

Geary Community Hospital
A Component Unit of Geary County, Kansas

Independent Accountants' Report and Financial Statements

April 30, 2012 and 2011



Geary Community Hospital
A Component Unit of Geary County, Kansas
April 30, 2012 and 2011

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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, 2012 and 2011, 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 \$4,633,732 and \$4,688,307 as of December 31, 2011 and 2010, respectively, and total revenues of \$350,348 and \$1,246,911 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, 2012 and 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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. We have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Net Patient Service Revenue schedule, Contractual Allowances, Charity Care and Other Operating Revenues schedule and Operating Expenses schedule 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

August 20, 2012

Geary Community Hospital

A Component Unit of Geary County, Kansas

Management's Discussion and Analysis

Years Ended April 30, 2012 and 2011

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, 2012, 2011 and 2010. 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 increased \$1,982,205 or 141% in 2012 and decreased \$2,141,456 or 60% in 2011.
- The Hospital's net assets decreased \$887,389 or 2% in 2012 and \$3,442,875 or 6% in 2011.
- The Hospital reported an operating loss of \$1,197,824 and \$3,611,719 in 2012 and 2011, respectively. The operating loss in 2012 decreased by \$2,413,895 or 67% compared to the operating loss reported in 2011.

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 \$887,389 or 2% in 2012 compared to 2011. In 2011, net assets decreased by \$3,442,875 or 6% compared to 2010.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Cash	\$ 3,383,623	\$ 1,401,418	\$ 3,542,874
Patient accounts receivable, net	5,620,873	5,764,382	6,651,499
Other current assets	3,545,448	3,439,848	2,289,373
Capital assets, net	47,598,753	50,060,126	51,422,888
Other noncurrent assets	1,909,117	1,927,316	1,788,826
Total assets	<u>\$ 62,057,814</u>	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>
Liabilities			
Long-term debt, excluding current portion	\$ 6,391,095	\$ 6,288,949	\$ 6,180,000
Current liabilities	4,391,742	4,141,775	3,910,219
Total liabilities	<u>10,782,837</u>	<u>10,430,724</u>	<u>10,090,219</u>
Net Assets			
Invested in capital assets, net of related debt	41,071,648	43,497,114	45,096,604
Restricted expendable	898,345	910,342	1,208,450
Unrestricted	9,304,984	7,754,910	9,300,187
Total net assets	<u>51,274,977</u>	<u>52,162,366</u>	<u>55,605,241</u>
Total liabilities and net assets	<u>\$ 62,057,814</u>	<u>\$ 62,593,090</u>	<u>\$ 65,695,460</u>

Net patient accounts receivable remained flat at April 30, 2012, as compared to April 30, 2011. The nature of accounts receivables at April 30, 2012, is similar to 2011.

Operating Results and Changes in the Hospital's Net Assets

Table 2 shows the different components that make up the \$887,389 decrease in net assets for 2012. Also shown are the components that make up the \$3,442,875 decrease in net assets for 2011.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 41,314,647	\$ 39,821,712	\$ 39,172,110
Electronic Health Records Incentive Revenue	374,193	-	-
Other operating revenues	<u>766,552</u>	<u>750,457</u>	<u>636,251</u>
Total operating revenues	<u>42,455,392</u>	<u>40,572,169</u>	<u>39,808,361</u>
Operating Expenses			
Salaries and employee benefits	24,292,890	24,224,555	22,239,855
Purchased services and professional fees	4,872,758	5,231,717	5,298,262
Depreciation and amortization	3,153,581	3,132,047	3,101,417
Other operating expenses	<u>11,333,987</u>	<u>11,595,569</u>	<u>11,192,472</u>
Total operating expenses	<u>43,653,216</u>	<u>44,183,888</u>	<u>41,832,006</u>
Operating Loss	<u>(1,197,824)</u>	<u>(3,611,719)</u>	<u>(2,023,645)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental revenue	183,247	144,472	200,260
Investment income	215,708	196,135	177,652
Interest expense	(302,731)	(291,469)	(284,495)
Noncapital grants and gifts	<u>209,015</u>	<u>115,249</u>	<u>230,797</u>
Total nonoperating revenues	<u>305,239</u>	<u>164,387</u>	<u>324,214</u>
Capital Contributions from County	-	-	4,186,959
Capital Grants and Gifts	<u>5,196</u>	<u>4,457</u>	<u>305,434</u>
Change in Net Assets	<u>\$ (887,389)</u>	<u>\$ (3,442,875)</u>	<u>\$ 2,792,962</u>

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 \$1,197,824 and \$3,611,719 in 2012 and 2011, respectively. The operating loss for 2012 is a decrease of \$2,413,895 or 67% from the operating loss for 2011.

