

Great Plains Health Alliance, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2012 and 2011



Great Plains Health Alliance, Inc.
December 31, 2012 and 2011

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Independent Auditor's Report

Board of Directors
Great Plains Health Alliance, Inc.
Wichita, Kansas

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Great Plains Health Alliance, Inc. (GPHA), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Additionally, we conducted our audits of Great Plains Health Alliance, Inc. (parent organization) in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We conducted the audit of Great Plains of Kiowa County, Inc. as of December 31, 2011, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Great Plains of Ellinwood County, Inc.; Great Plains of Ottawa County, Inc.; Great Plains of Republic County, Inc.; Great Plains of Cheyenne County, Inc. d/b/a Cheyenne County Hospital; Great Plains of Sabetha, Inc.; Great Plains of Phillips County, Inc.; and Great Plains of Smith County, Inc. were not audited in accordance with *Government Auditing Standards*. The financial statements of Great Plains of Kiowa County, Inc. as of December 31, 2012, were not audited in accordance with *Government Auditing Standards*.

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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of GPHA as of December 31, 2012 and 2011, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 18, in 2012, the Hospital subsidiaries changed their method of presentation and disclosure of patient service revenue, provision for uncollectible accounts and the allowance for uncollectible accounts in accordance with Accounting Standards Update 2011-07. Our opinion is not modified with respect to this matter.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise GPHA's consolidated financial statements as a whole. The accompanying supplementary information, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as listed in the table to contents, is presented for purposes of additional analysis and is 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 consolidated financial statements or to the basic consolidated 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 consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, on our consideration of Great Plains Health Alliance, Inc.'s (parent organization) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Great Plains Health Alliance, Inc.'s (parent organization) internal control over financial reporting and compliance.

BKD, LLP

Wichita, Kansas
September 25, 2013

Great Plains Health Alliance, Inc.
Consolidated Balance Sheets
December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current Assets		
Cash and cash equivalents	\$ 5,309,585	\$ 5,448,731
Assets limited as to use - current	29,716	29,742
Short-term investments	286,040	283,810
Accounts receivable, net of allowances	10,014,650	9,053,831
Estimated amounts due from third-party payers	1,819,000	1,315,000
Supplies	1,248,322	1,224,447
Prepaid expenses and other	<u>1,257,578</u>	<u>1,323,004</u>
Total current assets	<u>19,964,891</u>	<u>18,678,565</u>
Assets Limited As To Use		
Internally designated	3,485,436	3,344,809
Externally restricted by donors	<u>324,754</u>	<u>664,589</u>
Total assets limited as to use	<u>3,810,190</u>	<u>4,009,398</u>
Investments		
Investment in equity investee	<u>220,881</u>	<u>233,651</u>
Property and Equipment, At Cost		
Land and land improvements	1,630,598	1,733,505
Buildings	47,982,659	51,067,055
Fixed equipment	22,399,259	19,988,919
Moveable equipment	17,054,730	16,803,682
Construction in progress	<u>2,528,527</u>	<u>142,894</u>
	91,595,773	89,736,055
Less accumulated depreciation	<u>48,400,386</u>	<u>43,948,158</u>
Total property and equipment, net of depreciation	<u>43,195,387</u>	<u>45,787,897</u>
Other Assets		
Beneficial interest in perpetual trusts	752,254	728,840
Other	<u>1,214,915</u>	<u>1,406,269</u>
	<u>1,967,169</u>	<u>2,135,109</u>
Total assets	<u><u>\$ 69,158,518</u></u>	<u><u>\$ 70,844,620</u></u>

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,455,197	\$ 4,299,564
Accounts payable	1,806,341	1,989,638
Accrued expenses	6,495,717	6,287,301
Estimated amounts due to third-party payers	<u>1,140,000</u>	<u>1,218,651</u>
Total current liabilities	10,897,255	13,795,154
Long-term Debt	8,008,949	6,177,012
Other	<u>29,192</u>	<u>19,078</u>
Total liabilities	<u>18,935,396</u>	<u>19,991,244</u>
Net Assets		
Unrestricted	48,893,484	49,426,538
Temporarily restricted	577,384	697,998
Permanently restricted	<u>752,254</u>	<u>728,840</u>
Total net assets	<u>50,223,122</u>	<u>50,853,376</u>
Total liabilities and net assets	<u>\$ 69,158,518</u>	<u>\$ 70,844,620</u>

Great Plains Health Alliance, Inc.
Consolidated Statements of Operations and Changes in Net Assets
Years Ended December 31, 2012 and 2011

