

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

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**December 31, 2012 and 2011**

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## **Independent Auditor's Report on Financial Statements and Supplementary Information**

Board of Trustees  
Gove County Medical Center  
Quinter, Kansas

We have audited the accompanying financial statements of Gove County Medical Center, a component unit of Gove County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the provisions of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gove County Medical Center as of December 31, 2012 and 2011, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

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

***Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are 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**

Wichita, Kansas  
April 15, 2013

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Balance Sheets**  
**December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,604,869	\$ 2,654,563
Short-term certificates of deposit and investments	552,111	551,960
Restricted cash - under debt agreement	40,000	30,000
Patient accounts receivable, net of allowance; 2012 - \$169,000, 2011 - \$150,000	1,670,269	1,139,158
Estimated amounts due from third-party payers	111,500	485,000
Supplies	291,522	268,474
Prepaid expenses and other	106,990	146,505
Sales taxes receivable	100,000	78,000
Total current assets	5,477,261	5,353,660
<b>Capital Assets, Net</b>	3,310,658	3,441,094
<b>Other Assets</b>	69,796	15,053
Total assets	<u>\$ 8,857,715</u>	<u>\$ 8,809,807</u>
<b>Liabilities and Net Position</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 56,400	\$ 56,400
Accounts payable	445,895	349,436
Accrued expenses	435,176	419,913
Accrued vacation pay	354,615	337,953
Total current liabilities	1,292,086	1,163,702
<b>Long-term Debt</b>	259,200	315,600
Total liabilities	<u>1,551,286</u>	<u>1,479,302</u>
<b>Net Position</b>		
Net investment in capital assets	2,995,058	2,939,603
Restricted - expendable for debt service	40,000	30,000
Unrestricted	4,271,371	4,360,902
Total net position	<u>7,306,429</u>	<u>7,330,505</u>
Total liabilities and net position	<u>\$ 8,857,715</u>	<u>\$ 8,809,807</u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended December 31, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for accounts; 2012 - \$197,750, 2011 - \$27,683	\$ 11,840,371	\$ 11,590,579
Electronic health records incentive revenue	214,143	-
Other	234,379	236,317
	<u>12,288,893</u>	<u>11,826,896</u>
<b>Operating Expenses</b>		
Salaries and wages	5,912,752	5,616,586
Employee benefits	2,411,450	2,161,386
Purchased services and professional fees	1,692,215	1,473,181
Drugs	608,930	551,602
Medical and surgical supplies	374,966	333,647
Food	212,353	198,284
Utilities	235,706	243,817
Repairs and maintenance	242,296	200,751
Provider assessments	73,500	110,250
Supplies and other	715,325	683,042
Depreciation and amortization	526,839	490,873
	<u>13,006,332</u>	<u>12,063,419</u>
<b>Operating Loss</b>	<u>(717,439)</u>	<u>(236,523)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	201,164	225,095
Sales tax revenue	432,836	291,005
Interest income	15,987	15,639
Interest expense	-	(944)
Noncapital grants and gifts	43,376	71,120
	<u>693,363</u>	<u>601,915</u>
<b>Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts</b>	<u>(24,076)</u>	<u>365,392</u>
<b>Capital Grants and Gifts</b>	<u>-</u>	<u>69,873</u>
<b>Increase (Decrease) in Net Position</b>	<u>(24,076)</u>	<u>435,265</u>
<b>Net Position, Beginning of Year</b>	<u>7,330,505</u>	<u>6,895,240</u>
<b>Net Position, End of Year</b>	<u><u>\$ 7,306,429</u></u>	<u><u>\$ 7,330,505</u></u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 11,682,760	\$ 11,165,794
Payments to suppliers and contractors	(3,968,392)	(3,864,694)
Payments to employees	(8,292,277)	(7,694,435)
Other receipts, net	453,450	221,069
	<u>(124,459)</u>	<u>(172,266)</u>
<b>Net cash used in operating activities</b>		
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue	201,164	225,095
Sales tax revenue	410,836	291,005
Noncapital grants and gifts	43,376	71,120
	<u>655,376</u>	<u>587,220</u>
<b>Net cash provided by noncapital financing activities</b>		
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	-	69,873
Proceeds from sale of capital assets	1,461	20,196
Principal paid on long-term debt	(56,400)	(95,727)
Interest paid on long-term debt	-	(944)
Purchase of capital assets	(531,508)	(415,037)
	<u>(586,447)</u>	<u>(421,639)</u>
<b>Net cash used in capital and related financing activities</b>		
<b>Investing Activities</b>		
Interest income	15,987	15,639
Purchase of short-term certificates of deposit and investments	(3,282,701)	(2,580,045)
Maturities of short-term certificates of deposit and investments	3,282,550	3,282,550
	<u>15,836</u>	<u>718,144</u>
<b>Net cash provided by investing activities</b>		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(39,694)	711,459
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,684,563</u>	<u>1,973,104</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 2,644,869</u></u>	<u><u>\$ 2,684,563</u></u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>	<b>2011</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 2,604,869	\$ 2,654,563
Cash and cash equivalents in restricted cash – current	<u>40,000</u>	<u>30,000</u>
Total cash and cash equivalents	<u><u>\$ 2,644,869</u></u>	<u><u>\$ 2,684,563</u></u>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities</b>		
Operating loss	\$ (717,439)	\$ (236,523)
Depreciation and amortization	526,839	490,873
(Gain) loss on disposal of capital assets	4,928	(15,248)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(531,111)	(99,785)
Estimated amounts due from and to third-party payers	373,500	(325,000)
Accounts payable and accrued expenses	257,875	62,541
Other assets and liabilities	<u>(39,051)</u>	<u>(49,124)</u>
Net cash used in operating activities	<u><u>\$ (124,459)</u></u>	<u><u>\$ (172,266)</u></u>
<b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in accounts payable	\$ -	\$ 129,491