The primary components of the decreased operating loss in 2012 are:

- An increase in net patient service revenues of \$1,492,935 or 3.7%.

In May 2011, the Hospital began participation in a Medicare Rural Community Hospital demonstration project which allows for increased reimbursement for services provided to Medicare inpatients. This program enhanced reimbursements by approximately \$2,200,000.

- An increase in Electronic Health Records Incentive Revenue of \$374,193.

During the fiscal year 2012, the Hospital qualified for Medicaid stimulus funding under the *American Recovery and Reinvestment Act of 2009*. Payments under the program are made to hospitals meeting meaningful use criteria and other specific requirements.

- A decrease in purchased services and professional fees of \$358,959 or 6.9%.

This expense decreased mostly due to a reduction in the use of temporary locum tenens physicians in the Hospital-owned clinics. Due to the temporary nature of their job, locum tenens physicians are paid at a higher rate than employed physicians. In fiscal year 2012, two locum tenens physicians were replaced with two employed physicians.

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).

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 \$5,196 from various individuals to purchase capital assets in 2012, compared to \$4,457 in 2011.

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

At April 30, 2012 and 2011, the Hospital had \$47,620,669 and \$50,060,126, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements.

Capital Asset and Debt Administration – Debt

At April 30, 2012 and 2011, the Hospital had \$5,775,000 and \$6,020,000, respectively, in revenue bonds outstanding. 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, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 3,383,623	\$ 1,401,418
Restricted cash - current	258,136	254,709
Patient accounts receivable, net of allowance; 2012 - \$5,502,700, 2011 - \$5,823,000	5,620,873	5,764,382
Estimated amounts due from third-party payers	1,574,193	1,464,366
Supplies	1,075,262	1,132,724
Prepaid expenses and other	637,857	588,049
	<hr/>	<hr/>
Total current assets	12,549,944	10,605,648
	<hr/>	<hr/>
Noncurrent Cash and Short-term Certificates of Deposit		
Held under bond indenture for debt service - cash	560,131	555,997
Held under bond indenture for debt service - short-term certificates of deposit	822,400	822,400
Held under bond indenture for capital acquisitions - cash	180,000	180,000
Restricted by donors for specific operating activities - cash	37,983	33,961
Restricted by donors for specific operating activities short-term certificate of deposit	61,678	60,889
	<hr/>	<hr/>
	1,662,192	1,653,247
Less amount required to meet current obligations	258,136	254,709
	<hr/>	<hr/>
Total noncurrent cash and short-term certificates of deposit	1,404,056	1,398,538
	<hr/>	<hr/>
Capital Assets, Net	47,598,753	50,060,126
	<hr/>	<hr/>
Other Assets		
Deferred financing costs	155,291	167,238
Advances to physicians, net of estimated uncollectibles; 2012 - \$230,449, 2011 - \$235,417	349,770	361,540
	<hr/>	<hr/>
Total other assets	505,061	528,778
	<hr/>	<hr/>
Total assets	<u>\$ 62,057,814</u>	<u>\$ 62,593,090</u>

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Current maturities of long-term debt	\$ 291,300	\$ 441,300
Accounts payable	1,642,304	1,469,150
Accrued payroll and related expenses	1,979,452	1,853,651
Accrued interest	85,212	63,885
Estimated amounts due to third-party payers	160,514	-
Accrued health insurance benefits	221,000	300,000
Deferred revenue	11,960	13,789
Total current liabilities	4,391,742	4,141,775
 Long-term Debt	 6,391,095	 6,288,949
Total liabilities	10,782,837	10,430,724
 Net Assets		
Invested in capital assets, net of related debt	41,071,648	43,497,114
Restricted - expendable for		
Debt service	618,919	636,112
Capital acquisitions	180,000	180,000
Specific operating activities	99,426	94,230
Unrestricted	9,304,984	7,754,910
Total net assets	51,274,977	52,162,366
Total liabilities and net assets	\$ 62,057,814	\$ 62,593,090