	2012			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues and Other Support				
Net patient service revenue	\$ 64,598,496	\$ -	\$ -	\$ 64,598,496
Provision for uncollectible accounts	1,466,678	-	-	1,466,678
Net patient service revenue less provision for uncollectible accounts	63,131,818	-	-	63,131,818
Management and data processing fees	4,510,810	-	-	4,510,810
Contributions and grants received	388,788	65,400	-	454,188
Investment return on short-term investments	114,049	15,954	-	130,003
Other	1,346,119	12,048	-	1,358,167
Net assets released from restrictions used for operations	154,808	(154,808)	-	-
Total revenues and other support	69,646,392	(61,406)	-	69,584,986
Expenses				
Salaries and wages	35,997,619	-	-	35,997,619
Supplies and other	33,756,235	-	-	33,756,235
Depreciation and amortization	5,762,797	-	-	5,762,797
Interest	472,851	-	-	472,851
Total expenses	75,989,502	-	-	75,989,502
Operating Income (Loss)	(6,343,110)	(61,406)	-	(6,404,516)
Other Income				
Investment return on assets limited as to use	17,689	13,932	-	31,621
Contributions and grants	101,435	-	-	101,435
Contributions received from Boards of Trustees for operations	2,854,690	-	-	2,854,690
Forgiveness of accrued interest on FEMA note	239,713	-	-	239,713
Loss on sale of property and equipment	(7,674)	-	-	(7,674)
Gain on investment in equity investee	14,730	-	-	14,730
Total other income	3,220,583	13,932	-	3,234,515
Excess (Deficiency) of Revenues Over Expenses	(3,122,527)	(47,474)	-	(3,170,001)
Contributions received from Boards of Trustees for property and equipment	546,946	-	-	546,946
Capital contributions and grants received	208,329	8,170	-	216,499
Provision for uncollectible accounts on contributions for acquisition of property and equipment	-	-	-	-
Change in beneficial interest in perpetual trusts	-	-	23,414	23,414
Transfers to city	-	-	-	-
Forgiveness of principle on note payable	1,600,000	-	-	1,600,000
Transfers of property and equipment from Smith County	152,888	-	-	152,888
Net assets released from restrictions used for property and equipment	81,310	(81,310)	-	-
Change in Net Assets	(533,054)	(120,614)	23,414	(630,254)
Net Assets, Beginning of Year	49,426,538	697,998	728,840	50,853,376
Net Assets, End of Year	\$ 48,893,484	\$ 577,384	\$ 752,254	\$ 50,223,122

See Notes to Consolidated Financial Statements

2011 (Adjusted)			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 62,196,272	\$ -	\$ -	\$ 62,196,272
1,485,236	-	-	1,485,236
60,711,036	-	-	60,711,036
3,820,728	-	-	3,820,728
546,704	101,297	-	648,001
39,054	12,974	-	52,028
1,381,772	-	-	1,381,772
186,074	(186,074)	-	-
66,685,368	(71,803)	-	66,613,565
34,421,885	-	-	34,421,885
33,438,791	-	-	33,438,791
5,484,036	-	-	5,484,036
526,266	-	-	526,266
73,870,978	-	-	73,870,978
(7,185,610)	(71,803)	-	(7,257,413)
24,520	2,101	-	26,621
-	-	-	-
3,418,713	2,500	-	3,421,213
-	-	-	-
-	-	-	-
41,736	-	-	41,736
3,484,969	4,601	-	3,489,570
(3,700,641)	(67,202)	-	(3,767,843)
1,379,330	18,000	-	1,397,330
151,875	77,770	-	229,645
-	(206)	-	(206)
-	(346,321)	398,283	51,962
(19,368)	-	-	(19,368)
-	-	-	-
-	-	-	-
141,884	(141,884)	-	-
(2,046,920)	(459,843)	398,283	(2,108,480)
51,473,458	1,157,841	330,557	52,961,856
<u>\$ 49,426,538</u>	<u>\$ 697,998</u>	<u>\$ 728,840</u>	<u>\$ 50,853,376</u>

