

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Independent Accountants' Report and Financial Statements
December 31, 2011 and 2010



Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
December 31, 2011 and 2010

Contents

Independent Accountants' Report..... 1

Financial Statements

 Balance Sheets..... 2

 Statements of Revenues, Expenses and Changes in Net Assets 3

 Statements of Cash Flows 4

 Notes to Financial Statements 6

Independent Accountants' Report

Board of Trustees
Osborne County Memorial Hospital
Osborne, Kansas

We have audited the accompanying balance sheets of Osborne County Memorial Hospital, a component unit of Osborne County, Kansas, as of December 31, 2011 and 2010, 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 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 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 Osborne County Memorial Hospital as of December 31, 2011 and 2010, 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.

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

June 5, 2012

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	\$ 97,683	\$ 136,311
Patient accounts receivable, net	1,258,340	471,491
Estimated amounts due from third-party payers	41,000	298,000
Outside service receivables	165,612	130,895
Contributions receivable	-	81,816
Supplies	109,784	86,345
Prepaid expenses and other	150,260	123,973
Total current assets	1,822,679	1,328,831
 Noncurrent Cash		
Designated by Board of Trustees for capital acquisitions	620,590	446,598
Restricted by donors	122,486	17,097
	743,076	463,695
 Capital Assets, Net	1,233,219	980,181
Total assets	\$ 3,798,974	\$ 2,772,707

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of capital lease obligations	\$ 76,310	\$ 50,609
Accounts payable	173,520	372,135
Salaries payable	160,587	156,626
Payroll taxes payable	70,398	67,607
Accrued benefits payable	133,227	127,345
Estimated amounts due to third-party payers	750,000	-
	<hr/>	<hr/>
Total current liabilities	1,364,042	774,322
	<hr/>	<hr/>
Capital Lease Obligations	286,256	55,009
	<hr/>	<hr/>
Total liabilities	1,650,298	829,331
	<hr/>	<hr/>
Net Assets		
Invested in capital assets, net of related debt	870,653	816,163
Restricted-expendable for		
Capital acquisitions and specific operating activities	122,486	17,097
Unrestricted	1,155,537	1,110,116
	<hr/>	<hr/>
Total net assets	2,148,676	1,943,376
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 3,798,974</u>	<u>\$ 2,772,707</u>

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue	\$ 4,289,045	\$ 3,380,264
Nonpatient meals	22,185	18,004
Other	28,917	35,536
Total operating revenues	4,340,147	3,433,804
Operating Expenses		
Salaries and wages	2,411,074	2,079,893
Supplies and other	2,376,185	2,209,999
Depreciation	175,432	206,422
Total operating expenses	4,962,691	4,496,314
Operating Loss	(622,544)	(1,062,510)
Nonoperating Revenues (Expenses)		
Property taxes	181,000	180,111
Sales tax	550,953	454,339
Interest income	1,345	1,000
Noncapital grants and gifts	35,962	11,406
Interest expense	(12,092)	(19,433)
Gain (loss) on disposal of capital assets	(11,464)	272
Total nonoperating revenues (expenses)	745,704	627,695
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	123,160	(434,815)
Capital Grants and Gifts	82,140	81,816
Increase (Decrease) in Net Assets	205,300	(352,999)
Net Assets, Beginning of Year	1,943,376	2,296,375
Net Assets, End of Year	\$ 2,148,676	\$ 1,943,376

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 4,509,196	\$ 3,328,716
Payments to suppliers and contractors	(2,555,733)	(2,035,652)
Payments to employees	(2,398,440)	(2,027,936)
Other receipts, net	51,102	53,540
Net cash used in operating activities	(393,875)	(681,332)
Noncapital Financing Activities		
Property taxes	181,000	180,111
Sales tax	505,843	373,879
Noncapital grants and gifts	35,962	11,406
Net cash provided by noncapital financing activities	722,805	565,396
Capital and Related Financing Activities		
Capital grants and contributions	163,956	-
Principal paid on capital lease obligations	(103,426)	(60,006)
Interest paid on capital lease obligations	(12,092)	(19,433)
Purchases of capital assets	(159,461)	(52,442)
Proceeds on disposal of capital assets	21,501	500
Net cash used in capital and related financing activities	(89,522)	(131,381)
Investing Activities		
Interest income	1,345	1,000
Net cash provided by investing activities	1,345	1,000
Increase (Decrease) in Cash	240,753	(246,317)
Cash, Beginning of Year	600,006	846,323
Cash, End of Year	\$ 840,759	\$ 600,006
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 97,683	\$ 136,311
Cash in noncurrent assets	743,076	463,695
Total cash	\$ 840,759	\$ 600,006

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenue/Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (622,544)	\$ (1,062,510)
Depreciation	175,432	206,422
Provision for uncollectible accounts	182,797	218,642
Change in operating assets and liabilities		
Patient accounts receivable	(969,646)	614
Estimated amounts due to/from third-party payers	1,007,000	(198,000)
Outside service receivables	(34,717)	(72,804)
Supplies	(23,439)	(7,512)
Prepaid expenses and other	18,823	79,195
Accounts payable and accrued expenses	(127,581)	154,621
Net cash used in operating activities	\$ (393,875)	\$ (681,332)
Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 360,374	\$ 33,531
Capital assets acquisitions included in accounts payable	\$ -	\$ 58,400

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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 9*).