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash	\$ 615,219	\$ 562,698
Investments	3,143,328	3,961,152
Lease receivable – Geary Community Hospital	873,125	160,000
Equipment – net	<u>2,060</u>	<u>4,457</u>
Total assets	<u><u>\$ 4,633,732</u></u>	<u><u>\$ 4,688,307</u></u>
 Liabilities and Net Assets		
Liabilities – Annuities Payable	\$ 43,372	\$ 61,322
 Net Assets – Unrestricted	<u>4,590,360</u>	<u>4,626,985</u>
Total liabilities and net assets	<u><u>\$ 4,633,732</u></u>	<u><u>\$ 4,688,307</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$5,704,968, 2011 - \$6,626,801	\$ 41,314,647	\$ 39,821,712
Electronic Health Records Incentive Revenue	374,193	-
Other	<u>766,552</u>	<u>750,457</u>
Total operating revenues	<u>42,455,392</u>	<u>40,572,169</u>
Operating Expenses		
Salaries	19,640,240	19,342,709
Employee benefits	4,652,650	4,881,846
Purchased services and professional fees	4,872,758	5,231,717
Drugs	976,364	884,704
Food	498,545	388,089
Utilities	1,079,626	978,828
Insurance	490,371	499,316
Supplies and other	8,289,081	8,844,632
Depreciation and amortization	<u>3,153,581</u>	<u>3,132,047</u>
Total operating expenses	<u>43,653,216</u>	<u>44,183,888</u>
Operating Loss	<u>(1,197,824)</u>	<u>(3,611,719)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	183,247	144,472
Interest income	215,708	196,135
Interest expense	(302,731)	(291,469)
Noncapital grants and gifts	<u>209,015</u>	<u>115,249</u>
Total nonoperating revenues	<u>305,239</u>	<u>164,387</u>
Deficiency of Revenues Over Expenses Before Appropriations and Capital Grants and Gifts	(892,585)	(3,447,332)
Capital Grants and Gifts	<u>5,196</u>	<u>4,457</u>
Decrease in Net Assets	(887,389)	(3,442,875)
Net Assets, Beginning of Year	<u>52,162,366</u>	<u>55,605,241</u>
Net Assets, End of Year	<u><u>\$ 51,274,977</u></u>	<u><u>\$ 52,162,366</u></u>

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Activities
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues, Gains and Other Support		
Donations	\$ 222,503	\$ 650,046
Memorials	38,311	31,608
Special events	141,658	126,194
Donated staff and facilities	45,333	39,931
Net investment income (losses)	<u>(97,457)</u>	<u>399,132</u>
Total revenues, gains and other support	<u>350,348</u>	<u>1,246,911</u>
Expenses and Losses		
Program expenses	189,943	564,030
Supporting services	94,650	92,777
Fund raising	<u>102,380</u>	<u>96,420</u>
Total expenses	<u>386,973</u>	<u>753,227</u>
Increase (Decrease) in Net Assets	(36,625)	493,684
Unrestricted Net Assets, Beginning of Year	<u>4,626,985</u>	<u>4,133,301</u>
Unrestricted Net Assets, End of Year	<u><u>\$ 4,590,360</u></u>	<u><u>\$ 4,626,985</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows
Years Ended April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 41,507,014	\$ 39,507,114
Payments to suppliers and contractors	(15,943,002)	(17,095,634)
Payments to or on behalf of employees	(24,267,416)	(23,817,839)
Other receipts, net	<u>1,213,712</u>	<u>750,457</u>
Net cash provided by (used in) operating activities	<u>2,510,308</u>	<u>(655,902)</u>
Noncapital Financing Activities		
Intergovernmental revenue	183,247	144,472
Noncapital grants and gifts	<u>209,015</u>	<u>115,249</u>
Net cash provided by noncapital financing activities	<u>392,262</u>	<u>259,721</u>
Capital and Related Financing Activities		
Capital grants and gifts	5,196	4,457
Principal paid on revenue bonds payable	(245,000)	(235,000)
Principal paid on capital leases	(316,354)	(8,951)
Interest paid on long-term debt	(281,404)	(293,701)
Purchase of capital assets	(251,675)	(1,302,329)
Payments on long-term obligation	-	(5,000)
Capital contribution from County	<u>-</u>	<u>88,700</u>
Net cash used in capital and related financing activities	<u>(1,089,237)</u>	<u>(1,751,824)</u>
Investing Activities		
Interest on investments	215,708	196,135
Advances to physicians	(37,891)	(189,926)
Net change in certificates of deposit	(789)	(899)
Net change in construction escrow and debt-related accounts	<u>-</u>	<u>12,044</u>
Net cash provided by investing activities	<u>177,028</u>	<u>17,354</u>
Increase (Decrease) in Cash	1,990,361	(2,130,651)
Cash, Beginning of Year	<u>2,171,376</u>	<u>4,302,027</u>
Cash, End of Year	<u><u>\$ 4,161,737</u></u>	<u><u>\$ 2,171,376</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Statements of Cash Flows (Continued)
Years Ended April 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 3,641,759	\$ 1,656,127
Cash in noncurrent cash	<u>519,978</u>	<u>515,249</u>
Total cash	<u><u>\$ 4,161,737</u></u>	<u><u>\$ 2,171,376</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,197,824)	\$ (3,611,719)
Depreciation	3,153,581	3,132,047
Amortization	11,947	13,723
Loss on disposal of assets	72,967	-
Change in allowance for advances to physicians	4,968	(717)
Write-off of advances to physicians	44,693	44,693
Changes in		
Patient accounts receivable, net	143,509	887,117
Estimated amounts due from and to third-party payers	50,687	(1,201,366)
Accounts payable and accrued expenses	219,955	125,081
Deferred revenue	(1,829)	(349)
Other assets and liabilities	<u>7,654</u>	<u>(44,412)</u>
Net cash provided by (used in) operating activities	<u><u>\$ 2,510,308</u></u>	<u><u>\$ (655,902)</u></u>
Supplemental Cash Flows Information		
Capital lease obligation incurred	\$ 513,500	\$ 559,200

