

Geary Community Hospital
A Component Unit of Geary County, Kansas

Accountants' Report and Financial Statements

April 30, 2011 and 2010



Geary Community Hospital
A Component Unit of Geary County, Kansas
April 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Geary Community Hospital
Junction City, Kansas

We have audited the accompanying basic financial statements of Geary Community Hospital and its discretely presented component unit, collectively a component unit of Geary County, Kansas, as of and for the years ended April 30, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of Geary Community Healthcare Foundation (Foundation), a discretely presented component unit of the Hospital, which statements reflect total assets of \$4,688,307 and \$4,175,635 as of December 31, 2010 and 2009, respectively, and total revenues of \$1,246,911 and \$957,480 for the years then ended. Those statements were audited by other accountants whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Foundation, are based solely on the report of the other accountants.

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 and the report of the other accountants provide a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other accountants, the financial statements referred to above present fairly, in all material respects, the financial position of Geary Community Hospital and of its discretely presented component unit as of April 30, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures 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.

BKD, LLP

December 15, 2011

Geary Community Hospital
A Component Unit of Geary County, Kansas
Management's Discussion and Analysis
Years Ended April 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Geary Community Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended April 30, 2011, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital. Unless otherwise noted, the information and financial data included in the management's discussion and analysis relates solely to the Hospital and does not include the Hospital's component unit, Geary Community Healthcare Foundation.

Financial Highlights

- Cash and short-term certificates of deposit decreased \$2,335,724 or 64% in 2011 and increased \$619,437 or 20% in 2010.
- The Hospital's net assets decreased \$3,442,875 or 6% in 2011 and increased \$2,792,962 or 5% in 2010.
- The Hospital reported an operating loss of \$3,611,719 and \$2,023,645 in 2011 and 2010, respectively. The operating loss in 2011 increased by \$1,588,074 or 78% compared to the operating loss reported in 2010.

Using This Annual Report

The Hospital'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 statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting. Geary Community Healthcare Foundation, a nonprofit organization established to raise funds for the support of health care services and programs of Geary Community Hospital and the Geary County, Kansas area, is included in the Hospital's financial statements as a component unit using the discrete presentation method.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets (the difference between assets and liabilities) is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to questions as to where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

Net assets are the difference between assets and liabilities reported in the Balance Sheet. As shown in Table 1, the Hospital's net assets decreased by \$3,442,875 or 6% in 2011 compared to 2010. In 2010, net assets increased by \$2,792,962 or 5% compared to 2009.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	\$ 5,797,949	\$ 6,547,048	\$ 6,898,368
Cash and short-term certificates of deposit	1,311,601	3,647,325	3,027,888
Other current assets	3,496,098	2,289,373	2,621,101
Capital assets, net	50,060,126	51,422,888	49,582,669
Other noncurrent assets	1,927,316	1,788,826	1,609,568
Total assets	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>	<u>\$ 63,739,594</u>
Liabilities			
Long-term debt, excluding current portion	\$ 6,288,949	\$ 6,180,000	\$ 6,255,000
Other long-term liabilities	-	-	5,000
Current liabilities	4,141,775	3,910,219	4,667,315
Total liabilities	<u>10,430,724</u>	<u>10,090,219</u>	<u>10,927,315</u>
Net Assets			
Invested in capital assets, net of related debt	43,497,114	45,096,604	42,640,612
Restricted expendable	910,342	1,208,450	1,364,087
Unrestricted	7,754,910	9,300,187	8,807,580
Total net assets	<u>52,162,366</u>	<u>55,605,241</u>	<u>52,812,279</u>
Total liabilities and net assets	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>	<u>\$ 63,739,594</u>

Net patient accounts receivable remained flat at April 30, 2011, as compared to April 30, 2010. The nature of accounts receivables at April 30, 2011, is similar to 2010.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the different components that make up the \$3,442,875 decrease in net assets for 2011. Also shown are the components that make up the \$2,792,962 increase in net assets for 2010.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 39,821,712	\$ 39,172,110	\$ 36,026,366
Other operating revenues	750,457	636,251	636,179
Total operating revenues	40,572,169	39,808,361	36,662,545
Operating Expenses			
Salaries and employee benefits	24,224,555	22,239,855	21,604,278
Purchased services and professional fees	5,231,717	5,298,262	4,331,875
Depreciation and amortization	3,132,047	3,101,417	2,415,053
Other operating expenses	11,595,569	11,192,472	9,532,931
Total operating expenses	44,183,888	41,832,006	37,884,137
Operating Loss	(3,611,719)	(2,023,645)	(1,221,592)
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	144,472	200,260	111,140
Investment income	196,135	177,652	125,557
Interest expense	(291,469)	(284,495)	(292,530)
Noncapital grants and gifts	115,249	230,797	742,878
Total nonoperating revenues	164,387	324,214	687,045
Capital Contributions from County	-	4,186,959	13,190,826
Capital Grants and Gifts	4,457	305,434	2,314
Change in Net Assets	\$ (3,442,875)	\$ 2,792,962	\$ 12,658,593

Operating Income

The change in the Hospital's net assets is significantly affected by its operating income or loss. Generally, this is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Hospital has reported an operating loss of \$3,611,719 and \$2,023,645 in 2011 and 2010, respectively. The operating loss for 2011 is an increase of \$1,858,074 or 78% from the operating loss for 2010.

The primary components of the increased operating loss in 2011 are:

- An increase in contractual and administrative adjustments of \$4,730,327 or 7.73% compared to an increase in gross charges of \$5,278,316 or 4.94%. The contractual and administrative adjustments climbed to 58.8% of gross charges in 2011 compared to 57.3% in 2010. This percentage difference amounts to approximately \$1,700,000 fewer collectible dollars on this year's gross charges.

Financial pressures on governmental programs and health care insurance companies have caused payers to minimize increases in or reduce the amounts paid hospitals and other health care providers. Because overall net reimbursement increases have not kept pace with hospital charge rate increases, larger amounts of charges were written off in 2011. The most significant increases in contractual write-offs were in Tricare and Blue Cross Blue Shield. Much of the increase in Tricare write-off was associated with a change in reimbursement methodology for outpatient services. The Blue Cross Blue Shield increase was mostly connected to an increase in volume and charges for their members.

