

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
Independent Accountants' Report and Financial Statements  
December 31, 2011 and 2010



**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**December 31, 2011 and 2010**

**Contents**

<b>Independent Accountants' Report on Financial Statements and Supplementary Information.....</b>	<b>1</b>
<b>Financial Statements</b>	
Balance Sheets.....	3
Statements of Revenues, Expenses and Changes in Net Assets.....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	7
<b>Supplementary Information</b>	
Schedules of Net Patient Service Revenues .....	17
Deductions from Revenue and Other Operating Revenue .....	18
Schedules of Operating Expenses.....	19
Schedules of Financial and Statistical Comparisons .....	21

## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Coffey Health System  
Burlington, Kansas

We have audited the accompanying balance sheets of Coffey Health System, a component unit of Coffey County, Kansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coffey Health System as of December 31, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The System has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules for Net Patient Service Revenue, Deductions from Revenue and Other Operating Revenues and Operating Expenses listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Schedules of Financial and Statistical Comparisons listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

June 15, 2012

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Balance Sheets**  
**December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 202,403	\$ 205,918
Short-term certificates of deposit	1,474,673	1,693,223
Patient accounts receivable, net of allowance; 2011 - \$2,145,000; 2010 - \$1,866,000	3,143,310	2,950,090
Estimated amounts due from Medicare and Medicaid	330,000	140,000
Supplies	510,812	469,773
Prepaid expenses and other	192,748	320,399
Total current assets	5,853,946	5,779,403
<b>Capital Assets, Net</b>	8,235,481	9,096,893
Total assets	\$ 14,089,427	\$ 14,876,296
 <b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 30,708	\$ 57,922
Accounts payable	456,046	533,003
Accrued expenses	1,474,331	1,245,039
Deferred revenue - Medicaid provider assessment	66,000	66,000
Total current liabilities	2,027,085	1,901,964
<b>Long-term Debt</b>	48,635	79,343
Total liabilities	2,075,720	1,981,307
 <b>Net Assets</b>		
Invested in capital assets, net of related debt	8,156,138	8,959,628
Unrestricted	3,857,569	3,935,361
Total net assets	12,013,707	12,894,989
Total liabilities and net assets	\$ 14,089,427	\$ 14,876,296

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$1,326,482, 2010 - \$1,750,648	\$ 20,233,409	\$ 20,247,869
Other	815,724	823,751
Total operating revenues	21,049,133	21,071,620
<b>Operating Expenses</b>		
Salaries and wages	12,298,732	12,382,523
Employee benefits	3,099,714	3,014,698
Purchased services and professional fees	1,165,735	1,094,460
Supplies and other	5,049,567	5,228,756
Depreciation	1,094,454	1,452,599
Total operating expenses	22,708,202	23,173,036
<b>Operating Loss</b>	(1,659,069)	(2,101,416)
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	750,000	750,000
Interest income	5,121	13,213
Interest expense	(7,383)	(13,672)
Noncapital grants and gifts	30,049	31,864
Total nonoperating revenues, net	777,787	781,405
<b>Decrease in Net Assets</b>	(881,282)	(1,320,011)
<b>Net Assets, Beginning of Year</b>	12,894,989	14,215,000
<b>Net Assets, End of Year</b>	\$ 12,013,707	\$ 12,894,989

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 19,850,189	\$ 20,114,257
Payments to suppliers and contractors	(6,205,647)	(6,288,687)
Payments to and on behalf of employees	(15,169,154)	(15,400,325)
Other receipts	815,724	823,751
	<u>(708,888)</u>	<u>(751,004)</u>
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue supporting operations	750,000	750,000
Noncapital grants and gifts	30,049	31,864
	<u>780,049</u>	<u>781,864</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on capital leases	(57,922)	(366,085)
Interest paid on capital leases	(7,383)	(13,672)
Purchase of capital assets	(233,042)	(427,017)
	<u>(298,347)</u>	<u>(806,774)</u>
<b>Investing Activities</b>		
Interest income received	5,121	13,213
Purchase of short-term certificates of deposit	(3,208)	(371,842)
Maturities of short-term certificates of deposit	221,758	1,231,336
	<u>223,671</u>	<u>872,707</u>
<b>Increase (Decrease) in Cash</b>	(3,515)	96,793
<b>Cash, Beginning of Year</b>	<u>205,918</u>	<u>109,125</u>
<b>Cash, End of Year</b>	<u>\$ 202,403</u>	<u>\$ 205,918</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Net Operating Revenues (Expenses)</b>		
<b>to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (1,659,069)	\$ (2,101,416)
Depreciation	1,094,454	1,452,599
Changes in operating assets and liabilities		
Patient accounts receivable, net	(193,220)	(316,612)
Estimated amounts due from and to third-party payers	(190,000)	183,000
Accounts payable and accrued expenses	152,335	(9,704)
Supplies, prepaid expenses and other assets	86,612	41,129
Net cash used in operating activities	\$ (708,888)	\$ (751,004)
 <b>Supplemental Cash Flows Information</b>		
Capital lease obligations incurred for capital assets	\$ -	\$ 153,554

