

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

Accountants' Report and Financial Statements

December 31, 2010 and 2009



**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**December 31, 2010 and 2009**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees  
Gove County Medical Center  
Quinter, Kansas

We have audited the accompanying balance sheets of Gove County Medical Center, a component unit of Gove County, Kansas, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gove County Medical Center as of December 31, 2010 and 2009, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of the basic financial statements.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*BKD, LLP*

March 22, 2011

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Balance Sheets**  
**December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,973,104	\$ 1,817,929
Short-term certificates of deposit	1,254,465	1,209,509
Restricted cash - held at County under debt agreement	-	225,915
Patient accounts receivable, net of allowance; 2010 - \$121,000, 2009 - \$256,000	1,039,373	945,366
Estimated amounts due from third-party payers	160,000	250,000
Supplies	241,628	272,260
Prepaid expenses and other	102,524	98,158
Sales taxes receivable	78,000	52,000
Total current assets	4,849,094	4,871,137
<b>Capital Assets, Net</b>	3,416,612	3,002,347
<b>Other Assets</b>	37,531	7,065
Total assets	\$ 8,303,237	\$ 7,880,549
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 95,727	\$ 100,229
Accounts payable	265,941	157,265
Accrued expenses	341,680	311,388
Accrued vacation pay	332,649	333,188
Total current liabilities	1,035,997	902,070
<b>Long-term Debt</b>	372,000	467,727
Total liabilities	1,407,997	1,369,797
<b>Net Assets</b>		
Invested in capital assets, net of related debt	2,923,885	2,434,391
Restricted-expendable for capital acquisitions	-	225,915
Unrestricted	3,971,355	3,850,446
Total net assets	6,895,240	6,510,752
Total liabilities and net assets	\$ 8,303,237	\$ 7,880,549

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for accounts; 2010 - \$161,482, 2009 - \$175,749	\$ 10,818,593	\$ 10,409,002
Other	189,597	191,090
Total operating revenues	11,008,190	10,600,092
<b>Operating Expenses</b>		
Salaries and wages	5,459,512	5,238,917
Employee benefits	1,916,702	1,601,717
Contract services	1,139,630	1,191,773
Laboratory supplies	139,604	159,947
Radiology supplies	521	541
Drugs	662,119	703,607
Medical and surgical supplies	203,085	173,192
Food	178,627	187,090
Utilities	191,983	191,940
Repairs and maintenance	193,773	193,281
Insurance	71,904	69,045
Legal and accounting fees	42,916	53,912
Telephone	31,203	30,752
Dues	41,192	39,982
Supplies and other	627,452	611,813
Depreciation and amortization	488,190	542,567
Total operating expenses	11,388,413	10,990,076
<b>Operating Loss</b>	(380,223)	(389,984)
<b>Nonoperating Revenues (Expenses)</b>		
Intergovernmental revenue	186,309	219,234
Sales tax revenue	370,477	341,166
Interest income	25,774	20,498
Interest expense	(3,119)	(4,750)
Noncapital grants and gifts	76,488	65,617
Total nonoperating revenues	655,929	641,765
<b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b>	275,706	251,781
<b>Capital Grants and Gifts</b>	108,782	-
<b>Increase in Net Assets</b>	384,488	251,781
<b>Net Assets, Beginning of Year</b>	6,510,752	6,258,971
<b>Net Assets, End of Year</b>	\$ 6,895,240	\$ 6,510,752