- An increase in salaries, wages and benefits for the Hospital's employees of \$1,984,700 or 8.9%.

The largest increase to employee salaries, wages and benefits in 2011 was due to the addition of an orthopedic surgical clinic and an afterhours rural health clinic. Benefits were affected by several large claims on the self-funded employee health care plan and by increased contributions to the Kansas Public Employees Retirement System (KPERS).

The primary components of the increased operating loss in 2010 are:

- An increase in contractual and administrative adjustments of \$5,684,384 or 10.2%.

Financial pressures on governmental programs and health care insurance companies have caused these payers to minimize increases in or reduce the amounts paid hospitals and other health care providers. Because overall net reimbursement increases have not kept pace with hospital charge rate increases, larger amounts of charges were written off in 2010. The most significant increases in contractual write-offs were in the Medicare, Medicaid and the Medicare and Medicaid Manage Care programs.

- An increase in salaries, wages and benefits for the Hospital's employees of \$635,577 or 2.9%.

Employee salaries, wages and benefits increased in 2010 due to normal pay raises. Payroll was also affected by increased paid hours in several departments primarily to maintain a larger facility after completion of a hospital expansion project in February 2009.

- An increase in depreciation and amortization of \$686,364 or 28.4%.

Most of this increase is caused by depreciation of a hospital building expansion completed in February 2009. In 2009, total building expansion and equipment costs of \$33,841,836 were transferred from construction in progress to depreciable capital assets. An additional \$2,075,668 was transferred in 2010.

- An increase in purchased services and professional fees of \$966,387 or 22.3%.

The largest part of this increase is for locum tenens physicians hired to keep physician practices in operation during the period needed to recruit and hire permanent physician replacements. Due to a shortage of pediatricians and family practice physicians in the job market, the recruiting process was a much longer process than we have experienced in the past.

- An increase in other operating expenses of \$1,585,274 or 22.9%.

Most of this increase is supplies related to medical, surgical and orthopedic surgical services. In 2010, there was an increase in orthopedic surgery volume which often involves high cost supplies.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of gifts, county tax proceeds, investment income and interest expense.

Capital Grants and Gifts

The Hospital received gifts of \$4,457 from various individuals to purchase capital assets in 2011, a decrease of \$300,977 or 99% from 2010.

The Hospital received funds from the County related to the expansion project, funded by general obligations bonds issued by Geary County. In 2010, \$4,186,959 was received, which was the final year of the expansion projects, no funds were received from the County in 2011 for capital purposes.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. In addition, cash has been expended for construction associated with the Hospital's expansion plan. Details of this activity are described in the Capital Asset and Debt Administration – Capital Assets section of this document.

Capital Asset and Debt Administration – Capital Assets

In 2007, the Hospital began the third phase of the expansion plan with projects to:

- add more than 100,000 square feet of Hospital facility space to be used for intensive care and medical inpatient rooms and new operating and surgical procedure rooms,
- add 8,000 square feet of physician clinic space, and
- renovate 6,000 square feet for the expansion of the Diagnostic Imaging department.

At April 30, 2011, the Hospital had \$50,060,126 invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements. In 2010, approximately 95% of the project to renovate space in the Diagnostic Imaging department was complete, the remainder was completed in 2011. The total cost of all fixed asset purchases for 2011 and 2010 was \$1,769,285 and \$4,941,636, respectively.

Capital Asset and Debt Administration – Debt

At April 30, 2011, the Hospital had \$6,020,000 in revenue bonds outstanding. During 2011, two capital leases were incurred to finance equipment additions. The Hospital's formal debt issuances, revenue bonds, are subject to limitations imposed by state law.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital administration by telephoning 785.238.4131.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Balance Sheets
April 30, 2011 and 2010

Assets

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 1,311,601	\$ 3,647,325
Restricted cash - current	310,959	249,268
Restricted cash - current held by County	-	12,044
Patient accounts receivable, net of allowance; 2011 - \$5,823,000, 2010 - \$4,642,000	5,797,949	6,547,048
Estimated amounts due from third-party payers	1,464,366	263,000
Supplies	1,132,724	1,065,725
Prepaid expenses and other	588,049	610,636
Due from County	-	88,700
	<u>10,605,648</u>	<u>12,483,746</u>
Noncurrent Cash and Short-term Certificates of Deposit		
Held under bond indenture for debt service - cash	372,247	372,500
Held under bond indenture for debt service - cash - held by County	-	12,044
Held under bond indenture for debt service - short-term certificates of deposit	1,062,400	998,900
Held under bond indenture for capital acquisitions	180,000	180,000
Restricted by donors for specific operating activities	94,850	90,143
	<u>1,709,497</u>	<u>1,653,587</u>
Less amount required to meet current obligations	<u>310,959</u>	<u>261,312</u>
	<u>1,398,538</u>	<u>1,392,275</u>
Capital Assets, Net	<u>50,060,126</u>	<u>51,422,888</u>
Other Assets		
Deferred financing costs	167,238	180,961
Advances to physicians, net of estimated uncollectibles; 2011 - \$235,417, 2010 - \$234,700	361,540	215,590
	<u>528,778</u>	<u>396,551</u>
Total other assets	<u>528,778</u>	<u>396,551</u>
Total assets	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 441,300	\$ 235,000
Current portion of long-term obligation	-	5,000
Accounts payable	1,469,150	1,840,797
Accrued payroll and related expenses	1,853,651	1,681,257
Accrued interest	63,885	66,117
Accrued health insurance benefits	300,000	67,910
Deferred revenue	13,789	14,138
	<u>4,141,775</u>	<u>3,910,219</u>
Total current liabilities	4,141,775	3,910,219
Long-term Debt	6,288,949	6,180,000
Total liabilities	<u>10,430,724</u>	<u>10,090,219</u>
Net Assets		
Invested in capital assets, net of related debt	43,497,114	45,096,604
Restricted - expendable for		
Debt service	636,112	638,677
Capital acquisitions	180,000	180,000
Specific operating activities	94,230	389,773
Unrestricted	7,754,910	9,300,187
	<u>52,162,366</u>	<u>55,605,241</u>
Total net assets	52,162,366	55,605,241
Total liabilities and net assets	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Financial Position
December 31, 2010 and 2009

