

Graham County Hospital
A Component Unit of Graham County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2012 and 2011



Graham County Hospital
A Component Unit of Graham County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Graham County Hospital
Hill City, Kansas

We have audited the accompanying financial statements of Graham County Hospital, a component unit of Graham County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of revenues, 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 Graham County Hospital as of December 31, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity 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
May 31, 2013

Graham County Hospital
A Component Unit of Graham County, Kansas
Balance Sheets
December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash	\$ 122,512	\$ 90,179
Cash and cash equivalents - internally designated	1,545,041	1,016,740
Patient accounts receivable, net of allowance; 2012 - \$462,000, 2011 - \$912,000	1,017,627	1,207,172
Other receivables	9,000	-
Estimated amounts due from third-party payers	385,000	150,000
Supplies	164,485	166,102
Prepaid expenses	<u>70,127</u>	<u>62,311</u>
Total current assets	<u>3,313,792</u>	<u>2,692,504</u>
Capital Assets, Net	<u>2,254,534</u>	<u>2,235,251</u>
Other Assets		
Noncurrent investments	74,841	74,824
Advances to physicians	<u>60,000</u>	<u>-</u>
	<u>134,841</u>	<u>74,824</u>
Total assets	<u><u>\$ 5,703,167</u></u>	<u><u>\$ 5,002,579</u></u>

	2012	2011
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 7,852	\$ 70,388
Accounts payable	101,901	199,890
Accrued expenses	516,921	478,732
Estimated amounts due to third-party payers	-	50,000
	<hr/>	<hr/>
Total current liabilities	626,674	799,010
 Long-term Debt	 -	 7,852
	<hr/>	<hr/>
Total liabilities	626,674	806,862
	<hr/>	<hr/>
Net Position		
Investment in capital assets	2,246,682	2,133,057
Restricted - nonexpendable	64,714	64,714
Unrestricted	2,765,097	1,997,946
	<hr/>	<hr/>
Total net position	5,076,493	4,195,717
	<hr/>	<hr/>
Total liabilities and net position	\$ 5,703,167	\$ 5,002,579
	<hr/> <hr/>	<hr/> <hr/>

Graham County Hospital
A Component Unit of Graham County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$180,316, 2011 - \$284,209	\$ 7,359,055	\$ 7,101,810
Other	<u>327,546</u>	<u>297,177</u>
Total operating revenues	<u>7,686,601</u>	<u>7,398,987</u>
Operating Expenses		
Salaries and wages	3,975,901	3,918,508
Employee benefits	1,263,068	1,181,582
Purchased services and professional fees	955,745	812,032
Other supplies and expenses	1,508,642	1,525,522
Depreciation	<u>418,388</u>	<u>297,171</u>
Total operating expenses	<u>8,121,744</u>	<u>7,734,815</u>
Operating Loss	<u>(435,143)</u>	<u>(335,828)</u>
Nonoperating Revenues (Expenses)		
Intergovernmental revenue	1,186,170	852,481
Interest income	11,059	6,768
Interest expense	(3,038)	(10,508)
Noncapital grants and gifts	<u>121,728</u>	<u>63,625</u>
Total nonoperating revenues	<u>1,315,919</u>	<u>912,366</u>
Increase in Net Position	880,776	576,538
Net Position, Beginning of Year	<u>4,195,717</u>	<u>3,619,179</u>
Net Position, End of Year	<u><u>\$ 5,076,493</u></u>	<u><u>\$ 4,195,717</u></u>

Graham County Hospital
A Component Unit of Graham County, Kansas
Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,254,600	\$ 7,323,324
Payments to suppliers and contractors	(2,544,621)	(2,263,205)
Payments to employees	(5,200,780)	(5,072,944)
Other receipts, net	<u>322,346</u>	<u>296,545</u>
Net cash provided by (used in) operating activities	<u>(168,455)</u>	<u>283,720</u>
Noncapital Financing Activities		
Intergovernmental revenue supporting operations	1,186,170	852,481
Noncapital grants and gifts	<u>121,728</u>	<u>63,625</u>
Net cash provided by noncapital financing activities	<u>1,307,898</u>	<u>916,106</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(70,388)	(82,087)
Interest paid on long-term debt	(3,038)	(10,508)
Proceeds from sale of assets	5,200	632
Purchases of capital assets	<u>(461,625)</u>	<u>(278,869)</u>
Net cash used in capital and related financing activities	<u>(529,851)</u>	<u>(370,832)</u>
Investing Activities		
Interest income received	11,059	6,768
Net change in scholarship receivable	(17)	(209)
Advances to physician	<u>(60,000)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(48,958)</u>	<u>6,559</u>
Increase in Cash and Cash Equivalents	560,634	835,553
Cash and Cash Equivalents, Beginning of Year	<u>1,106,919</u>	<u>271,366</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,667,553</u></u>	<u><u>\$ 1,106,919</u></u>