Great Plains Health Alliance, Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ (630,254)	\$ (2,108,480)
Items not requiring (providing) operating cash flow		
Loss on sale of property and equipment	13,646	6,716
Depreciation and amortization	5,762,797	5,484,036
Forgiveness of Federal Emergency Management Agency note payable and related accrued interest	(1,839,713)	-
Gain on investment in equity investee	(14,730)	(41,736)
Transfers from affiliates	(471,711)	(4,708,080)
Change in beneficial interest in perpetual trusts	(23,414)	(51,962)
Restricted contributions and investment income received	2,246	(18,717)
Contributions of or for acquisition of property and equipment	(763,445)	(1,629,475)
Transfer of property and equipment from Smith County	(152,888)	-
Provision for uncollectible accounts	1,466,678	1,485,236
Changes in		
Accounts receivable, net of allowances	(2,427,497)	(1,805,928)
Estimated amounts due from third-party payers	(582,651)	1,248,651
Supplies	(23,875)	(87,898)
Prepaid expenses and other current assets	(232,023)	514,826
Other assets	488,803	(952,062)
Accounts payable, accrued expenses and other	238,676	722,905
	<u>810,645</u>	<u>(1,941,968)</u>
Net cash provided by (used in) operating activities		
Investing Activities		
Change in assets limited as to use	96,592	(718,054)
Proceeds from short-term investments	(2,230)	62,175
Dividends received from equity investee	27,500	27,500
Purchases of property and equipment	(2,977,763)	(3,302,114)
Proceeds from sale of property and equipment	988	4,552
	<u>(2,854,913)</u>	<u>(3,925,941)</u>
Net cash used in investing activities		
Financing Activities		
Transfers from affiliates	546,946	4,818,337
Proceeds from restricted contributions and investment income	7,161	18,853
Proceeds from contributions for acquisition of property and equipment	763,445	1,608,975
Proceeds from issuance of long-term debt	2,319,557	3,735,175
Principal payments on long-term debt	(1,731,987)	(3,530,139)
	<u>1,905,122</u>	<u>6,651,201</u>
Net cash provided by financing activities		
Increase (Decrease) in Cash and Cash Equivalents	(139,146)	783,292
Cash and Cash Equivalents, Beginning of Year	5,448,731	4,665,439
Cash and Cash Equivalents, End of Year	<u>\$ 5,309,585</u>	<u>\$ 5,448,731</u>

Great Plains Health Alliance, Inc.
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Supplemental Cash Flows Information		
Interest paid	\$ 289,536	\$ 299,640
Capital lease obligation incurred for property and equipment	\$ 1,044,332	\$ 925,918
Capital additions purchased with long-term debt	\$ 1,463,368	\$ 304,431
Accounts payable incurred for property and equipment	\$ 153,963	\$ 117,693
Property and equipment acquired through transfer from affiliates (Smith County)	\$ 152,888	\$ -
Property and equipment acquired through contributions from Boards of Trustees	\$ 546,946	\$ 1,379,330
Property and equipment acquired through capital contributions and grants	\$ 216,499	\$ 299,645
Forgiveness of Federal Emergency Management Agency note payable and related accrued interest	\$ 1,839,713	\$ -

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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

Nature of Operations

The consolidated financial statements of Great Plains Health Alliance, Inc. include the accounts of Great Plains Health Alliance, Inc. (Alliance) and its wholly-owned subsidiaries, Great Plains of Ellinwood County, Inc. (Ellinwood); Great Plains of Ottawa County, Inc. (Ottawa); Great Plains of Republic County, Inc. (Republic); Great Plains of Cheyenne County, Inc. d/b/a Cheyenne County Hospital (Cheyenne); Great Plains of Kiowa County, Inc. (Kiowa); Great Plains of Sabetha, Inc. (Sabetha); Great Plains of Phillips County, Inc. (Phillips); Great Plains of Smith County, Inc. (Smith); and the Great Plains Health Care Foundation (Foundation) (collectively referred to as GPHA).

The Alliance is a not-for-profit corporation, whose primary business activity is leasing and management of hospitals located in Kansas and Nebraska. Lease agreements are entered into between a County Board of Trustees (Board(s) of Trustees) and an Alliance subsidiary. The Board of Trustees for each respective county predominantly collects tax appropriations and certain government grants. These appropriations and grants may be transferred to the respective Alliance subsidiary and are presented as transfers from Boards of Trustees on the consolidated statement of operations and changes in net assets. In some instances, the Board of Trustees has custody of funds for which the Alliance subsidiary retains title. A receivable is recorded in these instances and displayed as due from Boards of Trustees in the consolidated balance sheets. Lease agreements typically have five-year terms with two five-year renewal options and are cancellable by either party for a material breach of the terms or provisions of the agreement with 60-day written notification, if the material breach is not cured within the 60-day time period. Upon termination of a lease agreement, all assets of the Alliance subsidiary revert to the respective County's Board of Trustees. Management agreements are typically entered into for a three- to five-year term and either party may terminate the management agreement by giving the other party 60 days written notice of its intention to do so. Lease or management agreements are entered into with county governments and provide for the Alliance to carry on the normal operation of the county's hospital for a fee.