	2010	2009
Assets		
Cash	\$ 562,698	\$ 869,169
Investments	3,961,152	3,299,325
Lease receivable – Geary Community Hospital	160,000	-
Equipment – net	4,457	7,141
Total assets	\$ 4,688,307	\$ 4,175,635
 Liabilities and Net Assets		
Liabilities – Annuities Payable	\$ 61,322	\$ 42,334
Net Assets – Unrestricted	4,626,985	4,133,301
Total liabilities and net assets	\$ 4,688,307	\$ 4,175,635

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended April 30, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$6,626,801, 2010 - \$6,478,414	\$ 39,821,712	\$ 39,172,110
Other	750,457	636,251
Total operating revenues	40,572,169	39,808,361
Operating Expenses		
Salaries	19,342,709	18,248,989
Employee benefits	4,881,846	3,990,866
Purchased services and professional fees	5,231,717	5,298,262
Drugs	884,704	728,914
Food	388,089	364,291
Utilities	978,828	853,269
Insurance	499,316	478,545
Supplies and other	8,844,632	8,767,453
Depreciation and amortization	3,132,047	3,101,417
Total operating expenses	44,183,888	41,832,006
Operating Loss	(3,611,719)	(2,023,645)
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	144,472	200,260
Interest income	196,135	177,652
Interest expense	(291,469)	(284,495)
Noncapital grants and gifts	115,249	230,797
Total nonoperating revenues	164,387	324,214
Deficiency of Revenues Over Expenses Before Appropriations and Capital Grants and Gifts	(3,447,332)	(1,699,431)
Capital Appropriations from County	-	4,186,959
Capital Grants and Gifts	4,457	305,434
Increase (Decrease) in Net Assets	(3,442,875)	2,792,962
Net Assets, Beginning of Year	55,605,241	52,812,279
Net Assets, End of Year	\$ 52,162,366	\$ 55,605,241

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Activities
Years Ended December 31, 2010 and 2009

	2010	2009
Revenues, Gains and Other Support		
Donations	\$ 650,046	\$ 95,543
Memorials	31,608	54,541
Special events	126,194	121,844
Donated staff and facilities	39,931	39,296
Net investment income	399,132	646,256
Total revenues, gains and other support	1,246,911	957,480
Expenses and Losses		
Program expenses	564,030	328,915
Supporting services	92,777	86,331
Fund-raising	96,420	87,073
Re-evaluation of annuity liability	-	34,961
Total expenses	753,227	537,280
Increase in Net Assets	493,684	420,200
Unrestricted Net Assets, Beginning of Year	4,133,301	3,713,101
Unrestricted Net Assets, End of Year	\$ 4,626,985	\$ 4,133,301

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows
Years Ended April 30, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 39,369,096	\$ 39,649,724
Payments to suppliers and contractors	(17,095,634)	(16,387,187)
Payments to or on behalf of employees	(23,817,839)	(22,559,914)
Other receipts, net	750,457	636,251
Net cash provided by (used in) operating activities	(793,920)	1,338,874
Noncapital Financing Activities		
Intergovernmental revenue	144,472	200,260
Noncapital grants and gifts	115,249	230,797
Net cash provided by noncapital financing activities	259,721	431,057
Capital and Related Financing Activities		
Capital grants and gifts	4,457	305,434
Principal paid on revenue bonds payable	(235,000)	(230,000)
Principal paid on capital leases	(8,951)	(384,001)
Interest paid on long-term debt	(293,701)	(286,507)
Purchase of capital assets	(1,302,329)	(4,960,268)
Payments on long-term obligation	(5,000)	(20,000)
Capital contribution from County	88,700	4,442,001
Net cash used in capital and related financing activities	(1,751,824)	(1,133,341)
Investing Activities		
Interest on investments	196,135	177,652
Advances to physicians	(189,926)	(237,147)
Net change in certificates of deposit	-	147,500
Net change in construction escrow and debt-related accounts	(51,456)	47,458
Net cash provided by (used in) investing activities	(45,247)	135,463
Increase (Decrease) in Cash	(2,331,270)	772,053
Cash, Beginning of Year	4,109,968	3,337,915
Cash, End of Year	\$ 1,778,698	\$ 4,109,968

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows (Continued)
Years Ended April 30, 2011 and 2010

	2011	2010
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 1,622,560	\$ 3,896,593
Cash in noncurrent cash	156,138	213,375
Total cash	\$ 1,778,698	\$ 4,109,968
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (3,611,719)	\$ (2,023,645)
Depreciation	3,132,047	3,101,417
Amortization	13,723	16,859
Change in allowance for advances to physicians	(717)	16,000
Write-off of advances to physicians	44,693	33,000
Changes in		
Patient accounts receivable, net	749,099	351,320
Estimated amounts due from and to third-party payers	(1,201,366)	124,237
Accounts payable and accrued expenses	125,081	(184,508)
Deferred revenue	(349)	2,057
Other assets and liabilities	(44,412)	(97,863)
Net cash provided by (used in) operating activities	\$ (793,920)	\$ 1,338,874
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ -	\$ 92,244
Capital lease obligation incurred	\$ 559,200	\$ 160,000

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Operating Activities		
Change in net assets	\$ 493,684	\$ 420,200
Items not requiring (providing) cash		
Increase in annuities payable	18,988	1,941
Increase (decrease) in lease receivable	(160,000)	300,000
Depreciation	2,683	2,836
Net realized and unrealized gain on investments	(286,549)	(559,090)
Net cash provided by operating activities	68,806	165,887
Investing Activities		
Proceeds from sale of investments	588,363	682,105
Purchase of investments	(963,640)	(1,023,870)
Net cash used in investing activities	(375,277)	(341,765)
Decrease in Cash	(306,471)	(175,878)
Cash, Beginning of Year	869,169	1,045,047
Cash, End of Year	\$ 562,698	\$ 869,169

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2011 and 2010

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

Nature of Operations and Reporting Entity

Geary Community Hospital (Hospital) is an acute care hospital located in Junction City, Kansas. The Hospital is a component unit of Geary County (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 and emergency care services to patients in the Geary County area. It also operates a home health agency, hospice and home medical equipment supplier in the same geographic area.