Graham County Hospital
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Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Net Operating Revenues (Expenses)		
to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (435,143)	\$ (335,828)
Depreciation	418,388	297,171
Gain on sale of assets	(5,200)	(632)
Provision for uncollectible accounts	180,316	284,209
Changes in operating assets and liabilities		
Patient accounts receivable	9,229	(112,405)
Estimated amounts due from and to third-party payers	(285,000)	49,710
Accounts payable and accrued expenses	(35,846)	79,509
Other assets and liabilities	(15,199)	21,986
	<u>\$ (168,455)</u>	<u>\$ 283,720</u>
Reconciliation of Cash and Cash Equivalents		
to the Balance Sheets		
Cash in current assets	\$ 122,512	\$ 90,179
Cash and cash equivalents - internally designated	<u>1,545,041</u>	<u>1,016,740</u>
	<u>\$ 1,667,553</u>	<u>\$ 1,106,919</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ -	\$ 23,954

Graham County Hospital
A Component Unit of Graham 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

Graham County Hospital (Hospital) is an acute care hospital located in Hill City, Kansas. The Hospital is a component unit of Graham County (County), and governed by an elected five-member Board of Trustees. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Graham 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 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 bank money market accounts.

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Intergovernmental Revenue

The Hospital received approximately 14% and 10% in 2012 and 2011, respectively, of its financial support from intergovernmental and sales tax revenue derived from county wide property levy and a sales tax devoted to health care. The Hospital requests sales tax funds from the County on an as needed basis. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Intergovernmental revenue from transfers of both property and sales taxes are recognized in full in the year in which use is first permitted.

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; 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

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient 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 for uncollectible accounts and a provision for uncollectible accounts, if necessary.

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 and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Supplies

Supply inventories are stated at the lower of cost, determined using the average cost method.

Graham County Hospital
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December 31, 2012 and 2011

Noncurrent Investments

Noncurrent investments include land and assets set aside by the Board of Trustees for future capital improvements, scholarships and operations over which the Board of Trustees retains control and may at its direction subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

Capital Assets

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

Land improvements	5 – 20 years
Buildings	5 – 40 years
Equipment	3 – 20 years

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date 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 are 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 nonexpendable net position are assets that are required to be maintained in perpetuity as specified by parties 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 and restricted non-expendable.

Graham County Hospital
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Notes to Financial Statements
December 31, 2012 and 2011

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.

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.

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.

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.

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Notes to Financial Statements
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The Hospital has not yet completed the first-year requirements under either the Medicare and Medicaid programs and no amounts are recorded as revenue in the years ended December 31, 2012 and 2011.

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.

Note 2: 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. This provision for uncollectible accounts is presented on the statement of revenues, expenses and changes in net position as a component of 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), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. Medicare Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. 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. Medicaid Rural Health Clinic services are reimbursed under a cost-based methodology. The Hospital and Rural Health Clinic are 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.

Graham County Hospital
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Notes to Financial Statements
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Approximately 64% and 66% of net patient service revenue are 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, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

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.

Graham County Hospital
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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 \$1,676,597 and \$1,133,050, respectively, were exposed to custodial credit risk.

Summary of Carrying Values

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

	<u>2012</u>	<u>2011</u>
Carrying value		
Deposits	<u>\$ 1,667,553</u>	<u>\$ 1,106,919</u>
Included in the following balance sheet captions		
Cash	\$ 122,512	\$ 90,179
Cash and cash equivalents - internally designated	<u>1,545,041</u>	<u>1,016,740</u>
	<u><u>\$ 1,667,553</u></u>	<u><u>\$ 1,106,919</u></u>

Graham County Hospital
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Note 4: Patient Accounts Receivable

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

	2012	2011
Medicare	\$ 590,582	\$ 679,764
Medicaid	30,361	51,184
Other third-party payers	266,516	314,001
Patients	592,168	1,074,223
	<u>1,479,627</u>	<u>2,119,172</u>
Less allowance for uncollectible accounts	<u>462,000</u>	<u>912,000</u>
	<u><u>\$ 1,017,627</u></u>	<u><u>\$ 1,207,172</u></u>