Geary Community Healthcare Foundation
A Discretely Presented Component Unit of Geary Community Hospital
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	\$ (36,625)	\$ 493,684
Items not requiring (providing) cash		
Increase (decrease) in annuities payable	(17,950)	18,988
Decrease in lease receivable	(713,125)	(160,000)
Depreciation	2,397	2,683
Net realized and unrealized (gain) loss on investments	237,629	(286,549)
	<u>(527,674)</u>	<u>68,806</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Proceeds from sale of investments	1,877,271	588,363
Purchase of investments	(1,297,076)	(963,640)
	<u>580,195</u>	<u>(375,277)</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash	52,521	(306,471)
Cash, Beginning of Year	<u>562,698</u>	<u>869,169</u>
Cash, End of Year	<u><u>\$ 615,219</u></u>	<u><u>\$ 562,698</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2012 and 2011

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, 2012 and 2011, the Foundation distributed \$166,256 and \$98,458, 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.

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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.

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). Payments under the Medicare program are generally made for up to four years based on a statutory formula. 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. 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

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payment year 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.

The Hospital recognizes 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.

The Hospital has not yet completed the first-year requirements under the Medicare program but has under the Medicaid program and has recorded approximately \$374,000 and \$0 as revenue in the years ended April 30, 2012 and 2011, respectively.

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.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 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 and skilled swing-bed services are paid at cost, subject to certain limitations, under a demonstration project with Medicare. Additional reimbursements under this program were approximately \$2,200,000 in 2012 and \$0 in 2011. Substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, or per billable service unit. The outpatient payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient rehabilitation services, inpatient gero-psychiatric services, 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

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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 \$422,903 in 2012 and \$243,040 in 2011.

Approximately 42% and 41% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended April 30, 2012 and 2011, 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 qualified for additional reimbursements from the Tricare program under its hold harmless provisions regarding certain outpatient services provided on and after January 1, 2010. Regulations have been issued regarding this reimbursement, however, due to the uncertainty surrounding the computations and significant delays in implementation of these payment provisions, no amounts have been recorded in the financial statements.

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.

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.

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At April 30, 2012 and 2011, respectively, \$68,895 and \$0 of the Hospital's bank balances of \$4,821,443 and \$2,849,283 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and uncollateralized	\$ 68,895	\$ -

Subsequent to year-end, the Hospital has obtained additional collateralized pledges and no longer has deposits exposed to custodial risk.

Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 5,007,832	\$ 3,020,704
Included in the following balance sheet captions		
Cash	\$ 3,383,623	\$ 1,401,418
Restricted cash - current	258,136	254,709
Noncurrent cash and certificates of deposit	1,366,073	1,364,577
	\$ 5,007,832	\$ 3,020,704

Investment Income

Investment income for the years ended April 30, 2012 and 2011, consisted of:

	2012	2011
Interest income	\$ 215,708	\$ 196,135

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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at April 30, 2012 and 2011, consisted of:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 914,961	\$ 777,199
Medicaid	172,837	231,883
Blue Cross	616,552	644,692
Other third-party payers	2,052,034	1,831,637
Patients	<u>7,367,189</u>	<u>8,101,971</u>
	11,123,573	11,587,382
Less allowance for uncollectible accounts	<u>5,502,700</u>	<u>5,823,000</u>
	<u><u>\$ 5,620,873</u></u>	<u><u>\$ 5,764,382</u></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, 2012 and 2011, there were advances to physicians outstanding in the amounts of \$580,219 and \$596,957, respectively.