Geary Community Healthcare Foundation (Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the Hospital in support of its programs. The fifteen-member board of the Foundation is self-perpetuating and consists of the CEO of the Hospital, three Hospital board members and eleven community members. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the Hospital by the donors or are provided to the Hospital for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, the Hospital and for the benefit of patients served by the Hospital, the Foundation is considered a component unit of the Hospital and is discretely presented in the Hospital's financial statements. The Foundation's financial statements are presented on a December 31 year-end basis.

During the years ended April 30, 2011 and 2010, the Foundation distributed \$98,458 and \$440,012, respectively, to the Hospital for both restricted and unrestricted purposes. Complete financial statements for the Foundation can be obtained from the Administrative Office at 1110 St. Mary's Road, Junction City, Kansas 66441.

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 and county appropriations 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 from property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2011 and 2010

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.

The Foundation is a private nonprofit organization that reports under the FASB Accounting Standards Codification. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's financial information in the Hospital's financial reporting entity for these differences.

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.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt and are being amortized over the term of the bonds using the interest method of amortization.

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

Health insurance coverage is provided through a contract managed by an insurance company. Management believes adequate reserves are in place to cover claims incurred but not reported.

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 to cover claims incurred but not reported.

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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. As a service to the patient, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

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 obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 20 years
Buildings and building improvements	15 – 50 years
Fixed equipment	10 – 18 years
Major moveable equipment	3 – 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. 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.

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Deferred Revenue

Deferred revenue consists of grant monies received for specific purposes. Revenue is recognized on deferred grant revenue when the specific purpose of the grant is met.

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.

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 under reimbursement agreements with third-party payers and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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. The Hospital has obtained 501(c)(3) tax-exempt status with the IRS for purposes of participating in a Section 403(b) pension plan.

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Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

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 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. 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 rehabilitation services, inpatient gero-psychiatric services, inpatient skilled nursing services (skilled swing-bed), medical education costs and home health agency services are paid at prospectively determined per diem rates that are based on the patients' acuity. Rural Health Clinic services are paid based on a cost reimbursement methodology. 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. Inpatient and most outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Rural Health Clinic services are paid on a cost reimbursement methodology. Due to certain financial and clinical criteria, the Hospital also receives Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were approximately \$243,040 in 2011 and \$271,976 in 2010.

Approximately 41% and 43% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2011 and 2010, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible recorded estimates will change materially in the near term.

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

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Note 3: Deposits and Investment 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.

At April 30, 2011 and 2010, respectively, \$1,851,638 and \$3,955,089 of the Hospital's bank balances of \$2,849,283 and \$4,948,305 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	<u>\$ 1,851,638</u>	<u>\$ 3,955,089</u>

Summary of Carrying Values

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

	2011	2010
Carrying value		
Deposits	<u>\$ 3,021,098</u>	<u>\$ 5,300,912</u>
Included in the following balance sheet captions		
Cash	\$ 1,311,601	\$ 3,647,325
Restricted cash - current held by County	-	12,044
Restricted cash and certificates of deposit - current	310,959	249,268
Noncurrent cash and certificates of deposit	<u>1,398,538</u>	<u>1,392,275</u>
	<u>\$ 3,021,098</u>	<u>\$ 5,300,912</u>

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Investment Income

Investment income for the years ended April 30, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Interest income	<u>\$ 196,135</u>	<u>\$ 177,652</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 April 30, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 777,199	\$ 867,970
Medicaid	231,883	454,196
Blue Cross	644,692	565,442
Other third-party payers	1,831,637	1,919,319
Patients	<u>8,135,538</u>	<u>7,382,121</u>
	11,620,949	11,189,048
Less allowance for uncollectible accounts	<u>5,823,000</u>	<u>4,642,000</u>
	<u>\$ 5,797,949</u>	<u>\$ 6,547,048</u>

Note 5: Advances to Physicians

The Hospital has entered into agreements with certain physicians to assist them in starting their practices. Advances made under these agreements are to be repaid when the practice income exceeds specified amounts within a defined time period.

At April 30, 2011 and 2010, there were advances to physicians outstanding in the amounts of \$596,957 and \$450,290, respectively.

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Note 6: Capital Assets

Capital assets activity for the years ended April 30, 2011 and 2010, were:

	2011				Ending Balance
	Beginning Balance	Additions	Deletions	Transfers	
Land and land improvements	\$ 1,324,653	\$ -	\$ (76,886)	\$ -	\$ 1,247,767
Buildings and building improvements	48,990,928	-	(221,957)	(1,003,095)	47,765,876
Fixed equipment	5,496,395	-	(924,899)	57,503	4,628,999
Major moveable equipment	17,869,500	1,138,415	(1,484,483)	3,915,962	21,439,394
Construction in progress	2,339,500	630,870	-	(2,970,370)	-
	<u>76,020,976</u>	<u>1,769,285</u>	<u>(2,708,225)</u>	<u>-</u>	<u>75,082,036</u>
Less accumulated depreciation					
Land improvements	765,332	26,458	(76,886)	257,765	972,669
Buildings and building improvements	8,636,577	1,260,816	(198,751)	4,452	9,703,094
Fixed equipment	4,395,509	715,623	(924,899)	(46,099)	4,140,134
Major moveable equipment	10,800,670	1,129,150	(1,507,689)	(216,118)	10,206,013
	<u>24,598,088</u>	<u>3,132,047</u>	<u>(2,708,225)</u>	<u>-</u>	<u>25,021,910</u>
Capital Assets, Net	<u>\$ 51,422,888</u>	<u>\$ (1,362,762)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,060,126</u>