The Alliance is the sole member of eight not-for-profit corporations (Hospital Subsidiaries) that have been organized to lease the operations of eight Kansas hospitals. Cheyenne, Kiowa and Sabetha are Hospital Subsidiaries that have a calendar year ending on December 31. Ellinwood, Ottawa and Republic are Hospital Subsidiaries that have a fiscal year ending September 30. Phillips and Smith are Hospital Subsidiaries that have a fiscal year ending March 31. The balance sheets, statements of operations and changes in net assets and statements of cash flows of the Hospital Subsidiaries have been included in the consolidated financial statements. Hospital Subsidiaries with fiscal years ending on a date other than December 31 have been consolidated using balances from the Hospital Subsidiaries' respective fiscal year-end. The Alliance also manages the operations of 12 hospitals for which consolidation is not required under accounting principles generally accepted in the United States of America (GAAP).

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The Alliance also controls the majority voting interest in the Board of Directors of the Foundation and has an economic interest in the Foundation. Accordingly, the balance sheets, statements of operations and changes in net assets and statements of cash flows of the Foundation have been included in the consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Alliance, its wholly-owned Hospital Subsidiaries and the Foundation. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

GPHA considers all liquid investments with original maturities of three months or less to be cash equivalents other than assets limited as to use. At December 31, 2012 and 2011, cash equivalents consisted primarily of certificates of deposit.

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.

Investments and Investment Return

Investment return includes dividend, interest and other investment income and realized gains and losses on investments carried at fair value. Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted, or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess (deficiency) of revenues over expenses. Unrealized gains (losses) on investments are excluded from the excess (deficiency) of revenues over expenses.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Assets Limited As To Use

Assets limited as to use consist of assets whose use by GPHA has been limited by donors, grantors, or by the governing board for specific purposes.

Accounts Receivable

Accounts receivable, net of allowances is comprised of two main components that include management and data processing fees and patient service revenues.

Management and data processing fees are charged to rural hospitals for management, accounting, billing, coding and computer system services. Accounts receivable related to these fees represent balances due from hospitals for these services. The majority of these hospitals are rural municipal hospitals that are supported by local county governments. Due to the support of local county governments, management believes these receivable balances will ultimately be paid even if the individual hospitals were to close. GPHA has not historically experienced significant amounts of bad debt write-offs related to fee revenues. The allowance for uncollectible accounts for fee revenue accounts receivable has been determined by management specifically identifying individual hospital balances that may not be collected.

The Hospital Subsidiaries report accounts receivable that are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital Subsidiaries analyze their past history and identify trends for each of their major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Hospital Subsidiaries' management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital Subsidiaries analyze contractually due amounts and provides an allowance for doubtful 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 Subsidiaries record 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 doubtful accounts.

The Hospital Subsidiaries' allowance for doubtful accounts for self-pay patients was 30% of self-pay accounts receivable at December 31, 2012 and 2011. In addition, the Hospital Subsidiaries' write-offs decreased approximately \$353,857 from approximately \$2,741,965 for the year ended December 31, 2011, to approximately \$2,388,108 for the year ended December 31, 2012.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Supplies

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

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land and land improvements	10-20 years
Buildings	5-40 years
Fixed equipment	5-25 years
Moveable equipment	3-20 years

Long-lived Asset Impairment

GPHA evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2012 and 2011.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the interest method.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by GPHA has been limited by donors or grantors to a specific time period or purpose and also include funds held for debt service. Permanently restricted net assets have been restricted by donors or grantors to be maintained by GPHA in perpetuity.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Net Patient Service Revenue

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

Charity Care

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

Contributions

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Income Taxes

The Alliance, Hospital Subsidiaries and Foundation have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, each entity is subject to federal income tax on any unrelated business taxable income.

The Alliance, Hospital Subsidiaries and Foundation file tax returns in the U.S. federal jurisdiction. With a few exceptions, each entity is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Excess of Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets, which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions received from Boards for property and equipment, transfers from Boards, capital contributions and grants received, provision for uncollectable accounts on contributions for acquisition of property and equipment, change in net unrealized gains on other than trading securities, transfers to cities, transfers of property and equipment (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets) and net assets released from restriction used for property and equipment.