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

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

***Nature of Operations and Reporting Entity***

Coffey Health System (System) is an acute care hospital located in Burlington, Kansas. The System is a component unit of Coffey County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Coffey county area. It also operates a home health agency and long-term care and assisted living facilities in the same geographic area.

***Basis of Accounting and Presentation***

The financial statements of the System 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 intergovernmental revenue, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The System 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 System 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 System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

***Use of Estimates***

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

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

***Intergovernmental Revenue***

The System received approximately 3% of its financial support from intergovernmental revenue derived from property taxes levied by the County in both 2011 and 2010. One hundred percent of these funds were used to support operations in both years.

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

***Risk Management***

The System is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, 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 System reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

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

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the System:

Land improvements	5 – 25 years
Buildings	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

**Compensated Absences**

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

**Net Assets**

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

**Net Patient Service Revenue**

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

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

***Charity Care***

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

***Income Taxes***

As an essential government function of the County, the System is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

***Foundation***

The System is the beneficiary of East Central Kansas Health Foundation (Foundation), a separate legal entity with its own board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the System and, thus, not reflected in the accompanying financial statements.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

**Note 2: Net Patient Service Revenue**

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

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services (skilled swing-bed) are paid at prospectively determined per diem rates that are based on the patients' acuity. Certain inpatient nonacute services are paid based on a cost reimbursement methodology. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare Administrative Contractor.

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The System is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$305,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 43% and 40% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Deposits**

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

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

At December 31, 2011 and 2010, respectively, \$1,030,039 and \$1,102,340 of the System's bank balances of \$1,995,863 and \$2,135,245 were exposed to custodial credit risk as follows:

	<b>2011</b>	<b>2010</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the System's name	<u>\$ 1,030,039</u>	<u>\$ 1,102,340</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Summary of Carrying Values**

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 1,676,206	\$ 1,898,271
Petty cash	870	870
	<u>\$ 1,677,076</u>	<u>\$ 1,899,141</u>
Included in the following balance sheet captions		
Cash	\$ 202,403	\$ 205,918
Short-term certificates of deposit	1,474,673	1,693,223
	<u>\$ 1,677,076</u>	<u>\$ 1,899,141</u>

**Note 4: Patient Accounts Receivable**

The System 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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 1,632,944	\$ 1,085,966
Medicaid	235,008	140,969
Blue Cross	545,265	605,453
Other third-party payers	370,560	611,276
Patients	2,504,533	2,372,426
	<u>5,288,310</u>	<u>4,816,090</u>
Less allowance for uncollectible accounts	2,145,000	1,866,000
	<u>\$ 3,143,310</u>	<u>\$ 2,950,090</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	<b>2011</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 274,184	\$ -	\$ -	\$ 274,184
Land improvements	982,757	-	-	982,757
Buildings	11,545,435	118,319	-	11,663,754
Fixed equipment	5,255,251	54,654	-	5,309,905
Major moveable equipment	11,684,530	60,069	-	11,744,599
	<u>29,742,157</u>	<u>233,042</u>	<u>-</u>	<u>29,975,199</u>
Less accumulated depreciation				
Land improvements	800,496	21,830	-	822,326
Buildings	6,445,414	295,418	-	6,740,832
Fixed equipment	3,729,627	165,452	-	3,895,079
Major moveable equipment	9,669,727	611,754	-	10,281,481
	<u>20,645,264</u>	<u>1,094,454</u>	<u>-</u>	<u>21,739,718</u>
Capital assets, net	<u>\$ 9,096,893</u>	<u>\$ (861,412)</u>	<u>\$ -</u>	<u>\$ 8,235,481</u>
	<b>2010</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Land	\$ 274,184	\$ -	\$ -	\$ 274,184
Land improvements	982,757	-	-	982,757
Buildings	11,231,493	313,942	-	11,545,435
Fixed equipment	5,163,107	92,144	-	5,255,251
Major moveable equipment	11,510,045	174,485	-	11,684,530
	<u>29,161,586</u>	<u>580,571</u>	<u>-</u>	<u>29,742,157</u>
Less accumulated depreciation				
Land improvements	763,920	36,576	-	800,496
Buildings	6,138,010	307,404	-	6,445,414
Fixed equipment	3,545,369	184,258	-	3,729,627
Major moveable equipment	8,745,366	924,361	-	9,669,727
	<u>19,192,665</u>	<u>1,452,599</u>	<u>-</u>	<u>20,645,264</u>
Capital assets, net	<u>\$ 9,968,921</u>	<u>\$ (872,028)</u>	<u>\$ -</u>	<u>\$ 9,096,893</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Note 6: Medical Malpractice Coverage and Claims**