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	2010				Ending Balance
	Beginning Balance	Additions	Deletions	Transfers	
Land and land improvements	\$ 1,324,653	\$ -	\$ -	\$ -	\$ 1,324,653
Buildings and building improvements	47,304,582	109,706	-	1,576,640	48,990,928
Fixed equipment	5,336,736	159,659	-	-	5,496,395
Major moveable equipment	16,889,870	487,941	(7,339)	499,028	17,869,500
Construction in progress	230,838	4,184,330	-	(2,075,668)	2,339,500
	<u>71,086,679</u>	<u>4,941,636</u>	<u>(7,339)</u>	<u>-</u>	<u>76,020,976</u>
Less accumulated depreciation					
Land improvements	681,447	83,885	-	-	765,332
Buildings and building improvements	7,248,310	1,388,267	-	-	8,636,577
Fixed equipment	4,169,054	226,455	-	-	4,395,509
Major moveable equipment	9,405,199	1,402,810	(7,339)	-	10,800,670
	<u>21,504,010</u>	<u>3,101,417</u>	<u>(7,339)</u>	<u>-</u>	<u>24,598,088</u>
Capital Assets, Net	<u>\$ 49,582,669</u>	<u>\$ 1,840,219</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,422,888</u>

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

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Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$100,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	\$ 67,910	\$ 67,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,899,616	1,344,935
Claims paid	(1,667,526)	(1,344,025)
Balance, end of year	\$ 300,000	\$ 67,910

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended April 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building					
Commission bonds payable	\$ 4,925,000	\$ -	\$ -	\$ 4,925,000	\$ -
Revenue bonds payable	1,330,000	-	235,000	1,095,000	245,000
Capital leases payable	160,000	559,200	8,951	710,249	196,300
	\$ 6,415,000	\$ 559,200	\$ 243,951	\$ 6,730,249	\$ 441,300

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	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Public Building					
Commission bonds payable	\$ 4,925,000	\$ -	\$ -	\$ 4,925,000	\$ -
Revenue bonds payable	1,560,000	-	230,000	1,330,000	235,000
Capital leases payable	384,001	160,000	384,001	160,000	-
	\$ 6,869,001	\$ 160,000	\$ 614,001	\$ 6,415,000	\$ 235,000

Revenue Bonds Payable

The revenue bonds payable consist of Hospital Revenue Refunding Bonds (Bonds) in the original amount of \$2,610,000 dated May 1, 2003, which bear interest at 4.0% to 4.4%. The Bonds are payable in annual installments through August 1, 2014. The Hospital is required to make monthly deposits of approximately \$24,000 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after August 1, 2011. The redemption price is 100%. The Bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, restrictions on incurrence of additional debt and maintaining minimum days unrestricted cash on hand of 30 days. As of April 30, 2011, the Hospital did not meet the debt service coverage and cash on hand covenants. Under the bond agreement the Hospital is required to hire a consultant to help determine a plan to get the Hospital back to a financial position where they are in compliance with required covenants.

Public Building Commission Bonds Payable

The Public Building Commission bonds payable consist of Geary County, Kansas Public Building Commission Revenue Bonds Series 2006B (Geary Community Hospital) (Bonds) in the original amount of \$4,925,000 dated July 1, 2006, which bear interest at 4.2% to 4.35%. The Bonds are payable in annual installments beginning August 1, 2014 through August 1, 2031. Semi-annual interest only payments are due through August 1, 2014. The Hospital is required to make monthly deposits of approximately \$17,500 to the debt service fund held by the trustee. All of the Bonds still outstanding may be redeemed at the Hospital's option on or after August 1, 2016. The redemption price is 100%. The Bonds are secured by a pledge of the gross revenues of the Hospital and the restricted cash funds set aside under the bond documents.

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The bond document requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, maintaining a debt-service coverage ratio of at least 1.25 to 1, and restrictions on incurrence of additional debt. As of April 30, 2011, the Hospital did not meet the debt service coverage ratio covenant. Under the bond agreement the Hospital is required to hire a consultant to help determine a plan to get the Hospital back to a financial position where they are in compliance with required covenants.

The debt service requirements of the Bonds as of April 30, 2011, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2012	\$ 495,637	\$ 245,000	\$ 250,637
2013	495,446	255,000	240,446
2014	489,630	260,000	229,630
2015	654,534	440,000	214,534
2016	395,830	195,000	200,830
2017 - 2021	1,978,004	1,105,000	873,004
2022 - 2026	1,995,170	1,380,000	615,170
2027 - 2031	2,023,105	1,740,000	283,105
2032	408,700	400,000	8,700
	<u>\$ 8,936,056</u>	<u>\$ 6,020,000</u>	<u>\$ 2,916,056</u>

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at April 30, 2011 and 2010, totaled \$448,776 and \$86,804, net of accumulated depreciation of \$41,581 and \$0, respectively. Additional equipment under the 2011 lease agreements had not yet been purchased as of April 30, 2011. The following is a schedule by year of future minimum lease payments under the capital leases including interest rates of 3.25% to 10.00% together with the present value of the future minimum lease payments as of April 30, 2011:

Year Ending April 30,	
2012	\$ 220,548
2013	166,363
2014	324,419
2015	41,842
2016	34,868
Total minimum lease payments	<u>788,040</u>
Less amount representing interest	<u>77,791</u>
Present value of future minimum lease payments	<u>\$ 710,249</u>

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Note 10: Restricted and Designated Net Assets

At April 30, 2011 and 2010, restricted expendable net assets were available for the following purposes:

	2011	2010
Debt service	\$ 636,112	\$ 638,677
Capital acquisitions	180,000	180,000
Specific operating activities		
Radiology equipment	-	300,000
Nursing scholarships	94,230	89,773
	94,230	389,773
Total restricted expendable net assets	\$ 910,342	\$ 1,208,450

At April 30, 2011 and 2010, \$283,835 and \$731,128, respectively, of unrestricted net assets were designated by the Hospital's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion later use these net assets for other purposes.

Note 11: Related Party Transactions

During 2010, an officer of a local financial institution was also a member of the Board of Trustees. At April 30, 2010, the Hospital had cash balances of approximately \$2,960,000 and \$2,800,000, respectively, on deposit with this financial institution. For 2011, this officer is no longer on the Board of Trustees.

