

Great Plains of Smith County, Inc.

Independent Accountants' Report and Financial Statements

March 31, 2012 and 2011



Great Plains of Smith County, Inc.
March 31, 2012 and 2011

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Independent Accountants' Report

Board of Directors
Great Plains of Smith County, Inc.
Smith Center, Kansas

We have audited the accompanying balance sheets of Great Plains of Smith County, Inc. (Hospital) as of March 31, 2012 and 2011, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Great Plains of Smith County, Inc. as of March 31, 2012 and 2011, and the results of its operations and changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

September 10, 2012

Great Plains of Smith County, Inc.

Balance Sheets

March 31, 2012 and 2011

Assets

	2012	2011
Current Assets		
Cash	\$ 197,685	\$ 211,820
Patient accounts receivable, net	1,238,517	913,389
Estimated amounts due from third-party payers	85,000	90,000
Supplies	98,936	98,625
Prepaid expenses and other	91,676	104,558
Total current assets	1,711,814	1,418,392
Assets Limited As To Use	103,025	77,971
Property and Equipment, At Cost		
Land and land improvements	110,149	110,149
Buildings	3,861,089	3,861,089
Equipment	5,996,407	5,957,025
	9,967,645	9,928,263
Less accumulated depreciation	(5,991,343)	(5,491,214)
	3,976,302	4,437,049
Beneficial Interest in Perpetual Trusts	728,840	676,878
Total assets	\$ 6,519,981	\$ 6,610,290

Liabilities and Net Assets

	2012	2011
Current Liabilities		
Note payable to bank	\$ 26,318	\$ 34,339
Current maturities of long-term debt	215,822	220,927
Accounts payable - GPHA	512,178	429,805
Accounts payable - other	486,596	494,121
Accrued wages and payroll taxes	272,762	281,748
Accrued benefits payable	219,090	219,021
Accrued expenses	258,100	263,574
Estimated amounts due to third-party payers	180,000	-
Total current liabilities	2,170,866	1,943,535
Long-term Debt	272,274	417,925
Total liabilities	2,443,140	2,361,460
Net Assets		
Unrestricted	3,244,976	3,493,981
Temporarily restricted	103,025	424,292
Permanently restricted	728,840	330,557
Total net assets	4,076,841	4,248,830
Total liabilities and net assets	\$ 6,519,981	\$ 6,610,290

Great Plains of Smith County, Inc.
Statements of Operations and Changes in Net Assets
Years Ended March 31, 2012 and 2011

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Net patient service revenue	\$ 9,381,302	\$ -	\$ -	\$ 9,381,302
Nonpatient meals	47,772	-	-	47,772
Investment return	17,696	11,784	-	29,480
Contributions and grants	44,635	2,897	-	47,532
Other	82,703	-	-	82,703
Net assets released from restrictions used for operations	10,127	(10,127)	-	-
Total revenues, gains and other support	9,584,235	4,554	-	9,588,789
Expenses				
Salaries and wages	4,655,116	-	-	4,655,116
Supplies and other	4,798,092	-	-	4,798,092
Depreciation and amortization	535,127	-	-	535,127
Provision for uncollectible accounts	149,898	-	-	149,898
Interest	52,684	-	-	52,684
Total expenses	10,190,917	-	-	10,190,917
Operating Income (Loss)	(606,682)	4,554	-	(602,128)
Other Income				
Contributions received from Board of Trustees for operations	357,677	2,500	-	360,177
Excess (Deficiency) of Revenues Over Expenses	(249,005)	7,054	-	(241,951)
Transfer of property and equipment from Smith County	-	-	-	-
Contributions received from Board of Trustees for property and equipment	-	18,000	-	18,000
Change in beneficial interest in perpetual trusts	-	-	51,962	51,962
Net assets released from restrictions used for property and equipment	-	-	-	-
Net asset reclassification	-	(346,321)	346,321	-
Change in Net Assets	(249,005)	(321,267)	398,283	(171,989)
Net Assets, Beginning of Year	3,493,981	424,292	330,557	4,248,830
Net Assets, End of Year	\$ 3,244,976	\$ 103,025	\$ 728,840	\$ 4,076,841