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Note 6: Capital Assets

Capital assets activity for the years ended April 30, 2012 and 2011, were:

	2012				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	\$ 1,247,767	\$ -	\$ -	\$ -	\$ 1,247,767
Buildings and building improvements	51,653,028	-	-	-	51,653,028
Fixed equipment	4,628,999	5,245	(70,961)	-	4,563,283
Major moveable equipment	17,552,242	759,930	(201,804)	-	18,110,368
	<u>75,082,036</u>	<u>765,175</u>	<u>(272,765)</u>	<u>-</u>	<u>75,574,446</u>
Less accumulated depreciation					
Land improvements	972,670	25,674	-	-	998,344
Buildings and building improvements	9,808,687	1,455,069	-	-	11,263,756
Fixed equipment	3,688,726	227,405	(49,045)	-	3,867,086
Major moveable equipment	10,551,827	1,445,433	(150,753)	-	11,846,507
	<u>25,021,910</u>	<u>3,153,581</u>	<u>(199,798)</u>	<u>-</u>	<u>27,975,693</u>
Capital Assets, Net	<u>\$ 50,060,126</u>	<u>\$ (2,388,406)</u>	<u>\$ (72,967)</u>	<u>\$ -</u>	<u>\$ 47,598,753</u>

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	2011				
	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Land and land improvements	\$ 1,324,653	\$ -	\$ (76,886)	\$ -	\$ 1,247,767
Buildings and building improvements	48,990,928	-	(221,957)	2,884,057	51,653,028
Fixed equipment	5,496,395	-	(924,899)	57,503	4,628,999
Major moveable equipment	17,869,500	1,138,415	(1,484,483)	28,810	17,552,242
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)	257,766	972,670
Buildings and building improvements	8,636,577	1,390,133	(198,751)	(19,272)	9,808,687
Fixed equipment	4,395,509	236,084	(924,899)	(17,968)	3,688,726
Major moveable equipment	10,800,670	1,479,372	(1,507,689)	(220,526)	10,551,827
	<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>

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 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ 300,000	\$ 67,910
Current year claims incurred and changes in estimates for claims incurred in prior years	1,270,960	1,899,616
Claims paid	<u>(1,349,960)</u>	<u>(1,667,526)</u>
Balance, end of year	<u><u>\$ 221,000</u></u>	<u><u>\$ 300,000</u></u>

Note 9: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended April 30, 2012 and 2011:

	2012				
	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	1,095,000	-	245,000	850,000	255,000
Capital leases payable	<u>710,249</u>	<u>513,500</u>	<u>316,354</u>	<u>907,395</u>	<u>36,300</u>
	<u><u>\$ 6,730,249</u></u>	<u><u>\$ 513,500</u></u>	<u><u>\$ 561,354</u></u>	<u><u>\$ 6,682,395</u></u>	<u><u>\$ 291,300</u></u>

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	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
	<u>\$ 6,415,000</u>	<u>\$ 559,200</u>	<u>\$ 243,951</u>	<u>\$ 6,730,249</u>	<u>\$ 441,300</u>

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, 2012, the Hospital met the debt service coverage and cash on hand 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, 2012, the Hospital met the debt service coverage ratio covenant.

The debt service requirements of the Bonds as of April 30, 2012, are as follows:

Year Ending April 30,	Total to be Paid	Principal	Interest
2013	\$ 495,446	\$ 255,000	\$ 240,446
2014	489,630	260,000	229,630
2015	654,534	440,000	214,534
2016	395,860	195,000	200,860
2017	397,409	205,000	192,409
2018 - 2022	1,976,368	1,150,000	826,368
2023 - 2027	2,000,393	1,445,000	555,393
2028 - 2032	2,030,780	1,825,000	205,780
	<u>\$ 8,440,420</u>	<u>\$ 5,775,000</u>	<u>\$ 2,665,420</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, 2012 and 2011, totaled \$785,087 and \$407,195, net of accumulated depreciation of \$167,613 and \$41,581, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest rates of 4.20% to 5.00% together with the present value of the future minimum lease payments as of April 30, 2012:

Year Ending April 30,	
2013	\$ 38,496
2014	41,842
2015	896,596
2016	34,868
Total minimum lease payments	1,011,802
Less amount representing interest	104,407
Present value of future minimum lease payments	<u>\$ 907,395</u>

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Note 10: Restricted and Designated Net Assets

At April 30, 2012 and 2011, restricted expendable net assets were available for the following purposes:

	2012	2011
Debt service	\$ 618,919	\$ 636,112
Capital acquisitions	180,000	180,000
Specific operating activities		
Nursing scholarships	99,426	94,230
Total restricted expendable net assets	<u>\$ 898,345</u>	<u>\$ 910,342</u>

At April 30, 2012 and 2011, \$238,546 and \$340,085, 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

The Hospital incurred a 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 committed to lending the Hospital a total of \$760,000, of which \$246,500 was received by the Hospital in 2011. The remaining \$513,500 was 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 \$918,615 and \$1,370,735 for 2012 and 2011, 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

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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:

	<u>2012</u>	<u>2011</u>
Charity allowances	<u>\$ 918,615</u>	<u>\$ 1,370,735</u>

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.