Note 5: Noncurrent Investments

The Hospital has assets which are either restricted by donors or designated by the Board of Trustees and consisted of the following as of December 31:

	2012	2011
Pasture land and improvements	\$ 64,714	\$ 64,714
Scholarship receivable	<u>10,127</u>	<u>10,110</u>
	<u><u>\$ 74,841</u></u>	<u><u>\$ 74,824</u></u>

Graham County Hospital
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Note 6: Capital Assets

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

2012					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 25,779	\$ -	\$ -	\$ -	\$ 25,779
Land improvements	73,382	-	-	-	73,382
Buildings	3,313,824	-	-	-	3,313,824
Equipment	2,835,472	43,106	(78,977)	442,101	3,241,702
Construction in progress	47,536	394,565	-	(442,101)	-
	<u>6,295,993</u>	<u>437,671</u>	<u>(78,977)</u>	<u>-</u>	<u>6,654,687</u>
Less accumulated depreciation					
Land improvements	67,855	1,151	-	-	69,006
Buildings	1,798,632	77,813	-	-	1,876,445
Equipment	2,194,255	339,424	(78,977)	-	2,454,702
	<u>4,060,742</u>	<u>418,388</u>	<u>(78,977)</u>	<u>-</u>	<u>4,400,153</u>
Capital assets, net	<u>\$ 2,235,251</u>	<u>\$ 19,283</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,254,534</u>

2011					
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 25,779	\$ -	\$ -	\$ -	\$ 25,779
Land improvements	73,382	-	-	-	73,382
Buildings	3,302,609	11,215	-	-	3,313,824
Equipment	2,614,605	244,072	(23,205)	-	2,835,472
Construction in progress	-	47,536	-	-	47,536
	<u>6,016,375</u>	<u>302,823</u>	<u>(23,205)</u>	<u>-</u>	<u>6,295,993</u>
Less accumulated depreciation					
Land improvements	66,663	1,192	-	-	67,855
Buildings	1,713,390	85,242	-	-	1,798,632
Equipment	2,006,723	210,737	(23,205)	-	2,194,255
	<u>3,786,776</u>	<u>297,171</u>	<u>(23,205)</u>	<u>-</u>	<u>4,060,742</u>
Capital assets, net	<u>\$ 2,229,599</u>	<u>\$ 5,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,235,251</u>

Graham County Hospital
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Note 7: Medical Malpractice Coverage and 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 only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

Note 8: 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% or 6% of their annual covered salary. The Hospital is required to contribute at an actuarially determined rate; the rate was 8.34%, 7.74% and 7.14% of annual covered payroll for 2012, 2011 and 2010, respectively. The Hospital's contributions to the plan for 2012, 2011 and 2010, were \$288,871, \$265,717 and \$251,180, 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% per year.

Graham County Hospital
A Component Unit of Graham County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

Note 9: 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

Graham County Hospital
A Component Unit of Graham County, Kansas
Net Patient Service Revenue
Years Ended December 31, 2012 and 2011

	2012		
	Inpatient	Outpatient	Total
Nursing, dietary and room services			
Acute hospital	\$ 1,109,115	\$ -	\$ 1,109,115
Swing-beds	411,900	-	411,900
Observation	-	152,771	152,771
Operating room	4,265	14,202	18,467
Anesthesia	5,445	34,077	39,522
Anesthesia supplies	125	650	775
Radiology	59,678	300,756	360,434
Mammography	-	33,948	33,948
Ultrasound	11,398	113,622	125,020
Nuclear medicine	687	98,959	99,646
Computerized tomography	105,865	352,405	458,270
Magnetic resonance imaging	17,825	273,147	290,972
Laboratory	246,975	1,210,706	1,457,681
Blood administration	3,990	4,275	8,265
Physical therapy	110,233	950,166	1,060,399
Speech therapy	-	-	-
Electrocardiology	131,534	696,251	827,785
Central supply	106,396	26,838	133,234
Pharmacy	352,849	633,697	986,546
Cardiac rehabilitation	-	-	-
Outpatient clinics	-	31,463	31,463
Emergency room	-	1,491,194	1,491,194
Rural health clinic	-	1,726,103	1,726,103
	<u>\$ 2,678,280</u>	<u>\$ 8,145,230</u>	10,823,510
Provision for uncollectible accounts			180,316
Less contractual allowances and charity care			<u>3,284,139</u>
Net patient service revenue			<u>\$ 7,359,055</u>