During 2010, the Hospital incurred a capital lease, in the original amount of \$160,000, with the Foundation. Interest is payable at rates from 5% to 10%. Interest is due monthly with the entire balance due April 20, 2012.

During 2011, the Hospital incurred a capital lease in the original amount of \$120,000, with the Foundation. Interest is payable at rates from 5% to 10%. Interest is due monthly with the entire balance due January 11, 2013.

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The Hospital incurred an additional capital lease during 2011 in the original amount of \$246,500, with the Foundation. The capital lease is part of a larger lease in which the Foundation has committed to lending the Hospital a total of \$760,000, of which \$246,500 has already been received by the Hospital. The remaining \$513,500 is scheduled to be received by the Hospital during fiscal year 2012. Interest is payable at 5%. The entire balance and interest is due March 1, 2014.

Note 12: Charity Care, Medicaid and Other Public Aid

Charges excluded from revenue under the Hospital’s charity care policy were \$1,370,735 and \$1,176,546 for 2011 and 2010, respectively.

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

Uncompensated charges relating to these services are as follows:

	2011	2010
Charity allowances	\$ 1,370,735	\$ 1,176,546
State Medicaid and other public aid programs	8,569,456	7,745,958
	\$ 9,940,191	\$ 8,922,504

In addition to uncompensated charges, the Hospital also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments, prenatal education and care, community educational services and various support groups.

Note 13: Pension Plan

The Hospital participates in the Kansas Public Employees Retirement System (KPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the KPERS Board of Trustees. The plan provides retirement, life insurance, disability income and death benefits which are established and may be changed by the Kansas Legislature with the concurrence of the Governor. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS at 611 South Kansas Avenue, Suite 100, Topeka, Kansas 66603-3803, or by calling KPERS at 1.888.275.5737.

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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 of KPERS are required to contribute 4.00% of their annual covered salary and the Hospital is required to contribute at an actuarially determined rate. Employer contribution rates for KPERS for 2011, 2010 and 2009 were 7.74%, 7.14% and 6.54%, respectively. The Hospital's contributions to KPERS for 2011, 2010 and 2009 were \$1,297,285, \$1,032,178 and \$900,728, respectively, and were equal to the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

Note 14: Employee Incentive Plan

The Hospital has established an incentive plan which provides for one-third of income from Hospital operations before the incentive payment, (exclusive of county tax proceeds, contributions and interest income) to be shared with employees. Participants employed prior to the beginning of the fiscal year must be employed during the entire plan year, have positive employee evaluations, work more than 416 hours and be employed on the last day of the fiscal year. Participants employed after the start of the fiscal year must be employed on the last day of the fiscal year and have completed their probationary period. The plan must be approved by the Board before the beginning of each fiscal year. There were no amounts payable as of April 30, 2011 and 2010.

Note 15: Contingencies

Malpractice Claims

The Hospital has been named as a defendant in malpractice lawsuits for which no reasonable estimate of actual damages, if any, can be made at this time. Management intends to vigorously contest the current litigation and believes that damages, if any, assessed against the Hospital would be covered by existing insurance policies or would not materially affect the financial position of the Hospital, because the Kansas Tort Claims Act limits damages to \$500,000 or the limits of insurance, if higher.

Note 16: Management's Operational Plans

The Hospital has incurred an operational cash flow loss in the current year and operating losses for the last several years primarily related to reductions in patient volumes and increased depreciation related to the Western Expansion project. Management has taken several action steps to improve operational cash flows including but not limited to adjustments to staffing, installation of software to meet meaningful use criteria and application for the Rural Community Hospital (RCH) demonstration project with the Centers for Medicare and Medicaid (CMS).

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The effects of these actions are as follows: staffing costs were down approximately \$1,000,000 through October 31, 2011, and RCH status was obtained effective May 1, 2011. The RCH program is effective through April 30, 2016, and will change the reimbursements due to the Hospital for inpatient acute and swing-bed services to a cost basis as compared to the current system of prospectively determined rates. Based on recently filed cost report data, this program will improve Medicare reimbursements.

Additional cash inflows are expected relative to the implementation of an electronic health record (EHR) as required under the American Recovery and Reinvestment Act (ARRA). To receive the special payments certain “meaningful use” criteria must be met. Payments from Medicaid are expected in early calendar 2012. Payments from Medicare are expected in the fall of 2012. These additional payments will be partially offset by capital expenditures required to achieve “meaningful use.”

Note 17: 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 meet debt covenants or maintain sufficient liquidity.

Note 18: Geary Community Healthcare Foundation

Summary of Significant Accounting Policies

Organization

The Foundation is a not-for-profit organization whose purpose is to raise funds for the support of health and health care programs in the County and the Hospital.

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Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Display of Net Assets by Class

Net assets of the two restricted classes are created only by donor-imposed restrictions on their use. All other net assets, including board-designated or appropriated amounts, are legally unrestricted, and are reported as part of the unrestricted class. Temporarily restricted assets received in the current year and whose restrictions are met during the year are shown as unrestricted net assets.

Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code classified by the Internal Revenue Service as other than a private foundation.

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of one year or less to be cash equivalents. Cash and cash equivalents consist of bank accounts and certificates of deposit located at various financial institutions and brokerages.

Investments

Investments are composed of certificates of deposit with maturities longer than one year, U.S. government obligations, corporate bonds and equity securities (mutual funds) carried at fair value. Fair value is determined by quoted market prices in active markets (all Level 1 measurements).

Equipment

The Foundation's equipment is recorded at cost and depreciated using the straight-line method over the estimated useful lives. Expenditures for property, furniture and equipment in excess of \$500 and with useful lives of more than one year are capitalized.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and administration have been summarized on a functional basis in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2011 and 2010

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Donated Staff/Facilities

The Hospital provides the office space and utilities as well as a portion of the salaries. The values of these donations are at cost or approximate fair value and are included in "Donated Staff and Facilities" on the Statements of Activities.

Donated Services

The Foundation receives donated services from unpaid volunteers who assist in fund-raising and special projects. No amounts have been recognized in the Statements of Activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

Revenues, Gains and Other Support

Annual donations are generally available for unrestricted use in the current year unless specifically restricted by the donor. The Foundation holds special fund-raising events each year. The revenues from these events are reported separately from their expenses which are recorded in the Statements of Activities as a fund-raising activity expense.

