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

BKD LLP
CPAs & Advisors

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

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Independent Auditor's Report

Board of Trustees
Osborne County Memorial Hospital
Osborne, Kansas

We have audited the accompanying financial statements of Osborne County Memorial Hospital, a component unit of Osborne 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 and Accounting 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 Osborne County Memorial 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 accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

BKD, LLP

Wichita, Kansas
November 5, 2013

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

Assets

	2012	2011
Current Assets		
Cash	$ 192,751	$ 97,683
Patient accounts receivable, net	764,327	1,258,340
Estimated amounts due from third-party payers	11,995	41,000
Outside service receivables	122,706	165,612
Taxes receivable	180,091	125,570
Supplies	104,779	109,784
Prepaid expenses	46,157	24,690
Total current assets	1,422,806	1,822,679
Noncurrent Cash and Investments		
Designated by Board of Trustees for capital acquisitions	325,705	620,590
Restricted by donors	61,834	122,486
Interest in assets at Greater Salina Community Foundation	53,464	-
	441,003	743,076
Capital Assets, Net	1,074,201	1,233,219
Total assets	$ 2,938,010	$ 3,798,974

See Notes to Financial Statements

Liabilities and Net Position

	2012	2011
Current Liabilities		
Current maturities of capital lease obligations	$ 76,087	$ 76,310
Accounts payable	334,599	173,520
Salaries payable	168,883	160,587
Payroll taxes payable	75,790	70,398
Accrued benefits payable	133,896	133,227
Estimated amounts due to third-party payers	-	750,000
Total current liabilities	789,255	1,364,042
Capital Lease Obligations	203,961	286,256
Total liabilities	993,216	1,650,298
Net Position		
Net investment in capital assets	794,153	870,653
Restricted-expendable for		
Capital acquisitions and specific operating activities	61,834	122,486
Unrestricted	1,088,807	1,155,537
Total net position	1,944,794	2,148,676
Total liabilities and net position	$ 2,938,010	$ 3,798,974

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

	2012	2011
Operating Revenues		
Net patient service revenue	$ 4,497,081	$ 4,289,045
Nonpatient meals	23,488	22,185
Other	38,694	28,917
Total operating revenues	4,559,263	4,340,147
Operating Expenses		
Salaries and wages	2,724,377	2,411,074
Supplies and other	2,804,302	2,376,185
Depreciation	211,878	175,432
Total operating expenses	5,740,557	4,962,691
Operating Loss	(1,181,294)	(622,544)
Nonoperating Revenues (Expenses)		
Property taxes	185,037	181,000
Sales tax	550,714	550,953
Interest income	4,541	1,345
Noncapital grants and gifts	238,160	35,962
Interest expense	(1,040)	(12,092)
Loss on disposal of capital assets	-	(11,464)
Total nonoperating revenues (expenses)	977,412	745,704
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	(203,882)	123,160
Capital Grants and Gifts	-	82,140
Increase (Decrease) in Net Position	(203,882)	205,300
Net Position, Beginning of Year	2,148,676	1,943,376
Net Position, End of Year	$ 1,944,794	$ 2,148,676

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

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	$ 4,270,099	$ 4,509,196
Payments to suppliers and contractors	(2,616,779)	(2,555,733)
Payments to employees	(2,710,020)	(2,398,440)
Other receipts, net	62,182	51,102
Net cash used in operating activities	(994,518)	(393,875)
Noncapital Financing Activities		
Property taxes	120,016	181,000
Sales tax	561,214	505,843
Noncapital grants and gifts	238,160	35,962
Net cash provided by noncapital financing activities	919,390	722,805
Capital and Related Financing Activities		
Capital grants and contributions	-	163,956
Principal paid on capital lease obligations	(82,518)	(103,426)
Interest paid on capital lease obligations	(1,040)	(12,092)
Purchases of capital assets	(52,860)	(159,461)
Proceeds on disposal of capital assets	-	21,501
Net cash used in capital and related financing activities	(136,418)	(89,522)
Investing Activities		
Interest income	1,077	1,345
Investment in Greater Salina Community Foundation	(50,000)	-
Net cash provided by (used in) investing activities	(48,923)	1,345
Increase (Decrease) in Cash	(260,469)	240,753
Cash, Beginning of Year	840,759	600,006
Cash, End of Year	$ 580,290	$ 840,759
Reconciliation of Cash to the Balance Sheets		
Cash	$ 192,751	$ 97,683
Cash in noncurrent assets	387,539	743,076
Total cash	$ 580,290	$ 840,759