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 10,814,586	\$ 10,576,397
Payments to suppliers and contractors	(3,445,308)	(3,636,856)
Payments to employees	(7,346,461)	(6,776,899)
Other receipts, net	199,816	191,090
	<u>222,633</u>	<u>353,732</u>
Net cash provided by operating activities		
<b>Noncapital Financing Activities</b>		
Intergovernmental revenue	186,309	219,234
Sales tax revenue	344,477	343,166
Noncapital grants and gifts	185,270	65,617
	<u>716,056</u>	<u>628,017</u>
Net cash provided by noncapital financing activities		
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	-	19,000
Proceeds from issuance of long-term debt	-	300,000
Principal paid on long-term debt	(100,229)	(63,057)
Interest paid on long-term debt	(3,119)	(4,750)
Purchase of capital assets	(886,899)	(303,330)
	<u>(990,247)</u>	<u>(52,137)</u>
Net cash used in capital and related financing activities		
<b>Investing Activities</b>		
Interest income	25,774	20,498
Purchase of short-term certificates of deposit	(344,956)	(1,209,508)
Maturities of short-term certificates of deposit	300,000	503,482
	<u>(19,182)</u>	<u>(685,528)</u>
Net cash used in investing activities		
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(70,740)	244,084
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>2,043,844</u>	<u>1,799,760</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,973,104</u>	<u>\$ 2,043,844</u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 1,973,104	\$ 1,817,929
Cash and cash equivalents in restricted cash – current	-	225,915
Total cash and cash equivalents	<b>\$ 1,973,104</b>	<b>\$ 2,043,844</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (380,223)	\$ (389,984)
Depreciation and amortization	488,190	542,567
Loss on sale of capital assets	10,219	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(94,007)	(192,605)
Estimated amounts due from and to Medicare	90,000	360,000
Accounts payable and accrued expenses	113,429	49,108
Other assets and liabilities	(4,975)	(15,354)
Net cash provided by operating activities	<b>\$ 222,633</b>	<b>\$ 353,732</b>
<b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in accounts payable	\$ 25,000	\$ -

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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

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

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

***Basis of Accounting and Presentation***

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

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of certificates of deposit.

***Intergovernmental and Sales Tax Revenue***

The Hospital received approximately 5% of its financial support from the proceeds of intergovernmental and sales taxes in both 2010 and 2009. One hundred percent of these funds were used to support operations in both years.

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

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

***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; worker's 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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***Capital Assets***

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

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

***Compensated Absences***

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

***Net Assets***

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

***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**  
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**December 31, 2010 and 2009**

***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.

***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2009 presentation. The reclassifications had no effect on the changes in financial position.

***Subsequent Events***

Subsequent events have been evaluated through March 22, 2011, 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.* 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.

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*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 Health Policy Authority. 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.

Approximately 60% and 55% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

**Note 3: Deposits and Interest Income**

***Deposits***

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

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

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

**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

At December 31, 2010 and 2009, respectively, \$1,913,147 and \$1,798,881 of the Hospital's bank balances of \$3,214,737 and \$3,057,095 were exposed to custodial credit risk as follows:

	<b>2010</b>	<b>2009</b>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ 1,913,147	\$ 1,798,881

**Summary of Carrying Values**

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

	<b>2010</b>	<b>2009</b>
Carrying value		
Deposits	\$ 3,227,269	\$ 3,253,053
Cash on hand	300	300
	\$ 3,227,569	\$ 3,253,353
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,973,104	\$ 1,817,929
Short-term certificates of deposit	1,254,465	1,209,509
Restricted cash - current	-	225,915
	\$ 3,227,569	\$ 3,253,353

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**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, 2010 and 2009, consisted of:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 442,696	\$ 380,903
Medicaid	64,400	66,874
Blue Cross	237,840	200,744
Other third-party payers	155,009	141,277
Patients	<u>260,428</u>	<u>411,568</u>
	1,160,373	1,201,366
Less allowance for uncollectible accounts	<u>121,000</u>	<u>256,000</u>
	<u><u>\$ 1,039,373</u></u>	<u><u>\$ 945,366</u></u>

**Note 5: Capital Assets**

Capital assets activity for the years ended December 31, 2010 and 2009, were:

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

**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

	2009				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 153,039	\$ -	\$ -	\$ -	\$ 153,039
Land improvements	94,800	-	-	-	94,800
Buildings and leasehold improvements	6,424,427	23,103	-	-	6,447,530
Fixed equipment	920,065	35,822	-	-	955,887
Major moveable equipment	3,788,618	94,281	(10,539)	-	3,872,360
Construction in progress	-	104,564	-	-	104,564
	<u>11,380,949</u>	<u>257,770</u>	<u>(10,539)</u>	<u>-</u>	<u>11,628,180</u>
Less accumulated depreciation					
Land improvements	70,273	3,176	-	-	73,449
Buildings and leasehold improvements	5,000,940	244,220	-	-	5,245,160
Fixed equipment	338,567	49,036	-	-	387,603
Major moveable equipment	<u>2,685,001</u>	<u>245,159</u>	<u>(10,539)</u>	<u>-</u>	<u>2,919,621</u>
	<u>8,094,781</u>	<u>541,591</u>	<u>(10,539)</u>	<u>-</u>	<u>8,625,833</u>
Capital Assets, Net	<u>\$3,286,168</u>	<u>\$ (283,821)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,002,347</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**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 7: Long-term Debt**