Investments

The Foundation's investments as of December 31, 2010 and 2009, are summarized below and are listed at fair value. Investments in debt and equity securities with readily determinable fair values are carried at fair value based on quoted prices in active markets (all Level 1 measurements).

	2010	2009
Corporate bonds	\$ 668,608	\$ 371,562
Mutual funds - equities	3,292,544	2,927,763
Total	<u>\$ 3,961,152</u>	<u>\$ 3,299,325</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2011 and 2010

The following schedule summarized the investment return for the years ended December 31, 2010 and 2009:

	2010	2009
	Unrestricted	Unrestricted
Interest and dividends	\$ 112,583	\$ 107,689
Net realized and unrealized gain on investments	286,549	538,567
Total investment return	\$ 399,132	\$ 646,256

Equipment and Property

The following is a summary of the Foundation's equipment and property as of December 31, 2010 and 2009:

	2010	2009
Equipment and property	\$ 22,569	\$ 22,569
Less accumulated depreciation	(18,112)	(15,428)
Total	\$ 4,457	\$ 7,141

Annuities Payable

The Foundation has received charitable gift annuities. These split interest agreements call for payment to the annuitant, over the annuitant's life expectancy based on the IRS annuity tables. At December 31, 2010, the present value of the liability for these payments was \$61,322 and at December 31, 2009, was \$42,334.

Designated Net Assets

The Board of Trustees of the Foundation has designated \$3,000,000 of investments for specific future purposes as of December 31, 2010 and 2009, respectively. The total may be adjusted annually as determined by the Board of Trustees.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2011 and 2010

Related Entity

The Foundation works closely with the Hospital. Facilities and 20% of the Foundation's executive director's salary and benefits are provided by the Hospital. As discussed above, much of the funds raised by the Foundation are distributed to the Hospital. The entities share one common member of their Boards of Trustees, the Hospital CEO.

A lease receivable was negotiated between the Hospital and Foundation during 2010 in the amount of \$160,000 at 10.00%. This lease is due to be paid on April 20, 2012.

Subsequent Events

Subsequent events related to the Foundation were evaluated through August 15, 2011, which is the date the Foundation's financial statements were available to be issued.

Supplementary Information

Geary Community Hospital
A Component Unit of Geary County, Kansas
Net Patient Service Revenue
Years Ended April 30, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Nursing, dietary and room service	\$ 5,587,804	\$ -	\$ 5,587,804
Intensive care	1,477,280	-	1,477,280
Geriatric psych unit	949,725	-	949,725
Physical rehabilitation	351,600	-	351,600
Nursery	598,710	-	598,710
Operating room	8,706,208	9,256,059	17,962,267
Extended recovery	1,370	352,389	353,759
Anesthesiology	1,550,255	2,005,925	3,556,180
Radiology, CT, MRI and Ultrasound	2,447,360	16,273,844	18,721,204
Nuclear medicine	49,023	2,081,998	2,131,021
Laboratory	2,567,668	11,814,420	14,382,088
Inhalation therapy	2,237,214	1,136,561	3,373,775
Physical therapy	311,737	1,250,693	1,562,430
Occupational therapy	208,995	285,238	494,233
Speech therapy	146,409	416,678	563,087
Cardiac pulmonary rehabilitation	206,880	769,766	976,646
Sleep lab	31,159	1,533,928	1,565,087
Central supply	3,919,519	2,693,551	6,613,070
Pharmacy	4,937,043	2,617,966	7,555,009
Emergency room	778,327	6,448,781	7,227,108
Observation	-	858,810	858,810
Emergency room physicians' fees	436,828	5,181,178	5,618,006
Pediatric clinic – RHC	159,310	749,786	909,096
Gray clinic – RHC	46,779	608,084	654,863
Jenkins clinic – RHC	52,470	415,907	468,377
Frieze clinic – RHC	64,241	378,473	442,714
Mace clinic – RHC	61,905	240,956	302,861
Alphacare – RHC	-	427,916	427,916
Ambulance	23,682	-	23,682
Home health	-	499,361	499,361
Hospice	-	514,640	514,640
Home medical equipment	-	1,259,574	1,259,574
Family practice residency program	-	101,191	101,191
Lifeline	-	465	465
Occupational health clinic	-	266,413	266,413
Orthopedic clinic	664,036	858,752	1,522,788
Chapman clinic	-	99,066	99,066
Flint Hills Surgical clinic	678,695	1,446,976	2,125,671
Psych clinic	21,930	6,890	28,820
	<u>\$ 39,274,162</u>	<u>\$ 72,852,235</u>	<u>112,126,397</u>
Total Hospital			
Contractual allowances and charity care			<u>72,304,685</u>
Net patient service revenue			<u>\$ 39,821,712</u>

2010		
Inpatient	Outpatient	Total
\$ 5,536,798	\$ -	\$ 5,536,798
1,498,744	-	1,498,744
914,200	-	914,200
380,400	-	380,400
536,966	-	536,966
8,023,894	9,160,036	17,183,930
2,393	366,688	369,081
1,442,007	1,972,176	3,414,183
2,588,607	16,102,506	18,691,113
60,668	2,062,568	2,123,236
2,426,302	10,638,243	13,064,545
2,634,575	1,081,175	3,715,750
353,200	1,201,574	1,554,774
198,460	262,570	461,030
110,285	367,584	477,869
181,090	775,407	956,497
26,581	1,641,704	1,668,285
4,327,869	2,510,730	6,838,599
5,143,409	2,851,950	7,995,359
632,861	5,309,633	5,942,494
-	795,334	795,334
461,383	5,208,992	5,670,375
173,305	670,958	844,263
36,655	511,603	548,258
42,020	279,733	321,753
63,920	266,973	330,893
88,942	156,111	245,053
-	21,993	21,993
25,930	-	25,930
-	519,167	519,167
-	244,683	244,683
-	1,257,804	1,257,804
-	119,668	119,668
-	-	-
-	260,864	260,864
-	-	-
-	100,721	100,721
626,955	1,546,879	2,173,834
25,745	17,890	43,635
<u>\$ 38,564,164</u>	<u>\$ 68,283,917</u>	106,848,081
		67,675,971
		<u>\$ 39,172,110</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended April 30, 2011 and 2010