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 2012, 2011 and 2010 were 8.34%, 7.74% and 7.14%, respectively. The Hospital's contributions to KPERS for 2012, 2011 and 2010 were \$1,445,545, \$1,297,285 and \$1,032,178, 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,

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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, 2012 and 2011.

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: 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.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2012 and 2011

Note 17: 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.

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.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2012 and 2011

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.

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, 2011 and 2010, 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).

	<u>2011</u>	<u>2010</u>
Corporate bonds	\$ 443,820	\$ 668,608
Mutual funds - equities	<u>2,699,508</u>	<u>3,292,544</u>
Total	<u><u>\$ 3,143,328</u></u>	<u><u>\$ 3,961,152</u></u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2012 and 2011

The following schedule summarized the investment return for the years ended December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
	Unrestricted	Unrestricted
Interest and dividends	\$ 140,172	\$ 112,583
Net realized and unrealized gain (loss) on investments	<u>(237,629)</u>	<u>286,549</u>
Total investment return	<u><u>\$ (97,457)</u></u>	<u><u>\$ 399,132</u></u>

Equipment and Property

The following is a summary of the Foundation's equipment and property as of December 31, 2011 and 2010:

	December 31, 2011	December 31, 2010
Equipment and property	\$ 22,569	\$ 22,569
Less accumulated depreciation	<u>(20,509)</u>	<u>(18,112)</u>
Total	<u><u>\$ 2,060</u></u>	<u><u>\$ 4,457</u></u>

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, 2011, the present value of the liability for these payments was \$43,372 and at December 31, 2010, was \$61,322.

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, 2011 and 2010, respectively. The total may be adjusted annually as determined by the Board of Trustees.

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 four common members of their Boards of Trustees.

Geary Community Hospital
A Component Unit of Geary County, Kansas
Notes to Financial Statements
April 30, 2012 and 2011

Lease Receivable

The Foundation purchased and leased the Hospital the Meaningful Use Software System. The interest rate is 5% per annum. The total lease payment and interest are due three years from the inception date of March 1, 2011. The balance on the lease at December 31, 2011, was \$587,306, which includes accrued interest of \$12,906.

The Foundation purchased and leased the Hospital an Electronic Medical Records System. The interest rate is 5% per annum. The total lease payment is due two years from the inception date. Interest is due at the end of the each month. The inception date of the lease was January 11, 2011. The balance at December 31, 2011, was \$125,819, which includes accrued interest of \$5,819. The lease was paid in full by the Hospital on March 1, 2012.

The Foundation purchased and leased the Hospital an Accounting and Billing Software System on April 20, 2010. The interest rate is 10% per annum and can be adjusted annually, never to be less than 5% or greater than 10%. The interest is paid monthly. The balance on the lease at December 31, 2011 was \$160,000. The lease was paid in full by the Hospital on March 1, 2012.

Subsequent Events

Subsequent events related to the Foundation were evaluated through July 31, 2012, 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, 2012 and 2011