**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

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

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

***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific such as county appropriations, intergovernmental revenue, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

***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.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2012 and 2011, cash equivalents consisted primarily of certificates of deposit and money market accounts.

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Pursuant to legislation enacted in 2010, the FDIC fully insured all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions. This legislation expired on December 31, 2012. Beginning January 1, 2013, noninterest-bearing transaction accounts are subject to the \$250,000 limit on FDIC insurance per covered institution.

***Intergovernmental and Sales Tax Revenue***

The Hospital received approximately 5% and 4% of its financial support from the proceeds of intergovernmental and sales taxes in 2012 and 2011, respectively. One hundred percent of these funds were used to support operations in both years.

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

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

***Risk Management***

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

***Patient Accounts Receivable***

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

***Supplies***

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

**Gove County Medical Center**  
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**December 31, 2012 and 2011**

***Capital Assets***

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

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

***Compensated Absences***

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

***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets 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 position is noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets 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 and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Charity Care**

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

**Income Taxes**

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

**Electronic Health Records Incentive Program**

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

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.

In 2012, the Hospital completed the first-year requirements under the Medicare program and has recorded revenue of \$214,143, which is reported as electronic health records incentive revenue in the statement of revenues, expenses and changes in net position.

**Subsequent Events**

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

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

***Reclassifications***

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. The reclassifications had no effect on the changes in financial position.

**Note 2: Net Patient Service Revenue**

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

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

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

Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Prior to 2011 rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the State's fiscal year), were approximately \$135,000 and are included in 2011 net income. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

**Gove County Medical Center**  
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**December 31, 2012 and 2011**

Approximately 56% and 57% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

***Patient Protection and Affordable Care Act***

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 3: Deposits**

***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 December 31, 2012 and 2011, none of the Hospital's bank balances of \$3,244,696 and \$3,090,260 were exposed to custodial credit risk.

***Summary of Carrying Values***

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

	<b>2012</b>	<b>2011</b>
Carrying value		
Deposits	\$ 3,196,680	\$ 3,081,228
Investments in direct government obligations	-	154,995
Cash on hand	300	300
	<u><u>\$ 3,196,980</u></u>	<u><u>\$ 3,236,523</u></u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,604,869	\$ 2,654,563
Short-term certificates of deposit and investments	552,111	551,960
Restricted cash - current	40,000	30,000
	<u><u>\$ 3,196,980</u></u>	<u><u>\$ 3,236,523</u></u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 4: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2012 and 2011, consisted of:

	<b>2012</b>	<b>2011</b>
Medicare	\$ 823,076	\$ 519,819
Medicaid	46,453	71,582
Blue Cross	426,389	276,062
Other third-party payers	291,808	139,974
Patients	251,543	281,721
	<u>1,839,269</u>	<u>1,289,158</u>
Less allowance for uncollectible accounts	<u>169,000</u>	<u>150,000</u>
	<u><u>\$ 1,670,269</u></u>	<u><u>\$ 1,139,158</u></u>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2012 and 2011, were:

	<b>2012</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>
Land	\$ 153,039	\$ -	\$ -	\$ -
Land improvements	134,011	4,210	-	-
Buildings and leasehold improvements	6,742,235	-	(29,463)	167,438
Fixed equipment	1,092,563	239,001	-	55,728
Major moveable equipment	4,358,319	158,806	(417,412)	-
Construction in progress	223,166	-	-	(223,166)
	<u>12,703,333</u>	<u>402,017</u>	<u>(446,875)</u>	<u>-</u>
Less accumulated depreciation				
Land improvements	84,031	6,209	-	-
Buildings and leasehold improvements	5,552,138	134,222	(29,463)	-
Fixed equipment	502,739	65,208	-	-
Major moveable equipment	3,123,331	320,425	(411,023)	-
	<u>9,262,239</u>	<u>526,064</u>	<u>(440,486)</u>	<u>-</u>
Capital Assets, Net	<u><u>\$3,441,094</u></u>	<u><u>\$ (124,047)</u></u>	<u><u>\$ (6,389)</u></u>	<u><u>\$ -</u></u>