The System purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

**Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the System for the years ended December 31, 2011 and 2010:

	<b>2011</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligations	\$ 137,265	\$ -	\$ 57,922	\$ 79,343	\$ 30,708
	<b>2010</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Capital lease obligations	\$ 349,796	\$ 153,554	\$ 366,085	\$ 137,265	\$ 57,922

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Capital Lease Obligations**

The System is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at December 31, 2011 and 2010, totaled \$326,955 and \$506,435, respectively, net of accumulated depreciation of \$1,584,950 and \$2,021,999, respectively. The following is a schedule by year of future minimum lease payments under the capital lease obligations including interest at a rate of 0.00% together with the present value of the future minimum lease payments as of December 31, 2011:

Year Ending December 31,	
2012	\$ 30,708
2013	30,708
2014	<u>17,927</u>
Total minimum lease payments	79,343
Less amount representing interest	<u>-</u>
Present value of future minimum lease payments	<u><u>\$ 79,343</u></u>

**Note 8: Pension Plan**

The System contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan is a replacement for social security and provides retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 4% for both 2011 and 2010. Contributions actually made by plan members and the System aggregated \$442,390 and \$774,183 during 2011 and \$458,057 and \$801,601 during 2010, respectively.

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2011 and 2010**

**Note 9: Significant Estimates and Concentrations**

***Current Economic Conditions***

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

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 System'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 program.

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

## **Supplementary Information**

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Net Patient Service Revenues**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
<b>Nursing Services</b>			
Acute hospital	\$ 1,198,625	\$ 6,179	\$ 1,204,804
Swing-bed	145,505	-	145,505
Nursery	56,663	-	56,663
Long-term care	1,781,826	-	1,781,826
Assisted living	557,327	-	557,327
	<u>3,739,946</u>	<u>6,179</u>	<u>3,746,125</u>
<b>Other Professional Services</b>			
Operating room	288,842	1,237,107	1,525,949
Recovery room	48,042	316,207	364,249
Delivery room	95,005	16,341	111,346
Anesthesiology	149,738	429,324	579,062
Radiology	575,963	4,156,934	4,732,897
Laboratory	423,132	1,891,009	2,314,141
Blood administration	31,761	26,426	58,187
Respiratory services	222,095	635,754	857,849
Physical therapy	143,274	556,296	699,570
Occupational therapy	116,961	94,654	211,615
Speech pathology	2,083	5,299	7,382
Electrocardiology	25,956	180,631	206,587
Central service	1,234,721	776,013	2,010,734
Pharmacy	1,502,839	2,297,226	3,800,065
Specialty clinics	133	85,051	85,184
Emergency room	1,074	897,884	898,958
Observation	53,689	242,397	296,086
Rural health clinic	-	5,465,433	5,465,433
Ambulance	-	762,056	762,056
Home health	-	220,458	220,458
Physician clinics	-	643,912	643,912
Lifeline	-	28,458	28,458
Senior care	-	36,344	36,344
Wolf Creek	-	186,782	186,782
	<u>4,915,308</u>	<u>21,187,996</u>	<u>26,103,304</u>
	<u>\$ 8,655,254</u>	<u>\$ 21,194,175</u>	<u>29,849,429</u>
<b>Contractual Allowances, Charity Care and Provision for Uncollectible Accounts</b>			<u>9,616,020</u>
<b>Net Patient Service Revenue</b>			<u>\$ 20,233,409</u>