Contractual Allowances and Charity Care

	<u>2011</u>	<u>2010</u>
Hospital-sponsored charity care	\$ 1,370,735	\$ 1,176,546
Contractual allowances:		
Medicare	24,249,476	25,309,772
Medicaid	8,569,456	7,745,958
Blue Cross	11,038,228	9,030,869
Tricare	13,633,787	11,138,924
HMO/PPO	3,167,944	4,393,141
Pediatric clinic – RHC	202,736	149,645
Gray clinic – RHC	(21,260)	(309,289)
Jenkins clinic – RHC	17,941	53,559
Frieze clinic – RHC	26,060	69,825
Alphacare – RHC	66,906	8,140
Chapman clinic	18,424	7,887
Flint Hills Surgical clinic	1,160,188	1,057,495
Mace clinic	33,416	(1,458)
Occupational health clinic	4,092	9,261
Orthopedic clinic	840,581	-
Psych clinic	12,835	18,168
Employee discounts	43,508	40,701
Administrative adjustments	1,242,831	1,298,413
Provision for uncollectible accounts	6,626,801	6,478,414
	<u>\$ 72,304,685</u>	<u>\$ 67,675,971</u>

Other Operating Revenues

	<u>2011</u>	<u>2010</u>
Cafeteria and catering	\$ 367,658	\$ 297,478
Rental income	232,189	214,234
Medical records transcript fees	44,172	30,396
Vending machine receipts	6,750	4,897
Miscellaneous	99,688	89,246
	<u>\$ 750,457</u>	<u>\$ 636,251</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Operating Expenses
Years Ended April 30, 2011 and 2010

	2011		
	Salaries	Other	Total
Nursing service	\$ 2,074,691	\$ 245,002	\$ 2,319,693
Intensive care	580,996	44,220	625,216
Geriatric psych unit	416,678	29,535	446,213
Physical rehabilitation	265,563	25,022	290,585
Nursery	139,592	4,535	144,127
Operating room	1,183,546	2,088,439	3,271,985
Anesthesiology	-	186,790	186,790
Radiology, CT, MRI and Ultrasound	943,506	752,433	1,695,939
Nuclear medicine	145,565	193,825	339,390
Laboratory	901,518	1,429,851	2,331,369
Inhalation therapy	331,103	106,350	437,453
Physical therapy	-	744,764	744,764
Occupational therapy	-	209,891	209,891
Speech therapy	-	161,319	161,319
Cardiac pulmonary rehabilitation	120,956	29,930	150,886
Sleep lab	190,301	33,040	223,341
Central supply	171,081	675,897	846,978
Pharmacy	390,770	457,439	848,209
Emergency room	1,375,181	1,277,855	2,653,036
Pediatric clinic – RHC	224,854	846,682	1,071,536
4th Floor MAB II clinic – RHC	911,505	987,026	1,898,531
Frieze clinic – RHC	260,090	97,726	357,816
Alphacare – RHC	167,828	95,082	262,910
Clinic management – RHC	263,675	(263,675)	-
Ambulance	-	19,865	19,865
Home medical equipment	201,876	271,259	473,135
Home health	455,260	154,338	609,598
Hospice	157,502	157,544	315,046
Depreciation and amortization	-	2,922,667	2,922,667
Employee health and welfare	-	4,218,255	4,218,255
Administrative and general	2,642,913	3,133,889	5,776,802
Operation of plant	412,217	1,123,514	1,535,731
Laundry and linen	64,264	26,440	90,704
Housekeeping	579,350	111,000	690,350
Dietary	543,638	504,385	1,048,023
Dietician	67,949	1,338	69,287
Nursing administrative	793,704	80,955	874,659
Foundation	11,124	3,883	15,007
Public relations	56,567	129,232	185,799
Family practice residency program	27,336	132,307	159,643
Chapman clinic	56,916	42,008	98,924
Flint Hills Surgical clinic	1,374,110	391,560	1,765,670
Psych clinic	11,500	75,205	86,705
Ortho clinic	628,061	352,582	980,643
Occupational health clinic	175,600	168,816	344,416
Medical arts building	23,823	361,159	384,982
	<u>\$ 19,342,709</u>	<u>\$ 24,841,179</u>	<u>\$ 44,183,888</u>

2010		
Salaries	Other	Total
\$ 2,078,218	\$ 244,342	\$ 2,322,560
554,181	109,191	663,372
353,449	147,668	501,117
316,158	229,961	546,119
132,910	10,206	143,116
1,269,117	1,847,628	3,116,745
-	172,216	172,216
918,863	718,178	1,637,041
120,240	187,358	307,598
923,237	1,441,558	2,364,795
348,601	97,331	445,932
-	738,905	738,905
-	213,728	213,728
-	251,831	251,831
128,514	18,049	146,563
168,585	36,957	205,542
148,074	826,321	974,395
334,209	509,682	843,891
1,340,475	1,266,577	2,607,052
403,179	707,065	1,110,244
938,616	947,149	1,885,765
194,504	120,365	314,869
12,106	26,880	38,986
277,979	(277,373)	606
-	25,565	25,565
200,401	296,990	497,391
454,751	98,818	553,569
148,898	88,753	237,651
-	2,897,025	2,897,025
-	3,496,664	3,496,664
2,535,248	3,054,442	5,589,690
420,655	956,889	1,377,544
60,186	34,785	94,971
560,421	122,448	682,869
560,021	473,842	1,033,863
-	-	-
736,401	95,350	831,751
13,585	13,978	27,563
97,839	135,376	233,215
24,040	127,698	151,738
51,365	38,996	90,361
1,204,392	297,001	1,501,393
5,000	101,903	106,903
1,257	144,540	145,797
191,407	143,583	334,990
21,907	346,598	368,505
<u>\$ 18,248,989</u>	<u>\$ 23,583,017</u>	<u>\$ 41,832,006</u>