2011			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 9,068,246	\$ -	\$ -	\$ 9,068,246
46,991	-	-	46,991
18,176	12,469	-	30,645
78,900	-	-	78,900
28,662	-	-	28,662
15,299	(15,299)	-	-
9,256,274	(2,830)	-	9,253,444
4,619,286	-	-	4,619,286
4,785,866	-	-	4,785,866
558,517	-	-	558,517
102,732	-	-	102,732
75,982	-	-	75,982
10,142,383	-	-	10,142,383
(886,109)	(2,830)	-	(888,939)
105,000	-	-	105,000
(781,109)	(2,830)	-	(783,939)
8,216	-	-	8,216
42,741	-	-	42,741
-	28,773	-	28,773
5,673	(5,673)	-	-
-	-	-	-
(724,479)	20,270	-	(704,209)
4,218,460	404,022	330,557	4,953,039
\$ 3,493,981	\$ 424,292	\$ 330,557	\$ 4,248,830

Great Plains of Smith County, Inc.
Statements of Cash Flows
Years Ended March 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ (171,989)	\$ (704,209)
Items not requiring (providing) operating cash flow		
Transfer of property and equipment from Smith County	-	(8,216)
Contributions received from Board of Trustees for property and equipment	(18,000)	(42,741)
Contributions received from Board of Trustees for operations (temporarily restricted)	(2,500)	-
Change in beneficial interest in perpetual trusts	(51,962)	(28,773)
Depreciation and amortization	535,127	558,517
Provision for uncollectible accounts	149,898	102,732
Investment return and contributions and grants (temporarily restricted)	(14,681)	(12,469)
Equipment expensed financed under capital lease agreement	-	41,017
Changes in assets and liabilities		
Patient accounts receivable, net	(475,026)	223,973
Estimated amounts due from/to third-party payers	185,000	182,000
Supplies and other current assets	12,571	(43,670)
Accounts payable and accrued expenses	60,457	(74,344)
Net cash provided by operating activities	<u>208,895</u>	<u>193,817</u>
Investing Activities		
Purchase of property and equipment	<u>-</u>	<u>(26,758)</u>
Financing Activities		
Principal payments on note payable to bank and long-term debt	(272,362)	(265,571)
Proceeds from note payable to bank	39,205	43,830
Contributions received from Board of Trustees for property and equipment	-	54,531
Net assets released from restrictions	<u>10,127</u>	<u>15,299</u>
Net cash used in financing activities	<u>(223,030)</u>	<u>(151,911)</u>
Increase (Decrease) in Cash	(14,135)	15,148
Cash, Beginning of Year	<u>211,820</u>	<u>196,672</u>
Cash, End of Year	<u><u>\$ 197,685</u></u>	<u><u>\$ 211,820</u></u>

Great Plains of Smith County, Inc.
Statements of Cash Flows (Continued)
Years Ended March 31, 2012 and 2011

	2012	2011
Supplemental Disclosures of Noncash Investing and Financing Information		
Capital lease obligations incurred	\$ 74,380	\$ 87,759
Property and equipment transferred from Smith County	\$ -	\$ 8,216
Equipment additions acquired with assets limited as to use	\$ -	\$ 5,673

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

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

Nature of Operations

Great Plains of Smith County, Inc. (GPSC/Hospital) is located in Smith Center, Kansas and provides acute, swing-bed, long-term care and clinic services. GPSC is managed by Great Plains Health Alliance, Inc. (GPHA) (see *Note 11*).

The Board of Trustees of Smith County Memorial Hospital (Board of Trustees) was organized to operate a governmental county hospital and to control the use of tax appropriations. Members of the Board of Trustees are appointed by the County Commissioners of Smith County (County). Separate financial statements have been issued for the Board of Trustees.

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. There were no cash equivalents at March 31, 2012 and 2011.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC insured institutions.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance and provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The Hospital's allowance for uncollectible accounts is based on 100% of account balance in excess of 120 days (excluding third-party payer accounts) outstanding from date of discharge or service.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or market.

