

Gove County Medical Center
A Component Unit of Gove County, Kansas

Accountants' Report and Financial Statements

December 31, 2011 and 2010



Gove County Medical Center
A Component Unit of Gove County, Kansas
December 31, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Gove County Medical Center
Quinter, Kansas

We have audited the accompanying balance sheets of Gove County Medical Center, a component unit of Gove 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 Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gove County Medical Center 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.

Management 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, Contractual Allowances, Charity Care and Other Operating Revenues and Operating Expenses as 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.

BKD, LLP

April 6, 2012

Gove County Medical Center
A Component Unit of Gove County, Kansas
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,654,563	\$ 1,973,104
Short-term certificates of deposit and investments	551,960	1,254,465
Restricted cash - under debt agreement	30,000	-
Patient accounts receivable, net of allowance; 2011 - \$150,000, 2010 - \$121,000	1,139,158	1,039,373
Estimated amounts due from third-party payers	485,000	160,000
Supplies	268,474	241,628
Prepaid expenses and other	146,505	102,524
Sales taxes receivable	78,000	78,000
Total current assets	5,353,660	4,849,094
Capital Assets, Net	3,441,094	3,416,612
Other Assets	15,053	37,531
Total assets	\$ 8,809,807	\$ 8,303,237
 Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt	\$ 56,400	\$ 95,727
Accounts payable	349,436	265,941
Accrued expenses	419,913	341,680
Accrued vacation pay	337,953	332,649
Total current liabilities	1,163,702	1,035,997
Long-term Debt	315,600	372,000
Total liabilities	1,479,302	1,407,997
Net Assets		
Invested in capital assets, net of related debt	2,939,603	2,923,885
Restricted - expendable for debt service	30,000	-
Unrestricted	4,360,902	3,971,355
Total net assets	7,330,505	6,895,240
Total liabilities and net assets	\$ 8,809,807	\$ 8,303,237

Gove County Medical Center
A Component Unit of Gove County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue, net of provision for accounts; 2011 - \$51,778, 2010 - \$161,482	\$ 11,566,484	\$ 10,818,593
Other	231,369	189,597
Total operating revenues	<u>11,797,853</u>	<u>11,008,190</u>
Operating Expenses		
Salaries and wages	5,616,586	5,459,512
Employee benefits	2,161,386	1,916,702
Purchased services and professional fees	1,473,181	1,295,642
Drugs	551,602	662,119
Medical and surgical supplies	333,647	343,210
Food	198,284	178,627
Utilities	243,817	223,186
Repairs and maintenance	200,751	193,773
Provider assessments	110,250	-
Supplies and other	653,999	627,452
Depreciation and amortization	490,873	488,190
Total operating expenses	<u>12,034,376</u>	<u>11,388,413</u>
Operating Loss	<u>(236,523)</u>	<u>(380,223)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	225,095	186,309
Sales tax revenue	291,005	370,477
Interest income	15,639	25,774
Interest expense	(944)	(3,119)
Noncapital grants and gifts	71,120	76,488
Total nonoperating revenues	<u>601,915</u>	<u>655,929</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	365,392	275,706
Capital Grants and Gifts	<u>69,873</u>	<u>108,782</u>
Increase in Net Assets	435,265	384,488
Net Assets, Beginning of Year	<u>6,895,240</u>	<u>6,510,752</u>
Net Assets, End of Year	<u><u>\$ 7,330,505</u></u>	<u><u>\$ 6,895,240</u></u>