	2012		
	Inpatient	Outpatient	Total
Nursing, dietary and room service	\$ 5,278,287	\$ -	\$ 5,278,287
Intensive care	1,428,755	-	1,428,755
Geriatric psych unit	1,329,816	-	1,329,816
Physical rehabilitation	556,920	-	556,920
Nursery	538,332	-	538,332
Operating room	7,548,061	8,570,542	16,118,603
Extended recovery	2,104	390,344	392,448
Anesthesiology	1,330,428	1,852,034	3,182,462
Radiology, CT, MRI and Ultrasound	2,203,768	16,514,051	18,717,819
Nuclear medicine	29,057	1,812,799	1,841,856
Laboratory	2,387,625	11,971,943	14,359,568
Inhalation therapy	1,950,240	1,285,654	3,235,894
Physical therapy	314,226	1,479,449	1,793,675
Occupational therapy	233,121	372,132	605,253
Speech therapy	169,218	593,810	763,028
Cardiac pulmonary rehabilitation	164,915	751,054	915,969
Sleep lab	21,852	1,665,913	1,687,765
Central supply	3,686,130	1,725,669	5,411,799
Pharmacy	4,340,212	2,553,293	6,893,505
Emergency room	779,227	6,963,066	7,742,293
Observation	-	1,039,367	1,039,367
Emergency room physicians' fees	416,374	5,468,274	5,884,648
Pediatric clinic – RHC	160,515	1,284,472	1,444,987
Gray clinic – RHC	45,100	928,300	973,400
Jenkins clinic – RHC	42,958	687,885	730,843
Frieze clinic – RHC	42,855	477,397	520,252
Mace clinic – RHC	47,022	326,366	373,388
Alphacare – RHC	-	487,479	487,479
Ambulance	11,515	-	11,515
Home health	-	465,413	465,413
Hospice	-	349,617	349,617
Home medical equipment	-	1,366,941	1,366,941
Family practice residency program	-	87,345	87,345
Lifeline	-	-	-
Occupational health clinic	-	280,594	280,594
Orthopedic clinic	598,350	1,630,067	2,228,417
Chapman clinic	-	124,041	124,041
Flint Hills Surgical clinic	561,328	1,533,461	2,094,789
Wellness	-	8,197	8,197
Psych clinic	33,674	789	34,463
Total Hospital	\$ 36,251,985	\$ 75,047,758	111,299,743
Contractual allowances and charity care			69,985,096
Net patient service revenue			<u><u>\$ 41,314,647</u></u>

2011		
Inpatient	Outpatient	Total
\$ 5,587,804	\$ -	\$ 5,587,804
1,477,280	-	1,477,280
949,725	-	949,725
351,600	-	351,600
598,710	-	598,710
8,706,208	9,256,059	17,962,267
1,370	352,389	353,759
1,550,255	2,005,925	3,556,180
2,447,360	16,273,844	18,721,204
49,023	2,081,998	2,131,021
2,567,668	11,814,420	14,382,088
2,237,214	1,136,561	3,373,775
311,737	1,250,693	1,562,430
208,995	285,238	494,233
146,409	416,678	563,087
206,880	769,766	976,646
31,159	1,533,928	1,565,087
3,919,519	2,693,551	6,613,070
4,937,043	2,617,966	7,555,009
778,327	6,448,781	7,227,108
-	858,810	858,810
436,828	5,181,178	5,618,006
159,310	749,786	909,096
46,779	608,084	654,863
52,470	415,907	468,377
64,241	378,473	442,714
61,905	240,956	302,861
-	427,916	427,916
23,682	-	23,682
-	499,361	499,361
-	514,640	514,640
-	1,259,574	1,259,574
-	101,191	101,191
-	465	465
-	266,413	266,413
664,036	858,752	1,522,788
-	99,066	99,066
678,695	1,446,976	2,125,671
-	-	-
21,930	6,890	28,820
<u>\$ 39,274,162</u>	<u>\$ 72,852,235</u>	112,126,397
		<u>72,304,685</u>
		<u>\$ 39,821,712</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended April 30, 2012 and 2011

Contractual Allowances and Charity Care

	<u>2012</u>	<u>2011</u>
Hospital-sponsored charity care	\$ 918,615	\$ 1,370,735
Contractual allowances:		
Medicare	23,213,202	24,249,476
Medicaid	8,474,790	8,569,456
Blue Cross	10,597,336	11,038,228
Tricare	12,333,039	13,633,787
HMO/PPO	3,184,432	3,167,944
Pediatric clinic – RHC	587,210	202,736
Gray clinic – RHC	184,157	(21,260)
Jenkins clinic – RHC	79,139	17,941
Frieze clinic – RHC	89,089	26,060
Alphacare – RHC	165,425	66,906
Chapman clinic	47,011	18,424
Flint Hills Surgical clinic	1,102,872	1,160,188
Mace clinic	82,432	33,416
Occupational health clinic	56,648	4,092
Orthopedic clinic	1,430,867	840,581
Psych clinic	17,497	12,835
Employee discounts	42,026	43,508
Administrative adjustments	1,674,341	1,242,831
Provision for uncollectible accounts	<u>5,704,968</u>	<u>6,626,801</u>
	<u>\$ 69,985,096</u>	<u>\$ 72,304,685</u>

Other Operating Revenues

	<u>2012</u>	<u>2011</u>
Cafeteria and catering	\$ 378,880	\$ 367,658
Rental income	241,938	232,189
Medical records transcript fees	50,142	44,172
Vending machine receipts	5,144	6,750
Miscellaneous	<u>90,448</u>	<u>99,688</u>
	<u>\$ 766,552</u>	<u>\$ 750,457</u>