The following is a summary of long-term debt transactions for the Hospital for the years ended December 31, 2010 and 2009:

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

	<b>2009</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable – county – 2006	\$ 211,200	\$ -	\$ 26,400	\$ 184,800	\$ 26,400
Note payable – county – 2009	-	300,000	-	300,000	30,000
Capital lease payable	93,519	26,294	36,657	83,156	43,829
Total long-term debt	<u>\$ 304,719</u>	<u>\$ 326,294</u>	<u>\$ 63,057</u>	<u>\$ 567,956</u>	<u>\$ 100,229</u>

**Note Payable – County – 2006**

The note payable – county – 2006 consists of an agreement with Gove 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**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

The debt service requirements as of December 31, 2010, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 26,400	\$ 26,400	\$ -
2012	26,400	26,400	-
2013	26,400	26,400	-
2014	26,400	26,400	-
2015	26,400	26,400	-
2016	26,400	26,400	-
	<u>\$ 158,400</u>	<u>\$ 158,400</u>	<u>\$ -</u>

**Note Payable – County – 2009**

The note payable – county – 2009 consists of an agreement with Gove County to repay on its behalf revenue bonds in the original amount of \$300,000 dated November 1, 2009. These bonds were purchased in their entirety by Western Cooperative Electric at their par value with no interest due on these bonds pursuant to a Rural Economic Development Loan and Grant Program. The proceeds from this loan were used to construct a water therapy pool building at the Hospital. The bonds are payable in annual installments through November 1, 2019. The Hospital is required to make annual payments of \$30,000 to the debt service fund held by the trustee and maintain separate accounts for principal and interest payments. The Hospital failed to segregate these funds during the year, which is a violation of the debt covenants. The owner of the bonds may require and compel the Hospital to comply with the above provision of the Bond Resolution. The debt service requirements as of December 31, 2010, are as follows:

<b>Year Ending December 31,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2011	\$ 30,000	\$ 30,000	\$ -
2012	30,000	30,000	-
2013	30,000	30,000	-
2014	30,000	30,000	-
2015	30,000	30,000	-
2016 – 2020	120,000	120,000	-
	<u>\$ 270,000</u>	<u>\$ 270,000</u>	<u>\$ -</u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

***Capital Lease Obligations***

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2010 and 2009, totaled \$82,602 and \$109,918, respectively, net of accumulated depreciation of \$53,979 and \$26,663, respectively. The related capital assets are pledged against the lease. The following is a schedule by year of future minimum lease payments under capital leases including interest rates from 4.77% to 7% together with the present value of the future minimum lease payments as of December 31, 2010.

**Year Ending December 31,**

2011	\$	43,274
Total minimum lease payments		43,274
Less amount representing interest		3,947
Present value of future minimum lease payments	\$	39,327

**Note 8: Operating Leases**

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

Future minimum lease payments at December 31, 2010, were:

**Year Ending December 31,**

2011		\$ 129,648
2012		121,875
2013		65,704
Future minimum lease payments	\$	317,227

**Gove County Medical Center**  
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**Notes to Financial Statements**  
**December 31, 2010 and 2009**

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

	<b>2010</b>	<b>2009</b>
Minimum rentals	\$ 129,495	\$ 137,624

**Note 9: Restricted Net Assets**

At December 31, 2010 and 2009, restricted expendable net assets were available for the following purposes:

	<b>2010</b>	<b>2009</b>
Capital asset acquisitions	\$ -	\$ 225,915

**Note 10: 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.

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

***Funding Policy***

The authority to establish and amend requirements of plan members and the Hospital is set forth by the Kansas Legislature with the concurrence of the Governor. Plan members are required to contribute 4% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 6.14%, 6.54% and 5.93% of annual covered payroll for 2010, 2009 and 2008, respectively. The Hospital's contributions to the plan for 2010, 2009 and 2008, were \$357,454, \$264,210 and \$227,547, respectively, which equaled the required contributions for each year. State law limits the Hospital's future contribution rate increases to a maximum of 0.6%.

**Note 11: 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 12: 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 of our 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.