**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2012 and 2011**

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

**Note 6: Medical Malpractice Claims**

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

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

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2012 and 2011:

	<b>2012</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable – County – 2006	\$ 132,000	\$ -	\$ 26,400	\$ 105,600	\$ 26,400
Note payable – County – 2009	240,000	-	30,000	210,000	30,000
Total long-term debt	<u>\$ 372,000</u>	<u>\$ -</u>	<u>\$ 56,400</u>	<u>\$ 315,600</u>	<u>\$ 56,400</u>

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

***Note Payable – County – 2006***

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

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

The debt service requirements as of December 31, 2012, are as follows:

	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
Year Ending December 31,			
2013	\$ 26,400	\$ 26,400	\$ -
2014	26,400	26,400	-
2015	26,400	26,400	-
2016	26,400	26,400	-
	<u>\$ 105,600</u>	<u>\$ 105,600</u>	<u>\$ -</u>

***Note Payable – County – 2009***

The note payable – county – 2009 consists of an agreement with the County to repay on its behalf revenue bonds in the original amount of \$300,000 dated November 1, 2009. These bonds were purchased in their entirety by Western Cooperative Electric at their par value with no interest due on these bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to construct a water therapy pool building at the Hospital. The bonds are payable in annual installments through November 1, 2019. The Hospital is required to make annual payments of \$30,000 to the debt service fund held by the trustee and maintain separate accounts for principal and interest payments. The Hospital has segregated these funds. The debt service requirements as of December 31, 2012, are as follows:

	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
Year Ending December 31,			
2013	\$ 30,000	\$ 30,000	\$ -
2014	30,000	30,000	-
2015	30,000	30,000	-
2016	30,000	30,000	-
2017	30,000	30,000	-
2018 – 2019	60,000	60,000	-
	<u>\$ 210,000</u>	<u>\$ 210,000</u>	<u>\$ -</u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 8: Operating Leases**

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

Future minimum lease payments at December 31, 2012, were:

Year Ending December 31, 2013	<u>\$ 65,704</u>
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Rental expense for all operating leases at December 31 consisted of the following:

	<u>2012</u>	<u>2011</u>
Minimum rentals	<u>\$ 131,546</u>	<u>\$ 137,828</u>

**Note 9: Pension Plan**

***Plan Description***

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

***Funding Policy***

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 7.34%, 6.74% and 6.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010, were \$453,207, \$398,577 and \$357,454, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2012 and 2011**

**Note 10: Litigation**

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

**Note 11: Current Economic Conditions**

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

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

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

## **Supplementary Information**

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Net Patient Service Revenue**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>		
	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
Hospital nursing service	\$ 2,225,700	\$ -	\$ 2,225,700
Nursery	62,010	-	62,010
Long-term care	2,699,101	-	2,699,101
Operating room	227,259	1,430,481	1,657,740
Delivery room	121,550	-	121,550
Anesthesiology	76,678	246,843	323,521
Radiology	459,556	1,508,045	1,967,601
Laboratory	796,295	1,252,261	2,048,556
Respiratory therapy	190,867	18,763	209,630
Physical therapy	223,394	584,086	807,480
Occupational therapy	22,136	37,039	59,175
Speech therapy	4,321	9,359	13,680
Electrocardiology	19,251	92,640	111,891
Cardiac rehabilitation	-	56,115	56,115
Medical supplies	421,090	111,392	532,482
Pharmacy	1,350,810	835,428	2,186,238
Orthopedic, urology and ENT clinic	-	50,310	50,310
Emergency room	40,184	505,609	545,793
Observation	17,475	137,075	154,550
Home health agency	-	18,770	18,770
Independent living	88,086	-	88,086
	<u>\$ 9,045,763</u>	<u>\$ 6,894,216</u>	15,939,979
Provision for uncollectible accounts			197,750
Contractual allowances and charity care			<u>3,901,858</u>
Net patient service revenue			<u>\$ 11,840,371</u>