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,181,294)	$ (622,544)
Depreciation	211,878	175,432
Provision for uncollectible accounts	197,190	182,797
Change in operating assets and liabilities		
Patient accounts receivable	296,823	(969,646)
Estimated amounts due to/from third-party payers	(720,995)	1,007,000
Outside service receivables	42,906	(34,717)
Supplies	5,005	(23,439)
Prepaid expenses	(21,467)	18,823
Accounts payable and accrued expenses	175,436	(127,581)
Net cash used in operating activities	$ (994,518)	$ (393,875)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	$ -	$ 360,374

Osborne County Memorial Hospital
A Component Unit of Osborne 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

Osborne County Memorial Hospital (Hospital) is located in Osborne, Kansas. The Hospital is a component unit of Osborne 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 and emergency care services to patients in the Osborne County area. The Hospital is managed by Great Plains Health Alliance, Inc. (GPHA) (*Note 10*).

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 (principally tax appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as tax appropriations), interest 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. There were no cash equivalents at December 31, 2012 and 2011.

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

Property Taxes and Sales Tax

The Hospital received approximately 13% and 14% of its financial support in 2012 and 2011, respectively, from property taxes and sales tax revenue. Revenue from property and sales taxes is recognized in the year for which the taxes are levied.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability 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 for uncollectible accounts and a 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).

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 balances in excess of 120 days (excluding Medicare accounts) outstanding from the date of discharge or service.

Supplies

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

Capital Assets

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

Land improvements	10-25 years
Buildings	20-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 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. 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.

Net Position

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

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

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 entity, 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.

Reclassifications

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

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: 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 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, respectively, $137,539 and $460,896 of the Hospital's bank balances of $604,890 and $885,310 were exposed to custodial credit risk as follows:

	2012	2011
Collateral held by pledging financial institution in the Hospital's name	$ 137,539	$ 460,896

The carrying amounts of deposits included in the balance sheet captions were as follows at December 31, 2012 and 2011:

	2012	2011
Cash in current assets	$ 192,751	$ 97,683
Designated by Board of Trustees for capital acquisitions	325,705	620,590
Restricted by donors	61,834	122,486
	$ 580,290	$ 840,759

Note 3: 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. 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). Under CAH rules, inpatient acute care and skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of actual cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules. 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 at tentative rates with final settlements determined after submission of an annual cost report 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.

Approximately 78% and 73% 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 and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined case rates and discounts from established charges.

Accounts receivable recorded net of the allowance for uncollectible accounts and allowance for contractual adjustments at December 31, 2012 and 2011, was:

	2012	2011
Medicare	$ 524,433	$ 628,664
Medicaid	60,771	63,049
Blue Cross	255,200	194,955
Other third-party payers	88,599	94,359
Self-pay	117,197	131,150
	1,046,200	1,112,177
Allowance for uncollectible accounts	(231,064)	(140,764)
Allowance for contractual adjustments	(50,809)	286,927
	$ 764,327	$ 1,258,340

Net patient service revenue for the years ended December 31, 2012 and 2011, was:

	2012	2011
Gross patient service revenue	$ 5,307,148	$ 4,767,676
Plus (less):		
Contractual adjustments		
Medicare	111,422	93,615
Medicaid	(202,053)	35,966
Blue Cross	(403,445)	(339,078)
Other	(71,681)	(46,828)
Administrative adjustments	(39,784)	(29,055)
Charity care	(7,336)	(10,454)
Provision for uncollectible accounts	(197,190)	(182,797)
Net patient service revenue	$ 4,497,081	$ 4,289,045

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 currently indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

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 the PPACA's implementation.