2011		
Inpatient	Outpatient	Total
\$ 1,226,495	\$ -	\$ 1,226,495
505,240	-	505,240
1,040	68,481	69,521
3,575	29,266	32,841
11,244	50,931	62,175
-	1,375	1,375
78,513	310,245	388,758
-	40,278	40,278
8,954	128,878	137,832
653	108,680	109,333
112,800	354,894	467,694
17,050	233,522	250,572
255,252	1,104,045	1,359,297
8,170	1,167	9,337
74,957	635,370	710,327
2,240	5,110	7,350
181,857	639,913	821,770
318,472	26,466	344,938
281,171	407,427	688,598
-	560	560
-	40,550	40,550
-	1,185,213	1,185,213
-	1,474,441	1,474,441
<u>\$ 3,087,683</u>	<u>\$ 6,846,812</u>	9,934,495
		284,209
		<u>2,548,476</u>
		<u>\$ 7,101,810</u>

Graham County Hospital
A Component Unit of Graham County, Kansas
Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Contractual Allowances and Charity Care		
Charity care	\$ 20,630	\$ 37,457
Contractual allowances		
Medicare	1,944,491	1,653,753
Medicaid	313,434	238,178
Blue Cross	570,034	458,345
Other	<u>435,550</u>	<u>160,743</u>
	<u>\$ 3,284,139</u>	<u>\$ 2,548,476</u>
 Other Operating Revenues		
Cafeteria sales	\$ 5,015	\$ 6,255
Other meals sales	235,062	215,742
Medical records transcript fees	2,160	2,517
Medical supplies sold	3,939	4,105
Lifeline	14,022	17,435
Laundry services	31,068	24,112
Miscellaneous	<u>36,280</u>	<u>27,011</u>
	<u>\$ 327,546</u>	<u>\$ 297,177</u>

Graham County Hospital
A Component Unit of Graham County, Kansas
Operating Expenses
Years Ended December 31, 2012 and 2011

	2012		
	Salaries	Other	Total
Nursing service	\$ 886,856	\$ 469,492	\$ 1,356,348
Operating room and recovery room	-	10,379	10,379
Anesthesia	-	21,214	21,214
Anesthesia supplies	-	8,081	8,081
Radiology	158,399	136,272	294,671
Mammography	-	22,110	22,110
Ultrasound	-	41,100	41,100
Nuclear medicine	-	59,928	59,928
Computerized tomography	-	99,674	99,674
Magnetic resonance imaging	-	114,415	114,415
Laboratory	189,150	380,450	569,600
Blood administration	-	12,353	12,353
Physical therapy	255,476	114,842	370,318
Speech therapy	-	300	300
Electrocardiology	34,545	127,166	161,711
Central supply	58,832	109,883	168,715
Pharmacy	56,383	464,693	521,076
Outpatient clinics	-	3,920	3,920
Emergency room	165,611	47,990	213,601
Rural health clinic	978,635	427,491	1,406,126
Lifeline	-	11,884	11,884
Wellness	-	334	334
Depreciation	-	91,100	91,100
Employee benefits	70,246	94,468	164,714
Administration and general	355,312	574,494	929,806
Plant operation	88,540	190,731	279,271
Laundry and linen	71,028	58,159	129,187
Housekeeping	95,290	73,148	168,438
Dietary	238,352	265,044	503,396
Nursing administration	166,359	46,433	212,792
Medical records	106,887	68,295	175,182
	<u>\$ 3,975,901</u>	<u>\$ 4,145,843</u>	<u>\$ 8,121,744</u>

2011		
Salaries	Other	Total
\$ 868,993	\$ 360,115	\$ 1,229,108
1,959	7,733	9,692
-	31,636	31,636
-	6,868	6,868
157,260	120,404	277,664
-	25,561	25,561
-	48,560	48,560
-	57,885	57,885
-	120,272	120,272
-	88,200	88,200
183,673	299,177	482,850
-	10,834	10,834
232,142	84,475	316,617
-	3,963	3,963
33,058	125,474	158,532
56,052	103,767	159,819
51,696	404,947	456,643
667	7,143	7,810
163,358	28,995	192,353
924,920	373,585	1,298,505
-	14,577	14,577
-	161	161
-	98,087	98,087
67,893	87,019	154,912
421,407	631,661	1,053,068
85,016	208,159	293,175
74,325	47,737	122,062
114,336	74,754	189,090
222,629	242,840	465,469
156,728	43,133	199,861
102,396	58,585	160,981
<u>\$ 3,918,508</u>	<u>\$ 3,816,307</u>	<u>\$ 7,734,815</u>