Medical Malpractice Coverage and Claims

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

Claim liabilities are to be determined without consideration of insurance recoveries. Expected recoveries are presented separately. Based upon the Hospital Subsidiaries' claims experience, no receivable or liability has been recorded in the accompanying financial statements related to their malpractice insurance policy. It is reasonably possible that this estimate could change materially in the near term.

Reclassifications

Certain reclassifications have been made to the 2011 financial statements to conform to the 2012 financial statement presentation. These reclassifications had no effect on the change in net assets.

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

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.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 2: Net Patient Service Revenue

The Hospital Subsidiaries recognize 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 Subsidiaries recognize revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital Subsidiaries' uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital Subsidiaries record 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 operations as a component of net patient service revenue.

The Hospital Subsidiaries have agreements with third-party payers that provide for payments to the Hospital Subsidiaries at amounts different from their established rates. These payment arrangements include:

Medicare. The Hospital Subsidiaries are recognized as Critical Access Hospitals (CAH). Under CAH rules, inpatient acute care, skilled swing-bed and certain outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of allowable cost subject to certain limitations. Other outpatient services related to Medicare beneficiaries are paid based on fee schedules and cost reimbursement methodologies, subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries who are not part of a Medicaid managed care network. The Hospital Subsidiaries are reimbursed for inpatient (excluding long-term care) and outpatient services (including clinic) at tentative rates with final settlement determined after submission of annual cost reports by the Hospital Subsidiaries with audit thereof by the Medicaid fiscal intermediary. The Hospital Subsidiaries are reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries who are part of a Medicaid managed care network. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital Subsidiaries are reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Rates are computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. The Medicaid cost reports are subject to audit by the state and adjustments to rates can be made retroactively.

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.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2012 and 2011, respectively, was approximately:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 39,002,478	\$ 37,764,975
Medicaid	4,527,778	4,982,281
Blue Cross	13,454,744	11,302,549
Other	<u>7,613,496</u>	<u>8,146,467</u>
	<u>\$ 64,598,496</u>	<u>\$ 62,196,272</u>

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 Subsidiaries' 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 Subsidiaries will experience payment delays and other operational challenges during the PPACA's implementation.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 3: Concentration of Credit Risk

The Hospital Subsidiaries grant credit without collateral to their patients, most of whom are area residents and are insured under third-party payer agreements, and the Alliance grants credit without collateral to its managed hospitals. The mix of gross receivables from patients, third-party payers and managed hospitals at December 31, 2012 and 2011, is:

	<u>2012</u>	<u>2011</u>
Medicare	44%	45%
Medicaid	6%	4%
Blue Cross	12%	13%
Other third-party payers	16%	18%
Patients	16%	13%
Managed hospitals	<u>6%</u>	<u>7%</u>
	<u>100%</u>	<u>100%</u>

Accounts receivable, net of allowances, is as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Gross accounts receivable	\$ 13,308,208	\$ 12,451,155
Less:		
Allowance for uncollectible accounts	2,280,196	2,407,546
Allowance for contractual adjustments	<u>1,013,362</u>	<u>989,778</u>
	<u>\$ 10,014,650</u>	<u>\$ 9,053,831</u>

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 4: Investments

Assets Limited As To Use

Assets limited as to use, at December 31, include:

	2012	2011
Internally designated		
Cash	\$ 394,624	\$ 668,908
Certificates of deposit	3,090,812	2,675,901
	\$ 3,485,436	\$ 3,344,809
Externally restricted by donors and held for debt service		
Cash	\$ 293,812	\$ 351,121
Net pledges receivable	60,658	73,255
Funds held in trust	-	60,964
Mutual funds	-	208,991
	354,470	694,331
Less current portion (held for debt service)	29,716	29,742
	\$ 324,754	\$ 664,589

Short-term Investments

Short-term investments consist of certificates of deposit of \$286,040 and \$283,810 as of December 31, 2012 and 2011, respectively.