Gove County Medical Center
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Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 11,141,699	\$ 10,814,586
Payments to suppliers and contractors	(3,835,651)	(3,445,308)
Payments to employees	(7,694,435)	(7,346,461)
Other receipts, net	<u>216,121</u>	<u>194,416</u>
Net cash provided by (used in) operating activities	<u>(172,266)</u>	<u>217,233</u>
Noncapital Financing Activities		
Intergovernmental revenue	225,095	186,309
Sales tax revenue	291,005	344,477
Noncapital grants and gifts	<u>71,120</u>	<u>76,488</u>
Net cash provided by noncapital financing activities	<u>587,220</u>	<u>607,274</u>
Capital and Related Financing Activities		
Capital grants and gifts	69,873	108,782
Proceeds from sale of capital assets	20,196	5,400
Principal paid on long-term debt	(95,727)	(100,229)
Interest paid on long-term debt	(944)	(3,119)
Purchase of capital assets	<u>(415,037)</u>	<u>(886,899)</u>
Net cash used in capital and related financing activities	<u>(421,639)</u>	<u>(876,065)</u>
Investing Activities		
Interest income	15,639	25,774
Purchase of short-term certificates of deposit and investments	(2,580,045)	(2,147,543)
Maturities of short-term certificates of deposit and investments	<u>3,282,550</u>	<u>2,102,587</u>
Net cash provided by (used in) investing activities	<u>718,144</u>	<u>(19,182)</u>
Increase (Decrease) in Cash and Cash Equivalents	711,459	(70,740)
Cash and Cash Equivalents, Beginning of Year	<u>1,973,104</u>	<u>2,043,844</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,684,563</u>	<u>\$ 1,973,104</u>

Gove County Medical Center
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Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 2,654,563	\$ 1,973,104
Cash and cash equivalents in restricted cash – current	30,000	-
Total cash and cash equivalents	\$ 2,684,563	\$ 1,973,104
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (236,523)	\$ (380,223)
Depreciation and amortization	490,873	488,190
Loss on sale of capital assets	(15,248)	4,819
Changes in operating assets and liabilities		
Patient accounts receivable, net	(99,785)	(94,007)
Estimated amounts due from and to Medicare	(325,000)	90,000
Accounts payable and accrued expenses	62,541	113,429
Other assets and liabilities	(49,124)	(4,975)
Net cash provided by (used in) operating activities	\$ (172,266)	\$ 217,233
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 129,491	\$ 25,000

Gove County Medical Center
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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

Gove County Medical Center (Hospital) is an acute care hospital located in Quinter, Kansas. The Hospital is a component unit of Gove County, Kansas (County), and the Board of County Commissioners appoints members to the Board of Trustees of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, long-term care and emergency care services to patients in the Gove County area.

Basis of Accounting and Presentation

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

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) 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.

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Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of certificates of deposit and money market accounts.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

Intergovernmental and Sales Tax Revenue

The Hospital received approximately 4% and 5% of its financial support from the proceeds of intergovernmental and sales taxes in 2011 and 2010, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by Gove County and shared with the Hospital for hospital operational purposes. Taxes are assessed by the County in November and are received beginning in January of each year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Sales tax revenue is recognized based on sales tax collected by the County's retailers in the Hospital's accounting period.

Risk Management

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

Patient Accounts Receivable

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

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Supplies

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

Capital Assets

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

Land improvements	8 – 20 years
Buildings and building improvements	5 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	4 – 20 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Assets

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

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Net Patient Service Revenue

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

Charity Care

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

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

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.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at 101% of allowed cost subject to certain limitations. Home health services are paid under a prospective payment system based on patient assessments. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

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

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital 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

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provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$135,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 57% and 58% of net patient service revenue are 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 Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits and Interest Income

Deposits

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

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

The Hospital has \$200,000 on deposit with a local credit union. Kansas statutes preclude designation of credit unions as a depository of public funds.

At December 31, 2011 and 2010, respectively, \$2,274,011 and \$1,913,147 of the Hospital's bank balances of \$3,090,260 and \$3,229,598 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 2,274,011	\$ 1,913,147

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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	\$ 3,081,228	\$ 3,227,269
Investments in direct government obligations	154,995	-
Cash on hand	300	300
	<u>\$ 3,236,523</u>	<u>\$ 3,227,569</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,654,563	\$ 1,973,104
Short-term certificates of deposit and investments	551,960	1,254,465
Restricted cash - current	30,000	-
	<u>\$ 3,236,523</u>	<u>\$ 3,227,569</u>

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 519,819	\$ 442,696
Medicaid	71,582	64,400
Blue Cross	276,062	237,840
Other third-party payers	139,974	155,009
Patients	281,721	260,428
	<u>1,289,158</u>	<u>1,160,373</u>
Less allowance for uncollectible accounts	150,000	121,000
	<u>\$ 1,139,158</u>	<u>\$ 1,039,373</u>

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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, were:

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 153,039	\$ -	\$ -	\$ -	\$ 153,039
Land improvements	134,011	-	-	-	134,011
Buildings and leasehold improvements	6,734,452	7,783	-	-	6,742,235
Fixed equipment	1,092,563	-	-	-	1,092,563
Major moveable equipment	4,172,455	288,579	(102,715)	-	4,358,319
Construction in progress	4,948	223,166	(4,948)	-	223,166
	<u>12,291,468</u>	<u>519,528</u>	<u>(107,663)</u>	<u>-</u>	<u>12,703,333</u>
Less accumulated depreciation					
Land improvements	77,995	6,036	-	-	84,031
Buildings and leasehold improvements	5,423,347	128,791	-	-	5,552,138
Fixed equipment	443,285	59,454	-	-	502,739
Major moveable equipment	<u>2,930,229</u>	<u>295,817</u>	<u>(102,715)</u>	<u>-</u>	<u>3,123,331</u>
	<u>8,874,856</u>	<u>490,098</u>	<u>(102,715)</u>	<u>-</u>	<u>9,262,239</u>
Capital Assets, Net	<u><u>\$3,416,612</u></u>	<u><u>\$ 29,430</u></u>	<u><u>\$ (4,948)</u></u>	<u><u>\$ -</u></u>	<u><u>\$3,441,094</u></u>

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	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 153,039	\$ -	\$ -	\$ -	\$ 153,039
Land improvements	94,800	23,993	-	15,218	134,011
Buildings and leasehold improvements	6,447,530	5,400	-	281,522	6,734,452
Fixed equipment	955,887	-	-	136,676	1,092,563
Major moveable equipment	3,872,360	548,706	(248,611)	-	4,172,455
Construction in progress	104,564	333,800	-	(433,416)	4,948
	<u>11,628,180</u>	<u>911,899</u>	<u>(248,611)</u>	<u>-</u>	<u>12,291,468</u>
Less accumulated depreciation					
Land improvements	73,449	4,546	-	-	77,995
Buildings and leasehold improvements	5,245,160	178,187	-	-	5,423,347
Fixed equipment	387,603	55,682	-	-	443,285
Major moveable equipment	2,919,621	249,000	(238,392)	-	2,930,229
	<u>8,625,833</u>	<u>487,415</u>	<u>(238,392)</u>	<u>-</u>	<u>8,874,856</u>
Capital Assets, Net	<u>\$3,002,347</u>	<u>\$ 424,484</u>	<u>\$ (10,219)</u>	<u>\$ -</u>	<u>\$3,416,612</u>

Note 6: Medical Malpractice Claims

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

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

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Notes to Financial Statements
December 31, 2011 and 2010

Note 7: Long-term Debt

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable – county – 2006	\$ 158,400	\$ -	\$ 26,400	\$ 132,000	\$ 26,400
Note payable – county – 2009	270,000	-	30,000	240,000	30,000
Capital lease payable	39,327	-	39,327	-	-
Total long-term debt	\$ 467,727	\$ -	\$ 95,727	\$ 372,000	\$ 56,400

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Note payable – county – 2006	\$ 184,800	\$ -	\$ 26,400	\$ 158,400	\$ 26,400
Note payable – county – 2009	300,000	-	30,000	270,000	30,000
Capital lease payable	83,156	-	43,829	39,327	39,327
Total long-term debt	\$ 567,956	\$ -	\$ 100,229	\$ 467,727	\$ 95,727

Note Payable – County – 2006

The note payable – county – 2006 consists of an agreement with the County to repay on its behalf revenue bonds in the original amount of \$264,000 dated June 1, 2006. These bonds were purchased in their entirety by Western Cooperative Electric at their par value with no interest due on these bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to install a new sprinkler system in the Hospital. The bonds are payable in annual installments through June 1, 2016. The Hospital is required to make annual payments of \$26,400 to the debt service fund held by the trustee.