2011		
Inpatient	Outpatient	Total
\$ 1,886,500	\$ -	\$ 1,886,500
61,750	-	61,750
2,691,093	-	2,691,093
276,640	1,344,859	1,621,499
93,950	-	93,950
83,978	199,613	283,591
445,960	1,283,752	1,729,712
742,831	1,062,215	1,805,046
168,447	10,399	178,846
178,313	576,854	755,167
56,613	50,622	107,235
5,284	10,725	16,009
26,135	73,636	99,771
-	38,227	38,227
360,990	92,105	453,095
1,358,438	810,303	2,168,741
-	50,781	50,781
58,871	419,917	478,788
8,139	44,222	52,361
-	16,502	16,502
104,223	-	104,223
<u>\$ 8,608,155</u>	<u>\$ 6,084,732</u>	14,692,887
		27,683
		<u>3,074,625</u>
		<u>\$ 11,590,579</u>



**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Contractual Allowances, Charity Care and Other Operating Revenues**  
**Years Ended December 31, 2012 and 2011**

**Contractual Allowances and Charity Care**

	<u>2012</u>	<u>2011</u>
<b>Charity Care</b>	\$ 18,682	\$ 93,223
<b>Contractual Allowances</b>		
Medicare and Medicaid – Hospital	2,491,524	2,095,522
Blue Cross – Hospital	1,114,299	854,433
Commercial insurance – Hospital	278,642	219,013
Medicaid – long-term care facility	(179,141)	(309,884)
Administrative adjustments	<u>177,852</u>	<u>122,318</u>
	<u><u>\$ 3,901,858</u></u>	<u><u>\$ 3,074,625</u></u>

**Other Operating Revenues**

	<u>2012</u>	<u>2011</u>
Day care revenue	\$ 87,588	\$ 85,483
Cafeteria sales	50,201	49,244
Rent	49,950	49,800
Guest meals	10,190	9,941
Gain (loss) on sale of assets	(4,928)	20,196
Miscellaneous	<u>41,378</u>	<u>21,653</u>
	<u><u>\$ 234,379</u></u>	<u><u>\$ 236,317</u></u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Operating Expenses**  
**Years Ended December 31, 2012 and 2011**

	<b>2012</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
Hospital nursing service	\$ 1,103,535	\$ 164,537	\$ 1,268,072
Nursery	33,482	4,271	37,753
Long-term care	1,302,229	570,086	1,872,315
Operating room	179,845	53,197	233,042
Delivery room	24,296	4,091	28,387
Anesthesiology	-	4,556	4,556
Radiology	197,537	414,541	612,078
Laboratory	317,010	402,864	719,874
Respiratory therapy	206,191	4,882	211,073
Physical therapy	196,449	92,850	289,299
Occupational therapy	-	51,997	51,997
Speech therapy	-	14,902	14,902
Electrocardiology	4,786	846	5,632
Cardiac rehabilitation	38,869	9,089	47,958
Medical supplies	37,040	96,725	133,765
Pharmacy	9,849	676,497	686,346
Orthopedic, urology and ENT clinic	4,130	1,158	5,288
Emergency room	40,282	215,830	256,112
Home health agency	4,918	9,904	14,822
Depreciation and amortization	-	526,839	526,839
Employee benefits	-	2,411,450	2,411,450
Administrative and general	938,269	445,710	1,383,979
Operation of plant	164,239	279,999	444,238
Laundry and linen	93,370	8,477	101,847
Housekeeping	224,455	41,829	266,284
Dietary	385,263	236,938	622,201
Nursing service administration	210,486	15,181	225,667
Purchasing	48,796	6,828	55,624
Medical records	147,426	78,173	225,599
Nonphysician anesthetists	-	247,808	247,808
Auxiliary	-	1,525	1,525
	<u>\$ 5,912,752</u>	<u>\$ 7,093,580</u>	<u>\$ 13,006,332</u>

2011		
Salaries	Other	Total
\$ 1,182,811	\$ 136,945	\$ 1,319,756
36,256	4,178	40,434
1,201,311	460,985	1,662,296
153,639	46,371	200,010
25,348	3,556	28,904
-	1,902	1,902
191,528	355,390	546,918
302,034	345,397	647,431
175,292	32,537	207,829
172,868	80,082	252,950
-	53,262	53,262
-	16,979	16,979
6,172	622	6,794
34,047	4,512	38,559
22,010	107,553	129,563
8,335	629,256	637,591
10,873	1,219	12,092
38,735	186,926	225,661
4,509	8,342	12,851
-	490,873	490,873
-	2,161,386	2,161,386
823,950	484,886	1,308,836
159,342	272,349	431,691
97,378	7,616	104,994
217,403	37,166	254,569
356,916	225,533	582,449
201,120	5,856	206,976
50,036	4,620	54,656
144,673	61,177	205,850
-	217,276	217,276
-	2,081	2,081
<u>\$ 5,616,586</u>	<u>\$ 6,446,833</u>	<u>\$ 12,063,419</u>