Note 5: Beneficial Interest in Perpetual Trusts

Smith is an income beneficiary of several perpetual trusts controlled by unrelated third-party trustees. Effective 2012, the beneficial interests in the assets of these trusts are included in Smith's financial statements as permanently restricted net assets. Income is distributed in accordance with the individual trust documents and is included in investment return. The estimated value of the expected future cash flows is \$752,254 and \$728,840, which represents the fair value of the trust assets at December 31, 2012 and 2011, respectively. Trust income distributed to Smith for the years ended December 31, 2012 and 2011, was \$26,404 and \$21,702, respectively.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 6: Investment in Equity Investee

At December 31, 2012, Sabetha owned 55,000 shares of common stock of Sabetha Healthcare, Inc. (Corporation). The remaining outstanding stock of the Corporation as of December 31, 2012, totaled 80,000 shares, and was owned by Sabetha Community Health Foundation (SCH Foundation). SCH Foundation is a not-for-profit corporation whose primary purpose is to maintain and improve the quality of medical care in the Sabetha community. The Corporation is a for-profit organization and is presently operating a pharmacy in Sabetha. Sabetha's investment in the Corporation is accounted for under the equity method.

Note 7: Medical Malpractice Claims

The Hospital Subsidiaries purchase medical malpractice insurance under claims-made policies on a fixed premium basis. Accounting principles generally accepted in the United States of America requires health care providers 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 Subsidiaries' claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8: Line of Credit

Sabetha has a \$500,000 revolving line of credit with a local bank expiring in May 2013. There were no draws on the line of credit during 2012. The line is collateralized by Sabetha's accounts receivable, inventory and funds on deposit with the lender. Interest varies with the bank's prime rate and is payable monthly.

Note 9: Long-term Debt

	<u>2012</u>	<u>2011</u>
Note payable to USDA (A)	\$ 1,213,734	\$ 1,453,773
Note payable to USDA (B)	3,649,081	2,294,818
Note payable to FEMA (C)	-	1,600,000
Hospital revenue bonds (D)	2,185,413	2,236,579
Capital lease obligations (E)	2,151,632	2,483,893
Other notes payable	264,286	407,513
	<u>9,464,146</u>	<u>10,476,576</u>
Less current maturities	1,455,197	4,299,564
	<u>\$ 8,008,949</u>	<u>\$ 6,177,012</u>

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

- (A) Distance Learning and Telemedicine loan payable to the United States Department of Agriculture (USDA) with varying interest rates from 2.13% to 3.44%, collateralized by all assets of the Alliance.

The Alliance was awarded a Distance Learning and Telemedicine Combination Loan/Grant through the USDA for funding of technological renovations. The award totals \$9,950,000, of which \$8,955,000 is a loan payable and \$995,000 is a grant. Principal and interest payments on the loan were originally due monthly with the final payment due October 2017. The interest rate is fixed for each advance and shall be equal to the cost of borrowing of the United States Department of Treasury for obligations, as determined by the government, of comparable maturity on the date of the advance. The USDA required the Alliance to meet covenants associated with this agreement. At December 31, 2011, the Alliance was not compliant with certain covenants. As a result, this loan payable was subject to accelerated maturity and, as such, the USDA may, at its option, have given notice to the Alliance that amounts owed are immediately due and payable. The full amount of the related long-term debt has been classified as a current liability in the accompanying consolidated balance sheets at December 31, 2011. The Alliance has made every scheduled payment of principal and interest.

- (B) Communities Facilities Direct Loans and Grants loan payable to the USDA and First National Bank and Trust (FNB).

The Alliance was awarded a communities facilities loan for the adoption of clinical information systems to meet requirements for “meaningful use of electronic health records.” The award totals \$5,200,000 of direct and guaranteed loans. \$2,200,000 is held by FNB, which is guaranteed by the USDA and the remaining \$3,000,000 is held directly by the USDA. Monthly payments of principal and interest beginning May 1, 2012, are due for the FNB loan. The interest rate is based on the prime rate plus 1% adjusted annually, with a floor of 6% and a ceiling of 9.75%. Monthly payments of principal and interest are due for the USDA loan over the course of 10 years. The interest rate is fixed at 4.25%.

- (C) Community Disaster loan payable to the Federal Emergency Management Agency (FEMA) with a 4.00% simple interest rate, principal and interest due October 2012. The Community Disaster Loan program has a provision for loan cancellation if Kiowa has insufficient revenues during the full three fiscal years following the disaster to meet the operating budget of Kiowa. Kiowa sustained operating losses in each of 2008, 2009 and 2010 and applied for loan cancellation in 2011. The loan principal and related interest payable cancellation request was approved in June 2012. At December 31, 2012, there is no outstanding balance due on the FEMA note payable.