Assets Limited As To Use

Assets limited as to use consist of funds held in a trust at a bank for the benefit of the Hospital and cash restricted by others. Funds held in trust at a bank are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated 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 estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	20 years
Buildings	40 years
Fixed equipment	20 years
Moveable equipment	4-20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the related asset is placed in service.

Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Gains or losses on dispositions of property and equipment are included in operations.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Accrued Benefits Payable

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. 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. Accrued benefits payable are computed using the regular pay rates in effect at the balance sheet date.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity.

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 include estimated retroactive adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Investment Return

Investment return includes interest on cash accounts and distribution from funds held in trusts. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based on the existence and nature of any donor or legally imposed restrictions.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Contributions and Grants

Contributions and grants received are recognized at fair value and are considered to be available for unrestricted use unless specifically restricted by the donor/grantor, or designated by the donor/grantor as support for future periods. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Donor/grantor restricted contributions and grants whose restrictions are met in the same reporting period are reported as unrestricted support. Contribution and grants for which the related expenses are included in operating expenses are considered operating revenues.

Income Taxes

The Hospital has been recognized as exempt from income taxes under Section 501 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 files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Hospital is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Excess (Deficiency) of Revenues Over Expenses

The statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include transfers from the County, contributions from the Board of Trustees for property and equipment and change in beneficial interest in perpetual trusts.

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. 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.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

The Hospital will recognize revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. The Hospital has not recorded any revenue in connection with this incentive program in the accompanying financial statements.

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, medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such a policy, only claims made and reported to the insurer during the policy term, regardless of when the incidents giving rise to the claims occurred, are covered. The Hospital also purchases excess umbrella liability coverage, which provides additional coverage above the basic policy limits up to the amount specified in the umbrella policy.

In 2012, the Hospital adopted the provisions of Accounting Standards Update (ASU) 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*, which eliminates the practice of netting claim liabilities with expected insurance recoveries for balance sheet presentation. Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Prior to the adoption of ASU 2010-24, accounting principles generally accepted in the United States of America required a health care provider to accrue only an estimate of the malpractice claims costs for both reported claims and claims incurred but not reported where the risk of loss had not been transferred to a financially viable insurer. There was no impact of the ASU adoption to the Hospital's financial statements.

Based upon the Hospital's claims experience, no receivable or liability has been recorded in the accompanying financial statements related to its malpractice insurance policy. It is reasonably possible that this estimate could change materially in the near term.

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.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Note 2: Patient Accounts Receivable, Net/Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided.

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 certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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 for inpatient (excluding long-term care) and outpatient services (including clinic) at tentative rates with final settlement determined after submission of annual cost reports by the Hospital with audit thereof by the Kansas Department of Health and Environment. The Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues for the Hospital relative to the provider assessment program for the period July 1, 2010 through June 30, 2011 (the State's fiscal year), totaled approximately \$111,000. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Approximately 57% and 52% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 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.

Accounts receivable are recorded net of the allowance for uncollectible accounts and allowance for contractual adjustments at March 31, 2012 and 2011, as follows:

	2012	2011
Patient accounts receivable, gross	\$ 1,702,475	\$ 1,381,909
Allowance for uncollectible accounts	(363,797)	(372,792)
Allowance for contractual adjustments	(100,161)	(95,728)
Patient accounts receivable, net	<u>\$ 1,238,517</u>	<u>\$ 913,389</u>

Net patient service revenue for the years ended March 31, 2012 and 2011, are as follows:

	2012	2011
Gross patient service revenue	\$ 10,331,505	\$ 10,076,838
Plus (less)		
Contractual adjustments		
Medicare	(256,951)	(239,684)
Medicaid	12,211	(122,075)
Blue Cross	(482,185)	(392,873)
Other	(174,992)	(182,098)
Administrative adjustments	(14,179)	(28,625)
Charity care	(34,107)	(43,237)
Net patient service revenue	<u>\$ 9,381,302</u>	<u>\$ 9,068,246</u>

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net accounts receivables from patients and third-party payers at March 31, 2012 and 2011, for the Hospital is as follows:

	2012	2011
Medicare	34%	34%
Medicaid	5	4
Blue Cross	15	12
Other third-party payers	32	35
Self pay	14	15
	<u>100%</u>	<u>100%</u>

Note 4: Assets Limited As To Use

Assets limited as to use consist of the following at March 31, 2012 and 2011:

	2012	2011
Funds held in a trust	\$ 60,964	\$ 58,068
Cash restricted by others	42,061	19,903
	<u>\$ 103,025</u>	<u>\$ 77,971</u>

Funds Held in a Trust

Funds held in a trust at a bank for benefit of the Hospital consist primarily of common stocks and common stock mutual funds and government debt securities and are stated at fair value.