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The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 26,400	\$ 26,400	\$ -
2013	26,400	26,400	-
2014	26,400	26,400	-
2015	26,400	26,400	-
2016	26,400	26,400	-
	<u>\$ 132,000</u>	<u>\$ 132,000</u>	<u>\$ -</u>

Note Payable – County – 2009

The note payable – county – 2009 consists of an agreement with the County to repay on its behalf revenue bonds in the original amount of \$300,000 dated November 1, 2009. These bonds were purchased in their entirety by Western Cooperative Electric at their par value with no interest due on these bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to construct a water therapy pool building at the Hospital. The bonds are payable in annual installments through November 1, 2019. The Hospital is required to make annual payments of \$30,000 to the debt service fund held by the trustee and maintain separate accounts for principal and interest payments. The Hospital failed to segregate these funds during the year, which is a violation of the debt covenants. The owner of the bonds may require and compel the Hospital to comply with the above provision of the Bond Resolution. The debt service requirements as of December 31, 2011, are as follows:

Year Ending December 31,	Total to be Paid	Principal	Interest
2012	\$ 30,000	\$ 30,000	\$ -
2013	30,000	30,000	-
2014	30,000	30,000	-
2015	30,000	30,000	-
2016	30,000	30,000	-
2017 – 2019	90,000	90,000	-
	<u>\$ 240,000</u>	<u>\$ 240,000</u>	<u>\$ -</u>

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Notes to Financial Statements
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Note 8: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2013. These leases generally require the Hospital to pay all executory costs (property taxes, maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments at December 31, 2011, were:

Year Ending December 31,	
2012	\$ 121,875
2013	<u>65,704</u>
Future minimum lease payments	<u><u>\$ 187,579</u></u>

Rental expense for all operating leases at December 31 consisted of the following:

	<u>2011</u>	<u>2010</u>
Minimum rentals	<u>\$ 137,828</u>	<u>\$ 129,495</u>

Note 9: Pension Plan

Plan Description

The Hospital contributes to the Kansas Public Employees Retirement System (KPERS) Employee Pension Plan, a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and disability benefits, including annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The Kansas Legislature, with concurrence of the Governor, has the authority to establish and amend benefit provisions. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at Kansas Public Employees Retirement System, 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling 1.888.275.5737.

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Funding Policy

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 6.74%, 6.14% and 5.93% of annual covered payroll for 2011, 2010 and 2009, respectively. The Hospital's contributions to the plan for 2011, 2010 and 2009, were \$398,577, \$357,454 and \$264,210, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 10: Litigation

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

Note 11: Current Economic Conditions

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

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

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

Supplementary Information

Gove County Medical Center
A Component Unit of Gove County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Hospital nursing service	\$ 1,886,500	\$ -	\$ 1,886,500
Nursery	61,750	-	61,750
Long-term care	2,691,093	-	2,691,093
Operating room	276,640	1,344,859	1,621,499
Delivery room	93,950	-	93,950
Anesthesiology	83,978	199,613	283,591
Radiology	445,960	1,283,752	1,729,712
Laboratory	742,831	1,062,215	1,805,046
Respiratory therapy	168,447	10,399	178,846
Physical therapy	178,313	576,854	755,167
Occupational therapy	56,613	50,622	107,235
Speech therapy	5,284	10,725	16,009
Electrocardiology	26,135	73,636	99,771
Cardiac rehabilitation	-	38,227	38,227
Medical supplies	360,990	92,105	453,095
Pharmacy	1,358,438	810,303	2,168,741
Orthopedic, urology and ENT clinic	-	50,781	50,781
Emergency room	58,871	419,917	478,788
Observation	8,139	44,222	52,361
Home health agency	-	16,502	16,502
Independent living	104,223	-	104,223
	<u>\$ 8,608,155</u>	<u>\$ 6,084,732</u>	14,692,887
Provision for uncollectible accounts			51,778
Contractual allowances and charity care			<u>3,074,625</u>
Net patient service revenue			<u>\$ 11,566,484</u>

2010		
Inpatient	Outpatient	Total
\$ 1,643,280	\$ -	\$ 1,643,280
49,990	-	49,990
2,791,010	-	2,791,010
271,419	1,259,564	1,530,983
73,058	-	73,058
58,843	152,841	211,684
502,908	1,139,783	1,642,691
800,462	1,066,958	1,867,420
253,110	13,881	266,991
160,376	415,429	575,805
71,656	54,723	126,379
10,200	16,430	26,630
27,111	75,866	102,977
-	60,615	60,615
318,204	95,627	413,831
1,620,131	841,245	2,461,376
-	53,473	53,473
40,732	402,971	443,703
7,383	27,903	35,286
-	16,017	16,017
113,807	-	113,807
\$ 8,813,680	\$ 5,693,326	14,507,006
		161,482
		3,526,931
		\$ 10,818,593