- (D) The Phillips County, Kansas, Hospital Revenue Bonds, Series 2006 (Bonds) in the original amount of \$300,000 dated January 26, 2006, were issued to finance, along with other funds, renovation of an existing clinic building. The Bonds are payable in annual installments of \$30,000 through January 26, 2016. The Bonds were issued with an interest rate of zero percent (0%). Imputed interest of \$13,621 has been computed on the Bonds using an interest rate of 5%.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Kiowa County entered into an agreement with the USDA to issue bonds to assist with the financing of the new Kiowa hospital construction in the original amount of \$2,130,200. The bonds bear interest at 4%, are due semiannually in increasing principal amounts with final bonds maturing January 2049. Kiowa, acting as its own trustee, is required by the USDA to maintain specific principal, interest and bond reserve accounts. The actual principal and interest payments are then made to the bondholders from the Kansas State Treasurer, acting as the paying agent. The bonds are secured by a first and prior lien upon the gross revenues of Kiowa. Bonds may be redeemed in advance of their maturity at 100% of face value.

- (E) At varying rates of imputed interest due through 2017; collateralized by property and equipment. Property and equipment include the following property under capital leases:

	2012	2011
Equipment	\$ 4,164,833	\$ 4,925,976
Accumulated depreciation	1,637,480	1,972,902
	\$ 2,527,353	\$ 2,953,074

Aggregate annual maturities and sinking fund requirements of long-term debt and payments on capital lease obligations at December 31, 2012, are:

	Long-term Debt (Excluding Capital Lease Obligations)	Capital Lease Obligations
2013	\$ 587,692	\$ 973,766
2014	590,409	571,554
2015	2,142,711	402,496
2016	505,052	203,094
2017	434,019	155,287
Thereafter	3,052,631	110,111
	\$ 7,312,514	2,416,308
Less amount representing interest		264,676
Present value of future minimum lease payments		\$ 2,151,632

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 10: Pension Plans

GPHA maintains a defined contribution pension plan for all eligible employees. Every employee 18 years old or older becomes a plan participant upon active employment. Employer contributions begin after 12 months of continuous employment at a rate of 5% of annual compensation up to \$16,000 and 10% of annual compensation in excess of \$16,000. Employee contributions are at a rate of 2.5% of annual compensation up to \$16,000 and 5% of annual compensation in excess of \$16,000. Benefits are funded by a money purchase annuity contract 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. The total cost of the plan for the years ended December 31, 2012 and 2011, was \$2,548,915 and \$2,534,352, respectively. Benefits vest at 20% per year of service with 100% vesting after five years of service.

In addition, Ellinwood has a defined contribution plan in which highly compensated employees are eligible for participation upon employment. The total cost of this plan was \$0 and \$9,285 for the years ended September 30, 2012 and 2011.

Note 11: Functional Expenses

Functional expenses consist of the following at December 31:

	2012	(Adjusted) 2011
Health care services	\$ 60,004,382	\$ 59,113,980
General and administrative	8,447,793	8,448,353
Management services	<u>7,537,327</u>	<u>6,308,645</u>
	<u>\$ 75,989,502</u>	<u>\$ 73,870,978</u>

Note 12: Related Party Transactions

The Alliance received a refund for health insurance premiums in 2007 for the hospitals it manages and leases. The Alliance reimbursed these hospitals \$1,053,000 in 2007 from accumulated refunds by paying their health insurance premiums for two months. The Alliance has a remaining liability to these hospitals at December 31, 2012 and 2011, totaling \$629,849 and \$281,799, respectively. This amount is expected to be distributed during 2012 and is included in other liabilities on the accompanying statement of financial position.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 13: Data Center Access Agreement

GPHA has agreements with various health care providers throughout the region to make available licensed computer software, internet and intranet services, information technology support services and other information technology and communication services.

Future revenue expected to be received on agreements for the next five years are as follows:

Year Ended December 31:	
2013	\$ 2,295,121
2014	2,756,675
2015	2,757,201
2016	2,852,597
2017	<u>2,947,994</u>
	<u>\$ 13,609,588</u>

All agreements had an original five-year term. A majority of the agreements have been extended through 2018.

Revenue related to the agreements for the years ended December 31, 2012 and 2011, was \$1,905,471 and \$1,670,389, respectively.

