The District entered into a five year operating lease on December 29, 2005, for laboratory equipment. No lease payments are required if the District purchases the required chemicals from the equipment owner. Required minimum reagent purchases for the years ended December 31, 2009 and 2008, totaled \$4,433 per year. Future minimum reagent purchase requirements are \$4,433 per year through 2010.

On March 19, 2007, the District entered into an operating lease agreement for facilities for the Sublette Clinic. The lease is for 12 months with an annual renewal for an additional four years. No lease payments are required and there are no future minimum lease payments required under this lease agreement, although graduated liquidated damages are due if the District terminates the lease prior to June 30, 2012.

12. Commitments

On March 20, 2008, the District entered into a maintenance agreement for equipment. The agreement was for 3 years; payments under this maintenance agreement for the year ended December 31, 2009 and 2008, totaled \$12,021 and \$9,016, respectively. Future minimum maintenance requirements are \$1,002 per month through March, 2011.

On December 21, 2006, the District entered into a reagent purchase agreement for an HmX with autoloader. The agreement was for 60 months; payments under this reagent purchase agreement for the years ended December 31, 2009 and 2008, totaled \$5,560 and \$5,560, respectively. Future minimum maintenance requirements are \$5,560 per year through 2011.

On December 21, 2006, the District entered into a reagent purchase agreement for an access immunoassay system. The agreement was for 60 months; payments under this reagent purchase agreement for the years ended December 31, 2009 and 2008, totaled \$30,495 and \$30,495, respectively. Future minimum maintenance requirements are \$30,495 per year through 2011.

On December 16, 2005, the District entered into a maintenance agreement for a CT scanner. The agreement was for 60 months; payments under this maintenance agreement for the years ended December 31, 2009 and 2008, totaled \$34,000 and \$34,000, respectively. Future minimum maintenance requirements are \$2,833 per month through August, 2011.

During 2005, the District entered into a maintenance agreement for equipment. The agreement was for 3 years through February, 2008; payments under this maintenance agreement for the year ended December 31, 2008, totaled \$8,604. The agreement expired February, 2008.

On June 24, 2004, the District entered into professional services agreements with two physicians. The agreements were for 60 months; similar agreements for 12 months were entered into on June 29, 2009. Payments under these professional services agreements for the years ended December 31, 2009 and 2008, totaled \$318,000 and \$318,000, respectively. Future minimum requirements are \$26,500 per month through July, 2010.

On April 22, 2004, the District entered into a professional services agreement for psychiatric outpatient hospitalization service. The agreement was for 5 years with annual renewal options for an additional five years; payments under these professional services agreements for the years ended December 31, 2009 and 2008, totaled \$294,000 and \$294,000, respectively. The agreement renewed in April, 2009 and 2008.

SATANTA HOSPITAL DISTRICT  
Notes to Financial Statements  
December 31, 2009 and 2008

12. Commitments (continued)

On December 18, 2003, the District entered into a professional services agreement for specialized hospital management services. The agreement was for 60 months; payments under these professional services agreements for the years ended December 31, 2009 and 2008, totaled \$88,031 and \$84,665, respectively. The agreement expired December 31, 2008. A similar agreement was entered into on December 21, 2008, with future minimum requirements as follows:

| Year | Amount    |
|------|-----------|
| 2010 | \$ 88,102 |
| 2011 | 91,626    |
| 2012 | 95,291    |
| 2013 | 99,103    |

13. Litigation

The District has the potential for legal action arising from normal business activities. The District is not currently involved in any pending litigation. Management cannot predict the outcome of potential lawsuits or estimate the amount of any loss that may result. Accordingly, no provision for any contingent liabilities that may result has been made in the financial statements. Management believes that losses resulting from these matters, if any, would be covered under the District's professional liability insurance policy and would not have a material effect on the financial position of the District.

14. Compliance with Kansas statutes

References made herein to the statutes are not intended as interpretations of the law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and the legal representation of the District. Management is aware of no material statutory violations for the periods covered by the audit.

15. Risk management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and medical malpractice. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

16. Termination benefits

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the District makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. This program is offered for a duration of 18 months after the employee's termination date. There is no cost to the District under this program, and there were two participants in the program at December 31, 2009.

## SUPPLEMENTAL SCHEDULES

SATANTA HOSPITAL DISTRICT  
Schedules of Revenues, Expenditures and Changes in Unencumbered Cash - Actual and Budget  
For the years ended December 31, 2009 and 2008