Gove County Medical Center
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Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2011 and 2010

Contractual Allowances and Charity Care

	<u>2011</u>	<u>2010</u>
Charity Care	\$ 93,223	\$ 59,389
Contractual Allowances		
Medicare and Medicaid – Hospital	2,095,522	2,215,391
Blue Cross – Hospital	854,433	821,095
Commercial insurance – Hospital	219,013	179,541
Medicaid – long-term care facility	(309,884)	154,751
Administrative adjustments	<u>122,318</u>	<u>96,764</u>
	<u>\$ 3,074,625</u>	<u>\$ 3,526,931</u>

Other Operating Revenues

	<u>2011</u>	<u>2010</u>
Day care revenue	\$ 85,483	\$ 76,199
Cafeteria sales	49,244	43,810
Rent	49,800	49,800
Guest meals	9,941	7,996
Gain on sale of assets	15,248	(4,121)
Miscellaneous	<u>21,653</u>	<u>15,913</u>
	<u>\$ 231,369</u>	<u>\$ 189,597</u>

Gove County Medical Center
A Component Unit of Gove County, Kansas
Operating Expenses
Years Ended December 31, 2011 and 2010

	2011		Total
	Salaries	Other	
Hospital nursing service	\$ 1,182,811	\$ 136,945	\$ 1,319,756
Nursery	36,256	4,178	40,434
Long-term care	1,201,311	460,985	1,662,296
Operating room	153,639	46,371	200,010
Delivery room	25,348	3,556	28,904
Anesthesiology	-	1,902	1,902
Radiology	191,528	355,390	546,918
Laboratory	302,034	345,397	647,431
Respiratory therapy	175,292	32,537	207,829
Physical therapy	172,868	80,082	252,950
Occupational therapy	-	53,262	53,262
Speech therapy	-	16,979	16,979
Electrocardiology	6,172	622	6,794
Cardiac rehabilitation	34,047	4,512	38,559
Medical supplies	22,010	107,553	129,563
Pharmacy	8,335	629,256	637,591
Orthopedic, urology and ENT clinic	10,873	1,219	12,092
Emergency room	38,735	186,926	225,661
Home health agency	4,509	8,342	12,851
Depreciation and amortization	-	490,873	490,873
Employee benefits	-	2,161,386	2,161,386
Administrative and general	823,950	455,843	1,279,793
Operation of plant	159,342	272,349	431,691
Laundry and linen	97,378	7,616	104,994
Housekeeping	217,403	37,166	254,569
Dietary	356,916	225,533	582,449
Nursing service administration	201,120	5,856	206,976
Purchasing	50,036	4,620	54,656
Medical records	144,673	61,177	205,850
Nonphysician anesthetists	-	217,276	217,276
Auxiliary	-	2,081	2,081
	<u>\$ 5,616,586</u>	<u>\$ 6,417,790</u>	<u>\$ 12,034,376</u>

2010		
Salaries	Other	Total
\$ 1,140,611	\$ 172,783	\$ 1,313,394
24,881	9,149	34,030
1,286,946	269,557	1,556,503
130,508	37,993	168,501
23,799	4,132	27,931
-	3,412	3,412
173,672	372,731	546,403
275,551	349,232	624,783
139,081	41,340	180,421
152,415	69,409	221,824
-	60,057	60,057
-	21,098	21,098
5,296	853	6,149
35,209	7,412	42,621
25,649	92,346	117,995
10,901	737,732	748,633
14,553	858	15,411
34,030	148,684	182,714
6,870	8,986	15,856
-	488,190	488,190
-	1,916,702	1,916,702
803,669	347,910	1,151,579
163,787	264,313	428,100
96,570	8,092	104,662
200,343	45,368	245,711
353,618	196,809	550,427
177,896	4,204	182,100
48,751	3,424	52,175
134,906	48,932	183,838
-	195,735	195,735
-	1,458	1,458
\$ 5,459,512	\$ 5,928,901	\$ 11,388,413