<b>2010</b>		
<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
\$ 1,513,875	\$ 8,560	\$ 1,522,435
97,420	-	97,420
80,062	-	80,062
1,859,756	-	1,859,756
570,209	-	570,209
4,121,322	8,560	4,129,882
322,125	1,384,429	1,706,554
70,377	352,912	423,289
130,445	35,577	166,022
202,156	582,954	785,110
750,646	4,071,347	4,821,993
526,268	1,869,954	2,396,222
32,460	51,659	84,119
231,441	781,011	1,012,452
95,245	548,353	643,598
71,244	123,088	194,332
1,658	12,314	13,972
39,689	195,166	234,855
1,335,021	957,575	2,292,596
1,724,209	2,721,494	4,445,703
80	104,691	104,771
779	875,385	876,164
48,268	306,708	354,976
-	4,661,910	4,661,910
-	833,547	833,547
-	218,429	218,429
-	1,733,593	1,733,593
-	34,492	34,492
-	34,948	34,948
-	148,437	148,437
5,582,111	22,639,973	28,222,084
\$ 9,703,433	\$ 22,648,533	32,351,966
		12,104,097
		\$ 20,247,869

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Deductions from Revenue and Other Operating Revenue**  
**Years Ended December 31, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Deductions from Revenue</b>		
Medicare	\$ 5,068,538	\$ 5,056,470
Medicaid	748,405	1,894,399
Blue Cross	1,938,320	2,505,005
Other third-party payers	495,912	820,136
Charity care	5,380	20,683
Administrative adjustments	32,983	56,756
Provision for uncollectible accounts	1,326,482	1,750,648
	\$ 9,616,020	\$ 12,104,097

**Other Operating Revenue**

Mobile magnetic resonance imaging	\$ 446,225	\$ 432,475
Pharmacy sales to employees	125,730	130,420
Cafeteria	142,110	135,019
In-house catering	44,620	39,262
Laboratory services	27,463	27,060
Education	3,240	2,920
Sale of medical records	3,772	3,063
Vending machine	414	642
Rebates from vendors	7,610	37,616
Gain on disposal of capital assets	55	7
Miscellaneous	14,485	15,267
	\$ 815,724	\$ 823,751

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Operating Expenses**  
**Years Ended December 31, 2011 and 2010**

	2011			2010		
	Salaries	Other	Total	Salaries	Other	Total
<b>Nursing Services</b>						
Nursing service	\$ 1,002,806	\$ 84,576	\$ 1,087,382	\$ 1,097,375	\$ 92,740	\$ 1,190,115
Nursery	28,624	999	29,623	29,724	1,539	31,263
Long-term care	1,267,775	389,909	1,657,684	1,268,017	336,837	1,604,854
Assisted living	410,668	178,667	589,335	440,336	191,587	631,923
Nursing administration	89,134	12,505	101,639	123,893	7,543	131,436
	<u>2,799,007</u>	<u>666,656</u>	<u>3,465,663</u>	<u>2,959,345</u>	<u>630,246</u>	<u>3,589,591</u>
<b>Other Professional Services</b>						
Operating room	133,993	50,690	184,683	168,775	56,515	225,290
Recovery room	89,839	7	89,846	96,011	326	96,337
Delivery room	128,975	8,548	137,523	167,556	27,753	195,309
Anesthesiology	330,186	186,089	516,275	392,743	189,220	581,963
Radiology	544,019	549,702	1,093,721	603,706	520,338	1,124,044
Laboratory	229,042	297,884	526,926	229,165	343,380	572,545
Blood administration	-	62,322	62,322	-	85,215	85,215
Respiratory services	182,372	165,042	347,414	178,786	200,299	379,085
Physical therapy	301,758	16,267	318,025	265,775	12,852	278,627
Occupational therapy	95,158	355	95,513	96,505	1,316	97,821
Speech pathology	19,212	120	19,332	21,999	690	22,689
Electrocardiology	18,105	780	18,885	16,078	1,548	17,626
Central service	30,557	482,722	513,279	28,653	585,105	613,758
Pharmacy	170,805	833,942	1,004,747	169,058	887,675	1,056,733
Specialty clinics	27,017	9,867	36,884	32,009	13,884	45,893
Emergency room	504,678	40,240	544,918	494,466	34,099	528,565
Rural health clinic	2,592,087	469,240	3,061,327	2,547,270	539,093	3,086,363
Ambulance	692,872	99,010	791,882	690,552	82,724	773,276
Home health	187,669	23,500	211,169	184,546	20,273	204,819
Physician clinics	1,083,045	153,120	1,236,165	1,102,109	153,531	1,255,640
Lifeline	930	531	1,461	1,395	675	2,070
Senior care	15,489	5,300	20,789	14,160	5,330	19,490
Wolf Creek	119,793	2,442	122,235	107,357	9,076	116,433
	<u>7,497,601</u>	<u>3,457,720</u>	<u>10,955,321</u>	<u>7,608,674</u>	<u>3,770,917</u>	<u>11,379,591</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended December 31, 2011 and 2010**