Note 4: 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 arrangements. The mix of patient accounts receivable, net of the allowance for uncollectible accounts and contractual allowances at December 31, 2012 and 2011, was:

	2012	2011
Medicare	79%	78%
Medicaid	1	2
Blue Cross	7	11
Other third-party payers	3	3
Self-pay	10	6
	100%	100%

Note 5: Interest in Assets at Greater Salina Community Foundation

The Hospital entered into an Organization Fund Agreement (Agreement) in 2012 with the Greater Salina Community Foundation (Foundation). In connection with the 2012 agreement, the Foundation established the Osborne County Memorial Hospital Fund (Fund) and the Hospital transferred $50,000 to the Fund and retained a beneficial interest in those assets. Per the agreement, the Fund is to be held in perpetuity as a component fund of the Foundation with annual distributions from the Fund available for the benefit of the Osborne County Memorial Hospital. Changes in the interest are included in nonoperating revenue and totaled $3,464 in 2012.

Note 6: Capital Assets

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

	2012			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	$ 77,937	$ -	$ -	$ 77,937
Buildings	1,283,099	-	-	1,283,099
Fixed equipment	519,708	-	-	519,708
Moveable equipment	1,972,607	52,860	(18,195)	2,007,272
	3,853,351	52,860	(18,195)	3,888,016
Less accumulated depreciation				
Land improvements	(77,471)	(432)	-	(77,903)
Buildings	(848,605)	(33,873)	-	(882,478)
Fixed equipment	(368,538)	(16,077)	-	(384,615)
Moveable equipment	(1,325,518)	(161,496)	18,195	(1,468,819)
	(2,620,132)	(211,878)	18,195	(2,813,815)
Capital Assets, Net	$ 1,233,219	$ (159,018)	$ -	$ 1,074,201

	2011			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	$ 77,937	$ -	$ -	$ 77,937
Buildings	1,277,220	5,879	-	1,283,099
Fixed equipment	513,008	6,700	-	519,708
Moveable equipment	1,714,613	448,856	(190,862)	1,972,607
	3,582,778	461,435	(190,862)	3,853,351
Less accumulated depreciation				
Land improvements	(76,630)	(841)	-	(77,471)
Buildings	(813,812)	(34,793)	-	(848,605)
Fixed equipment	(350,936)	(17,602)	-	(368,538)
Moveable equipment	(1,361,219)	(122,196)	157,897	(1,325,518)
	(2,602,597)	(175,432)	157,897	(2,620,132)
Capital Assets, Net	$ 980,181	$ 286,003	$ (32,965)	$ 1,233,219

Note 7: Capital Lease Obligations

Capital lease obligation activity for the years ended December 31, 2012 and 2011, was:

	2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 362,566	$ -	$ (82,518)	$ 280,048	$ 76,087	$ 203,961

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	$ 105,618	$ 360,374	$ (103,426)	$ 362,566	$ 76,310	$ 286,256

A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2012 and 2011, follows:

	2012	2011
Equipment	$ 393,905	$ 393,905
Accumulated depreciation	(97,375)	(19,097)
	$ 296,530	$ 374,808

The following is a schedule by year of future minimum lease payments under the capital leases including interest at 8% together with the present value of the future minimum lease payments as of December 31, 2012:

Year Ending December 31,	
2013	$ 76,888
2014	71,977
2015	66,247
2016	54,767
2017	3,173
2018 - 2021	10,552
Total minimum lease payments	283,604
Less amount representing interest	3,556
Present value of future minimum lease payments	$ 280,048

Note 8: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Pension Plan

The Hospital maintains a 401(a) money purchase pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older who have completed one year of service and have been paid for 1,000 hours of service for the year. For any plan year in which the employee makes an elective deferral equal to 1% of annual compensation, the employer will match that 1% elective deferral of 1% of annual compensation. 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 to the employee's normal retirement date. For all employees who terminated from the Hospital prior to April 1, 2009, benefits vested after two years of service with full vesting after six years of service. All employees who contribute at least one hour of service on or after April 1, 2009, vest after one year of service with full vesting after four years of service. Contributions actually made by plan members totaled $74,025 and $63,240 in 2012 and 2011, respectively. Hospital contributions totaled $20,368 and $14,752 in 2012 and 2011, respectively.

Note 10: Management Agreement

The Board of Trustees of the Hospital has contracted with GPHA for various services, including management and data processing services. The management agreement can be canceled with 60 days' notice. Fees incurred for the various services provided by GPHA to the Hospital totaled $142,092 and $135,671 in 2012 and 2011, respectively. Amounts included in accounts payable related to these services totaled $85,301 and $22,536 at December 31, 2012 and 2011, respectively.

Note 11: 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:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *3*.

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.