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Notes to Financial Statements**  
**December 31, 2010 and 2009**

**Note 13: Subsequent Events**

***Medicaid Provider Assessment***

On February 2, 2011, the Centers for Medicare and Medicaid Services (CMS) approved a Medicaid State Plan amendment which provides for additional funds to be paid to operators of long-term care facilities. The Kansas Department on Aging has estimated the additional net receipts for the Hospital to be approximately \$131,000. These receipts are expected to begin in March, 2011.

## **Supplementary Information**

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Net Patient Service Revenue**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>		<b>Total</b>
	<b>Inpatient</b>	<b>Outpatient</b>	
Hospital nursing service	\$ 1,643,280	\$ -	\$ 1,643,280
Nursery	49,990	-	49,990
Long-term care	2,791,010	-	2,791,010
Operating room	271,419	1,259,564	1,530,983
Delivery room	73,058	-	73,058
Anesthesiology	58,843	152,841	211,684
Radiology	502,908	1,139,783	1,642,691
Laboratory	800,462	1,066,958	1,867,420
Respiratory therapy	253,110	13,881	266,991
Physical therapy	160,376	415,429	575,805
Occupational therapy	71,656	54,723	126,379
Speech therapy	10,200	16,430	26,630
Electrocardiology	27,111	75,866	102,977
Cardiac rehabilitation	-	60,615	60,615
Medical supplies	318,204	95,627	413,831
Pharmacy	1,620,131	841,245	2,461,376
Orthopedic, urology and ENT clinic	-	53,473	53,473
Emergency room	40,732	402,971	443,703
Observation	7,383	27,903	35,286
Home health agency	-	16,017	16,017
Independent living	113,807	-	113,807
	<u>\$ 8,813,680</u>	<u>\$ 5,693,326</u>	14,507,006
Provision for uncollectible accounts			161,482
Contractual allowances and charity care			<u>3,526,931</u>
Net patient service revenue			<u>\$ 10,818,593</u>

<b>2009</b>		
<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>
\$ 1,592,855	\$ -	\$ 1,592,855
49,850	-	49,850
2,660,642	-	2,660,642
270,675	1,052,196	1,322,871
79,450	-	79,450
60,516	136,134	196,650
442,683	1,059,583	1,502,266
797,500	1,042,976	1,840,476
175,060	13,345	188,405
135,519	377,422	512,941
53,618	69,316	122,934
3,745	6,140	9,885
27,833	66,746	94,579
-	43,815	43,815
215,551	79,109	294,660
1,500,300	1,067,047	2,567,347
-	43,846	43,846
42,004	331,461	373,465
2,943	46,810	49,753
-	17,376	17,376
110,304	-	110,304
<b>\$ 8,221,048</b>	<b>\$ 5,453,322</b>	<b>13,674,370</b>
		175,749
		<b>3,089,619</b>
		<b>\$ 10,409,002</b>



**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Contractual Allowances, Charity Care and Other Operating Revenues**  
**Years Ended December 31, 2010 and 2009**

**Contractual Allowances and Charity Care**

	<u>2010</u>	<u>2009</u>
<b>Charity Care</b>	\$ 59,389	\$ 58,030
<b>Contractual Allowances</b>		
Medicare and Medicaid – Hospital	2,215,391	1,885,501
Blue Cross – Hospital	821,095	793,509
Commercial insurance – Hospital	179,541	181,123
Medicaid – long-term care facility	154,751	113,162
Administrative adjustments	<u>96,764</u>	<u>58,294</u>
	<u>\$ 3,526,931</u>	<u>\$ 3,089,619</u>

**Other Operating Revenues**

	<u>2010</u>	<u>2009</u>
Day care revenue	\$ 76,199	\$ 65,878
Cafeteria sales	43,810	43,206
Rent	49,800	49,750
Guest meals	7,996	8,760
Gain on sale of assets	(4,121)	3,000
Miscellaneous	<u>15,913</u>	<u>20,496</u>
	<u>\$ 189,597</u>	<u>\$ 191,090</u>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Operating Expenses**  
**Years Ended December 31, 2010 and 2009**