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 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), including those that were issued on and after 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.

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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, 2011 and 2010.

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

Property Taxes and Sales Tax

The Hospital received approximately 14% and 15% in 2011 and 2010, respectively, of its financial support 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).

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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.

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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.

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. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments 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.

The Hospital has not received or recognized any revenue for the incentive payments in the accompanying financial statements.

Subsequent Events

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

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, 2011 and 2010, respectively, \$460,896 and \$206,620 of the Hospital's bank balances of \$885,310 and \$599,914 were exposed to custodial credit risk as follows:

	2011	2010
Collateral held by pledging financial institution in the Hospital's name	\$ 460,896	\$ 206,620

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

The carrying amounts of deposits included in the balance sheet captions were as follows at December 31, 2011 and 2010:

	2011	2010
Cash in current assets	\$ 97,683	\$ 136,311
Designated by Board of Trustees for capital acquisitions	620,590	446,598
Restricted by donors	122,486	17,097
	\$ 840,759	\$ 600,006

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 assets 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.

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Approximately 73% and 78% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, was:

	2011	2010
Medicare	\$ 628,664	\$ 203,520
Medicaid	63,049	35,424
Blue Cross Blue Shield	194,955	108,326
Other third-party payers	94,359	87,546
Self-pay	131,150	150,255
	<u>1,112,177</u>	<u>585,071</u>
Allowance for uncollectible accounts	(140,764)	(96,975)
Allowance for contractual adjustments	286,927	(16,605)
	<u>\$ 1,258,340</u>	<u>\$ 471,491</u>

Net patient service revenue for the years ended December 31, 2011 and 2010, was:

	2011	2010
Gross patient service revenue	\$ 4,767,676	\$ 3,550,588
Plus (less):		
Contractual adjustments		
Medicare	93,615	442,732
Medicaid	35,966	(7,717)
Blue Cross	(339,078)	(321,556)
Other	(46,828)	(57,267)
Administrative adjustments	(29,055)	(6,994)
Charity care	(10,454)	(880)
Provision for uncollectible accounts	(182,797)	(218,642)
	<u>\$ 4,289,045</u>	<u>\$ 3,380,264</u>

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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, 2011 and 2010, was:

	2011	2010
Medicare	78%	54%
Medicaid	2	4
Blue Cross Blue Shield	11	15
Other third-party payers	3	16
Self-pay	6	11
	100%	100%

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2011 and 2010, was:

	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

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas

Notes to Financial Statements

December 31, 2011 and 2010

	2010			
	Beginning Balance	Additions	Disposals	Ending Balance
Land improvements	\$ 79,033	\$ -	\$ (1,096)	\$ 77,937
Buildings	1,278,565	-	(1,345)	1,277,220
Fixed equipment	503,026	11,800	(1,818)	513,008
Moveable equipment	1,708,557	132,573	(126,517)	1,714,613
	<u>3,569,181</u>	<u>144,373</u>	<u>(130,776)</u>	<u>3,582,778</u>
Less accumulated depreciation				
Land improvements	(76,886)	(840)	1,096	(76,630)
Buildings	(775,254)	(39,675)	1,117	(813,812)
Fixed equipment	(336,320)	(16,434)	1,818	(350,936)
Moveable equipment	(1,338,263)	(149,473)	126,517	(1,361,219)
	<u>(2,526,723)</u>	<u>(206,422)</u>	<u>130,548</u>	<u>(2,602,597)</u>
Capital Assets, Net	<u>\$ 1,042,458</u>	<u>\$ (62,049)</u>	<u>\$ (228)</u>	<u>\$ 980,181</u>

Note 6: Capital Lease Obligations

Capital lease obligation activity for the years ended December 31, 2011 and 2010, was:

	2011					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	<u>\$ 105,618</u>	<u>\$ 360,374</u>	<u>\$ (103,426)</u>	<u>\$ 362,566</u>	<u>\$ 76,310</u>	<u>\$ 286,256</u>
	2010					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	<u>\$ 132,093</u>	<u>\$ 33,531</u>	<u>\$ (60,006)</u>	<u>\$ 105,618</u>	<u>\$ 50,609</u>	<u>\$ 55,009</u>

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

A schedule of the equipment cost and accumulated depreciation under capital lease at December 31, 2011 and 2010, follows:

	2011	2010
Equipment	\$ 393,905	\$ 265,978
Accumulated depreciation	(19,097)	(177,756)
	\$ 374,808	\$ 88,222

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, 2011:

Year Ending December 31,	
2012	\$ 75,313
2013	76,132
2014	72,039
2015	66,309
2016	60,084
2017 and thereafter	15,868
Total minimum lease payments	365,745
Less amount representing interest	3,179
Present value of future minimum lease payments	\$ 362,566

Note 7: 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.

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

Note 8: 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 \$63,240 and \$36,969 in 2011 and 2010, respectively. Hospital contributions totaled \$14,752 and \$13,933 in 2011 and 2010, respectively.

Note 9: 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 \$135,671 and \$142,110 in 2011 and 2010, respectively. Amounts included in accounts payable related to these services totaled \$22,536 and \$90,424 at December 31, 2011 and 2010, respectively.

Note 10: 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*.

Osborne County Memorial Hospital
A Component Unit of Osborne County, Kansas
Notes to Financial Statements
December 31, 2011 and 2010

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.