Geary Community Hospital
A Component Unit of Geary County, Kansas
Operating Expenses
Years Ended April 30, 2012 and 2011

	2012		
	Salaries	Other	Total
Nursing service	\$ 2,055,249	\$ 263,184	\$ 2,318,433
Intensive care	559,910	38,240	598,150
Geriatric psych unit	441,743	112,284	554,027
Physical rehabilitation	240,993	21,080	262,073
Nursery	144,136	2,912	147,048
Operating room	1,145,462	1,852,460	2,997,922
Anesthesiology	-	164,272	164,272
Radiology, CT, MRI and Ultrasound	949,600	723,063	1,672,663
Nuclear medicine	162,685	140,863	303,548
Laboratory	910,751	1,434,410	2,345,161
Inhalation therapy	335,145	114,571	449,716
Physical therapy	-	836,524	836,524
Occupational therapy	-	273,307	273,307
Speech therapy	-	189,758	189,758
Cardiac pulmonary rehabilitation	120,386	13,515	133,901
Sleep lab	202,646	45,616	248,262
Central supply	165,558	584,568	750,126
Pharmacy	323,828	709,393	1,033,221
Emergency room	1,369,709	1,312,578	2,682,287
Pediatric clinic – RHC	473,858	562,426	1,036,284
4th Floor MAB II clinic – RHC	1,094,392	658,098	1,752,490
Frieze clinic – RHC	291,157	108,771	399,928
Alphacare – RHC	170,835	140,056	310,891
Clinic management – RHC	227,572	(227,202)	370
Ambulance	-	11,515	11,515
Home medical equipment	193,806	303,150	496,956
Home health	430,314	94,466	524,780
Hospice	185,366	125,655	311,021
Depreciation and amortization	-	2,946,947	2,946,947
Employee health and welfare	-	3,919,644	3,919,644
Administrative and general	2,867,023	2,835,705	5,702,728
Operation of plant	415,652	1,219,119	1,634,771
Laundry and linen	64,649	29,654	94,303
Housekeeping	546,623	110,911	657,534
Dietary	523,810	614,656	1,138,466
Dietician	54,807	1,668	56,475
Nursing administrative	809,098	122,448	931,546
Foundation	15,575	523	16,098
Public relations	50,329	116,455	166,784
Family practice residency program	23,825	124,164	147,989
Chapman clinic	53,424	39,517	92,941
Flint Hills Surgical clinic	1,175,151	420,020	1,595,171
Psych clinic	-	-	-
Ortho clinic	633,502	384,864	1,018,366
Occupational health clinic	177,317	152,914	330,231
Community Wellness	15,195	-	15,195
Medical arts building	19,159	364,234	383,393
	<u>\$ 19,640,240</u>	<u>\$ 24,012,976</u>	<u>\$ 43,653,216</u>

2011		
Salaries	Other	Total
\$ 2,074,691	\$ 245,002	\$ 2,319,693
580,996	44,220	625,216
416,678	29,535	446,213
265,563	25,022	290,585
139,592	4,535	144,127
1,183,546	2,088,439	3,271,985
-	186,790	186,790
943,506	752,433	1,695,939
145,565	193,825	339,390
901,518	1,429,851	2,331,369
331,103	106,350	437,453
-	744,764	744,764
-	209,891	209,891
-	161,319	161,319
120,956	29,930	150,886
190,301	33,040	223,341
171,081	675,897	846,978
390,770	457,439	848,209
1,375,181	1,277,855	2,653,036
224,854	846,682	1,071,536
911,505	987,026	1,898,531
260,090	97,726	357,816
167,828	95,082	262,910
263,675	(263,675)	-
-	19,865	19,865
201,876	271,259	473,135
455,260	154,338	609,598
157,502	157,544	315,046
-	2,922,667	2,922,667
-	4,218,255	4,218,255
2,642,913	3,133,889	5,776,802
412,217	1,123,514	1,535,731
64,264	26,440	90,704
579,350	111,000	690,350
543,638	504,385	1,048,023
67,949	1,338	69,287
793,704	80,955	874,659
11,124	3,883	15,007
56,567	129,232	185,799
27,336	132,307	159,643
56,916	42,008	98,924
1,374,110	391,560	1,765,670
11,500	75,205	86,705
628,061	352,582	980,643
175,600	168,816	344,416
-	-	-
23,823	361,159	384,982
<u>\$ 19,342,709</u>	<u>\$ 24,841,179</u>	<u>\$ 44,183,888</u>