	<b>2010</b>		
	<b>Salaries</b>	<b>Other</b>	<b>Total</b>
Hospital nursing service	\$ 1,140,611	\$ 172,783	\$ 1,313,394
Nursery	24,881	9,149	34,030
Long-term care	1,286,946	269,557	1,556,503
Operating room	130,508	37,993	168,501
Delivery room	23,799	4,132	27,931
Anesthesiology	-	3,412	3,412
Radiology	173,672	372,731	546,403
Laboratory	275,551	349,232	624,783
Respiratory therapy	139,081	41,340	180,421
Physical therapy	152,415	69,409	221,824
Occupational therapy	-	60,057	60,057
Speech therapy	-	21,098	21,098
Electrocardiology	5,296	853	6,149
Cardiac rehabilitation	35,209	7,412	42,621
Medical supplies	25,649	92,346	117,995
Pharmacy	10,901	737,732	748,633
Orthopedic, urology and ENT clinic	14,553	858	15,411
Emergency room	34,030	148,684	182,714
Home health agency	6,870	8,986	15,856
Depreciation and amortization	-	488,190	488,190
Employee benefits	-	1,916,702	1,916,702
Administrative and general	803,669	347,910	1,151,579
Operation of plant	163,787	264,313	428,100
Laundry and linen	96,570	8,092	104,662
Housekeeping	200,343	45,368	245,711
Dietary	353,618	196,809	550,427
Nursing service administration	177,896	4,204	182,100
Purchasing	48,751	3,424	52,175
Medical records	134,906	48,932	183,838
Nonphysician anesthetists	-	195,735	195,735
Auxiliary	-	1,458	1,458
	<u>\$ 5,459,512</u>	<u>\$ 5,928,901</u>	<u>\$ 11,388,413</u>

<b>2009</b>		
<b>Salaries</b>	<b>Other</b>	<b>Total</b>
\$ 1,057,953	\$ 121,737	\$ 1,179,690
21,023	2,197	23,220
1,199,629	352,026	1,551,655
136,174	55,084	191,258
19,279	2,462	21,741
-	3,802	3,802
175,604	346,253	521,857
306,793	386,636	693,429
123,460	1,391	124,851
147,673	68,739	216,412
-	63,856	63,856
-	5,889	5,889
3,830	475	4,305
32,785	9,251	42,036
25,084	59,927	85,011
11,001	785,888	796,889
16,953	1,716	18,669
34,421	131,463	165,884
7,371	14,021	21,392
-	542,567	542,567
-	1,601,717	1,601,717
763,646	374,791	1,138,437
164,364	264,900	429,264
99,224	16,121	115,345
198,270	42,907	241,177
380,632	222,361	602,993
143,169	3,087	146,256
46,626	3,659	50,285
123,953	46,019	169,972
-	218,174	218,174
-	2,043	2,043
<b>\$ 5,238,917</b>	<b>\$ 5,751,159</b>	<b>\$ 10,990,076</b>

**Gove County Medical Center**  
**A Component Unit of Gove County, Kansas**  
**Insurance Coverage**  
**Years Ended December 31, 2010 and 2009**

**Kansas Medical Mutual Insurance Company (KAMMCO)**

Policy No. HPL0015072, expiring January 1, 2011

A. Professional Liability	
1. Hospital Limits	
a. Each Claim	\$ 200,000
b. Annual Aggregate	600,000
2. Health Care Stabilization Fund	
a. Each Claim	300,000
b. Annual Aggregate	900,000
3. Additional Insureds - employees, students, volunteers	
a. Each Claim	1,000,000
b. Annual Aggregate	3,000,000
B. Commercial General Liability	
a. Bodily Injury or Property Damage Liability	1,000,000
b. Annual Aggregate	3,000,000
c. Fire Legal Liability	50,000
C. Employee Benefits Liability	
a. Each Claim	250,000
b. Annual Aggregate	250,000

**Kansas Hospital Workers' Compensation Fund**

Certificate No. 86, expiring January 1, 2011

Bodily injury by accident	500,000
Bodily injury by disease	500,000
Policy limit	500,000

**Regent Insurance Company**

Policy No. CFE 0706416, expiring June 1, 2011

Blanket building and contents value	29,689,359
Property deductible	5,000
Equipment Breakdown Deductible	5,000
Business Income and Extra Expense	12,651,000

Policy No. CBA 07064141, expiring June 1, 2011

Commercial automobile liability	1,000,000
Commercial automobile liability - uninsured motorist	1,000,000
Medical payments	5,000

Policy No. CSC 0706415, expiring June 1, 2011

Employee dishonesty	50,000
Forgery or alterations	50,000
Computer fraud	50,000

Policy No. CSC 0753240, expiring October 15, 2011

Builders Risk Coverage	505,000
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