|                                      | 2009              |                     | Variance<br>Over/<br>(Under) |
|--------------------------------------|-------------------|---------------------|------------------------------|
|                                      | Actual            | Budget              |                              |
| <b><u>GENERAL FUND</u></b>           |                   |                     |                              |
| REVENUES                             |                   |                     |                              |
| Property taxes                       | \$ 1,864,076      | \$ 1,867,183        | \$ (3,107)                   |
| Interest                             | 9,732             | -                   | 9,732                        |
| TOTAL REVENUES                       | 1,873,808         | <u>\$ 1,867,183</u> | <u>\$ 6,625</u>              |
| EXPENDITURES                         |                   |                     |                              |
| Transfer to hospital operations      | 1,912,067         | <u>\$ 1,912,153</u> | <u>\$ (86)</u>               |
| REVENUE OVER (UNDER) EXPENDITURES    | (38,259)          |                     |                              |
| UNENCUMBERED CASH, BEGINNING OF YEAR | <u>205,537</u>    |                     |                              |
| UNENCUMBERED CASH, END OF YEAR       | <u>\$ 167,278</u> |                     |                              |
| <b><u>EMPLOYEE BENEFIT FUND</u></b>  |                   |                     |                              |
| REVENUES                             |                   |                     |                              |
| Property taxes                       | \$ 412,905        | \$ 414,236          | \$ (1,331)                   |
| Interest                             | 1,020             | -                   | 1,020                        |
| TOTAL REVENUES                       | 413,925           | <u>\$ 414,236</u>   | <u>\$ (311)</u>              |
| EXPENDITURES                         |                   |                     |                              |
| Transfer to hospital operations      | 414,726           | <u>\$ 415,000</u>   | <u>\$ (274)</u>              |
| REVENUE UNDER EXPENDITURES           | (801)             |                     |                              |
| UNENCUMBERED CASH, BEGINNING OF YEAR | <u>1,008</u>      |                     |                              |
| UNENCUMBERED CASH, END OF YEAR       | <u>\$ 207</u>     |                     |                              |
| <b><u>BOND AND INTEREST FUND</u></b> |                   |                     |                              |
| REVENUES                             |                   |                     |                              |
| Property taxes                       | \$ 332,208        | \$ 331,528          | \$ 680                       |
| TOTAL REVENUES                       | <u>332,208</u>    | <u>\$ 331,528</u>   | <u>\$ 680</u>                |
| EXPENDITURES                         |                   |                     |                              |
| Bond principal                       | 310,000           | \$ 310,000          | \$ -                         |
| Interest and fiscal fees             | 22,940            | 22,940              | -                            |
| TOTAL EXPENDITURES                   | <u>332,940</u>    | <u>\$ 332,940</u>   | <u>\$ -</u>                  |
| REVENUE OVER (UNDER) EXPENDITURES    | (732)             |                     |                              |
| UNENCUMBERED CASH, BEGINNING OF YEAR | <u>85,162</u>     |                     |                              |
| UNENCUMBERED CASH, END OF YEAR       | <u>\$ 84,430</u>  |                     |                              |

| 2008              |                     |                              |
|-------------------|---------------------|------------------------------|
| Actual            | Budget              | Variance<br>Over/<br>(Under) |
| \$ 1,683,154      | \$ 1,683,566        | \$ (412)                     |
| 1,107             | 35,000              | (33,893)                     |
| 1,684,261         | <u>\$ 1,718,566</u> | <u>\$ (34,305)</u>           |
| 1,683,337         | <u>\$ 1,806,934</u> | <u>\$ (123,597)</u>          |
| 924               |                     |                              |
| 204,613           |                     |                              |
| <u>\$ 205,537</u> |                     |                              |
| <br>              |                     |                              |
| \$ 315,788        | \$ 381,806          | \$ (66,018)                  |
| 445               | -                   | 445                          |
| 316,233           | <u>\$ 381,806</u>   | <u>\$ (65,573)</u>           |
| 337,229           | <u>\$ 395,000</u>   | <u>\$ (57,771)</u>           |
| (20,996)          |                     |                              |
| 22,004            |                     |                              |
| <u>\$ 1,008</u>   |                     |                              |
| <br>              |                     |                              |
| \$ 383,005        | \$ 315,694          | \$ 67,311                    |
| 383,005           | <u>\$ 315,694</u>   | <u>\$ 67,311</u>             |
| <br>              |                     |                              |
| 345,000           | \$ 340,000          | \$ 5,000                     |
| 31,777            | 46,778              | (15,001)                     |
| 376,777           | <u>\$ 386,778</u>   | <u>\$ (10,001)</u>           |
| 6,228             |                     |                              |
| 78,934            |                     |                              |
| <u>\$ 85,162</u>  |                     |                              |

SATANTA HOSPITAL DISTRICT  
Notes to Supplementary Information  
December 31, 2009 and 2008

1. Explanation of differences between revenues and expenditures for budgetary funds on a budgetary basis and GAAP  
There are no differences between the budgetary basis and GAAP for revenues and expenditures of the budgetary funds.

SATANTA HOSPITAL DISTRICT  
Schedule of Insurance  
December 31, 2009

| <u>Description of Coverage</u>          | <u>Amount</u>       |
|---|---------------------|
| Comprehensive business policy:          |                     |
| Blanket building and contents           | \$ 15,701,800       |
| Business interruption                   | 2,000,000           |
| Valuable papers and accounts receivable | 100,000             |
| Equipment                               | 58,400              |
| Commercial auto:                        |                     |
| Liability                               | 500,000             |
| Uninsured motorist                      | 500,000             |
| Under insured motorist                  | 500,000             |
| Comprehensive general liability:        |                     |
| Professional liability - basic coverage | 200,000/600,000     |
| Professional liability - surcharge      | 1,000,000/3,000,000 |
| General liability                       | 1,000,000/3,000,000 |
| Directors and officers                  | 1,000,000/1,000,000 |
| Employee dishonesty                     | 50,000              |
| Employee benefits liability             | 250,000/250,000     |
| Resident fund surety bonds              | 3,000               |
| Workmen's compensation                  | Statutory           |