The trust provides for the income to be paid to the Hospital annually and distribution of the trust corpus to the Hospital at the end of 20 years. The trust corpus distribution is expected to occur in 2013.

Trust income distributions to the Hospital for the years ended March 31, 2012 and 2011, were \$1,961 and \$1,826, respectively.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Cash Restricted by Others

Cash restricted by others at March 31, 2012 and 2011, is to be used for the following purposes:

	2012	2011
Property and equipment	\$ 27,619	\$ 7,512
Hospital operations	14,442	12,391
	<u>\$ 42,061</u>	<u>\$ 19,903</u>

Note 5: Beneficial Interest in Perpetual Trusts

The Hospital is an income beneficiary of several perpetual trusts controlled by an unrelated third-party trustee. Effective with 2012, the beneficial interests in the assets of these trusts are included in the Hospital's financial statements as permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in investment return. The estimated value of the expected future cash flows is \$728,840 and \$676,878, which represents the fair value of the trust assets at March 31, 2012 and 2011, respectively. Trust income distributed to the Hospital for the years ended March 31, 2012 and 2011, was \$21,702 and \$22,327, respectively.

Endowments

As noted above, the funds held in trust represent donor-restricted endowments, classified and reported based on the donor-imposed restrictions.

The management of the funds held in trust, including investment decisions, is performed by the trustee of the trusts.

Endowment net assets composition by type of fund is as follows as of March 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 82,525	\$ 728,840	\$ 811,365

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 424,292	\$ 330,557	\$ 754,849

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Changes in endowment net assets are as follows for the years ended March 31, 2012 and 2011:

	2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 424,292	\$ 330,557	\$ 754,849
Net asset reclassification	-	(346,321)	346,321	-
Interest and dividends, net of related expenses	-	11,784	-	11,784
Contributions and grants	-	2,897	-	2,897
Change in beneficial interest in perpetual trusts	-	-	51,962	51,962
Appropriation of endowment assets for expenditure	-	(10,127)	-	(10,127)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 82,525</u>	<u>\$ 728,840</u>	<u>\$ 811,365</u>

	2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 404,021	\$ 330,557	\$ 734,578
Interest and dividends, net of related expenses	-	12,469	-	12,469
Change in beneficial interest in perpetual trusts	-	28,773	-	28,773
Appropriation of endowment assets for expenditure	-	(20,971)	-	(20,971)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 424,292</u>	<u>\$ 330,557</u>	<u>\$ 754,849</u>

Note 6: Note Payable to Bank

Note payable to bank at March 31, 2012, consists of a 4% short-term note, the proceeds of which were used to pay insurance premiums. Final payment on the note is due September 2012. A similar note payable to bank as of March 31, 2011, was paid off during 2012.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Note 7: Long-term Debt

Long-term debt consists of the following at March 31, 2012 and 2011:

	2012	2011
Capital lease obligations	\$ 463,906	\$ 605,285
Six percent note payable to corporation, monthly payments including interest of \$928 through July 2014, not collateralized	24,190	33,567
	<u>488,096</u>	<u>638,852</u>
Less current maturities	<u>(215,822)</u>	<u>(220,927)</u>
	<u>\$ 272,274</u>	<u>\$ 417,925</u>

The following is an analysis of the equipment under capital leases at March 31, 2012 and 2011:

	2012	2011
Moveable equipment	\$ 954,517	\$ 980,708
Accumulated amortization	<u>(546,879)</u>	<u>(394,068)</u>
	<u>\$ 407,638</u>	<u>\$ 586,640</u>

The following is a schedule by years of future minimum lease payments under the capital lease agreements together with the present value of net minimum lease payments at March 31, 2012:

Year Ending March 31,	
2013	\$ 226,003
2014	171,809
2015	60,245
2016	17,687
2017	11,112
Thereafter	<u>20,643</u>
Total minimum lease payments	507,499
Less amount representing interest	<u>(43,593)</u>
	463,906
Less current portion	<u>(205,867)</u>
Present value of net minimum lease payments	<u>\$ 258,039</u>

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

Annual maturities on the note payable to corporation at March 31, 2012, are:

Year Ending March 31,	
2013	\$ 9,955
2014	10,569
2015	3,666
	<u>24,190</u>
Current maturities	<u>(9,955)</u>
	<u>\$ 14,235</u>

Note 8: Functional Expenses

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services for the years ended March 31, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 9,019,904	\$ 8,808,132
General and administrative	<u>1,171,013</u>	<u>1,334,251</u>
	<u>\$ 10,190,917</u>	<u>\$ 10,142,383</u>

Note 9: Pension Plan

The Hospital maintains a contributory pension plan for all eligible employees. Eligibility is established by all employees 18 years of age or older upon active employment. Employer contributions begin after 12 months of continuous employment at a rate of 5% of annual compensation plus 5% of the excess over \$16,000. Employee contributions are computed at the rate of 2.5% of annual compensation plus 2.5% of the excess over \$16,000. Benefits are funded by a money-purchase annuity with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan (April 1, 1970) to the employee's normal retirement date. The Hospital's cost of the plan for the years ended March 31, 2012 and 2011, was \$340,642 and \$323,899, respectively. Benefits vest at 20% per year of service with 100% vesting after five years of service.

Great Plains of Smith County, Inc.
Notes to Financial Statements
March 31, 2012 and 2011

Note 10: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the inputs and valuation methodologies used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

Funds held in a trust and beneficial interest in perpetual trusts	Valued based on the net asset and market values of the investments within the trusts as of the balance sheet date as provided by the trustee
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The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2012 and 2011:

		2012		
		Fair Value Measurements Using		
Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds held in a trust	\$ 60,964	\$ -	\$ -	\$ 60,964
Beneficial interest in perpetual trusts	728,840	-	-	728,840
	<u>\$ 789,804</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 789,804</u>

		2011		
		Fair Value Measurements Using		
Fair Value		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Funds held in a trust	\$ 58,068	\$ -	\$ -	\$ 58,068
Beneficial interest in perpetual trusts	676,878	-	-	676,878
	<u>\$ 734,946</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 734,946</u>

The funds held in a trust and the beneficial interest in perpetual trusts consist of five separate trusts invested in a diversified mix of investments consisting primarily of common stocks, common stock mutual funds and government debt securities.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

The following table represents the changes in fair value of the Hospital's Level 3 assets for the years ended March 31, 2012 and 2011:

	2012	2011
Balances, beginning of year	\$ 734,946	\$ 716,570
Interest and dividends, net of related expenses	11,784	12,469
Realized and unrealized gains, net	-	28,773
Purchases and sales, net	43,074	(22,866)
Balances, end of year	<u>\$ 789,804</u>	<u>\$ 734,946</u>

Note 11: Related Party Transactions

The Board of Trustees has entered into a lease agreement to lease the Hospital facilities to GPSC for one dollar. The lease term is for a five-year period through December 31, 2015. The lease may be terminated by either party for a material breach of the agreement with 60 days' notice. GPSC has contracted with GPHA, which is the sole member of GPSC, for management services. In addition, the Hospital has entered into agreements with GPHA for other services, including data processing and billing services. Fees incurred for these services totaled \$389,077 and \$328,088 in 2012 and 2011, respectively. Amounts included in accounts payable, related to these services, totaled \$512,178 and \$429,805 as of March 31, 2012 and 2011, respectively.

During 2012, \$52,450 of accrued interest on accounts payable to GPHA for these services was forgiven and is included in other revenue in the accompanying statement of operations and changes in net assets.

Note 12: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowances for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*.

Great Plains of Smith County, Inc.

Notes to Financial Statements

March 31, 2012 and 2011

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 investment values and allowances for accounts receivable that could negatively impact the Hospital's ability to maintain sufficient liquidity.