	2011			2010		
	Salaries	Other	Total	Salaries	Other	Total
<b>General Services</b>						
Plant operation	\$ 147,760	\$ 481,057	\$ 628,817	\$ 158,598	\$ 405,778	\$ 564,376
Laundry	24,134	16,766	40,900	33,133	20,205	53,338
Housekeeping	147,493	27,127	174,620	157,565	26,051	183,616
Dietary	241,393	252,239	493,632	242,423	249,261	491,684
	<u>560,780</u>	<u>777,189</u>	<u>1,337,969</u>	<u>591,719</u>	<u>701,295</u>	<u>1,293,014</u>
<b>Administration Services</b>						
Administration and general	1,150,066	1,000,984	2,151,050	948,792	939,538	1,888,330
Medical records	242,497	122,837	365,334	224,292	112,208	336,500
Marketing	48,781	189,916	238,697	49,701	169,012	218,713
	<u>1,441,344</u>	<u>1,313,737</u>	<u>2,755,081</u>	<u>1,222,785</u>	<u>1,220,758</u>	<u>2,443,543</u>
<b>Employee Benefits</b>		<u>3,099,714</u>	<u>3,099,714</u>		<u>3,014,698</u>	<u>3,014,698</u>
<b>Depreciation</b>		<u>1,094,454</u>	<u>1,094,454</u>		<u>1,452,599</u>	<u>1,452,599</u>
	<u>\$ 12,298,732</u>	<u>\$ 10,409,470</u>	<u>\$ 22,708,202</u>	<u>\$ 12,382,523</u>	<u>\$ 10,790,513</u>	<u>\$ 23,173,036</u>

**Coffey Health System**  
**A Component Unit of Coffey County, Kansas**  
**Schedules of Financial and Statistical Comparisons**  
**Years Ended December 31,**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>	\$21,049,133	\$21,071,620	\$21,946,842	\$20,914,906	\$19,820,167
<b>Operating Expenses</b>	<u>22,708,202</u>	<u>23,173,036</u>	<u>23,301,680</u>	<u>22,034,085</u>	<u>20,955,776</u>
<b>Loss from Operations</b>	<u>\$(1,659,069)</u>	<u>\$(2,101,416)</u>	<u>\$(1,354,838)</u>	<u>\$(1,119,179)</u>	<u>\$(1,135,609)</u>
<b>Total Salaries</b>	<u>\$12,298,732</u>	<u>\$12,382,523</u>	<u>\$12,305,411</u>	<u>\$11,567,549</u>	<u>\$11,145,549</u>
<b>Full-time Equivalents</b>	<u>259.9</u>	<u>264.0</u>	<u>267.4</u>	<u>261.8</u>	<u>260.5</u>
<b>Patient Days (Exclusive of Swing-bed)</b>					
Medicare	1,372	1,574	1,958	2,335	2,221
Other	<u>910</u>	<u>1,249</u>	<u>1,384</u>	<u>1,444</u>	<u>1,473</u>
Total	<u>2,282</u>	<u>2,823</u>	<u>3,342</u>	<u>3,779</u>	<u>3,694</u>
<b>Percent of Occupancy (Exclusive of Swing-bed)</b>	<u>17.4</u>	<u>21.5</u>	<u>25.4</u>	<u>28.8</u>	<u>28.1</u>
<b>Medicare Percent (Exclusive of Swing-bed)</b>	<u>60.1</u>	<u>55.8</u>	<u>58.6</u>	<u>61.8</u>	<u>60.1</u>
<b>Discharges (Exclusive of Swing-bed)</b>					
Medicare	435	507	621	722	684
Other	<u>386</u>	<u>567</u>	<u>617</u>	<u>661</u>	<u>672</u>
Total	<u>821</u>	<u>1,074</u>	<u>1,238</u>	<u>1,383</u>	<u>1,356</u>
<b>Average Length of Stay (Exclusive of Swing-bed)</b>					
Medicare	3.2	3.1	3.2	3.2	3.2
Other	2.4	2.2	2.2	2.2	2.2
Overall	2.8	2.6	2.7	2.7	2.7