Note 14: Commitments

Construction and equipping of a new hospital facility for Sabetha was completed in July 2003. The project was financed primarily with proceeds from the issuance of \$5,000,000 City of Sabetha, Kansas, General Obligation Bonds (Bonds), a capital campaign and tax credit contributions. The Bonds are not an obligation of Sabetha and, accordingly, the related debt has not been reflected in the consolidated financial statements. Construction costs paid by the city from the Bond proceeds were recorded in Sabetha's financial statements upon completion of the project. In connection with the addition, the sublease agreement between Sabetha Community Hospital, Inc. (SCH) and Sabetha was amended July 10, 2003. The term of the lease ends December 31, 2015. Under the terms of the amendment, Sabetha will make annual payments of \$165,000 to SCH (lessor) or its designee for the duration of the sublease agreement. The annual payments are included in supplies and other expenses in the accompanying consolidated statement of operations and changes in net assets.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The Alliance committed to purchase software, equipment and installation services. The remaining commitment equaled \$638,670 at December 31, 2012 and 2011. The commitment is expected to be financed with loans and grants.

The Alliance committed to purchase software support and maintenance under contract. Once the software has been installed, the software support and maintenance fees are estimated at \$550,000 annually through August 2018.

Note 15: Disclosures About Fair Value of Assets and Liabilities

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

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

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2012. For assets classified within Level 3 the fair value hierarchy, the process used to develop the reported fair value is described below.

Funds Held In Trust and Beneficial Interest in Perpetual Trusts

Fair value is based on the net asset and market values of the investments within the trust as of the balance sheet date as provided by the trustee.

The preceding methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Smith believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The following table represents the changes in fair value of Smith's Level 3 assets for the year ended December 31:

	2012	2011
Balances, beginning of year	\$ 789,804	\$ 734,946
Realized and unrealized gains, net	51,789	78,521
Sales	<u>(89,339)</u>	<u>(23,663)</u>
Balances, end of year	<u>\$ 752,254</u>	<u>\$ 789,804</u>

Note 16: 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:

Litigation

In the normal course of business, GPHA is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding employment practices or performance of contracts. GPHA evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Allowance for Net Patient Service Revenue Adjustments

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

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

Note 17: Subsequent Events

2013 Medicare Cost Report Settlement

As described at *Note 2*, Smith is reimbursed for most services provided to Medicare beneficiaries at tentative rates with final settlement determined after submission of an annual cost report and audit thereof by the Medicare administrative contractor. Smith's 2013 Medicare cost report was filed in August 2013. The cost report reflected an amount due to the Medicare program of \$888,072. In connection with the submission of the filed cost report, Smith made the \$888,072 payment. At the same time, \$900,000 was contributed to Smith by the Board of Trustees to provide funds for the cost report payment.

Construction/Loan Commitment

Subsequent to September 30, 2012, Ellinwood entered into an HVAC System Replacement agreement at an approximate cost of \$515,000. A portion of the project cost will be financed with proceeds from a \$237,000 loan from the USDA. The terms of the USDA loan include a repayment period of 25 years with interest at 3.5%. The remainder of the project will be financed by contributions from the Board of Trustees of Ellinwood Hospital District (Board of Trustees). The Board of Trustee funds were originally received as part of a Kansas Department of Commerce and Housing tax credit project for Ellinwood improvements. The HVAC System Replacement is expected to be completed by November 15, 2013.

Note 18: Change in Accounting Principle

In 2012, the Hospital Subsidiaries changed their method of presentation and disclosure of patient service revenue provision for uncollectible accounts and the allowance for doubtful accounts in accordance with Accounting Standards Update (ASU) 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The major changes associated with ASU 2011-07 are to reclassify the provision for uncollectible accounts to a deduction from patient service revenue and to provide enhanced disclosures around the Hospital Subsidiaries' policies related to uncollectible accounts. As a result of adopting ASU 2011-07, total net patient service revenue and total expenses decreased by \$1,466,678 and \$1,485,236 for the years ended December 31, 2012 and 2011, respectively. The change had no effect on the operating income or on prior year change in net assets.

Great Plains Health Alliance, Inc.
Notes to Consolidated Financial Statements
December 31, 2012 and 2011

The following financial statement line items for 2011 were affected by the change:

	Statement of Operations and Changes in Net Assets		
	As Computed Under Previous Guidance	As Computed Under ASU 2011-07	Effect of Change
Revenues, Gains and Other Support			
Net patient service revenue	\$ 62,196,272	\$ -	\$(62,196,272)
Patient service revenue (net of contractual discounts and allowances)	-	62,196,272	62,196,272
Provision for uncollectible accounts	-	(1,485,236)	(1,485,236)
Net patient service revenue less provision for uncollectible accounts	-	60,711,036	60,711,036
Total revenues, gains and other support	68,098,801	66,613,565	(1,485,236)
Expenses			
Provision for uncollectible accounts	1,485,236	-	(1,485,236)
Total expenses	75,356,214	73,870,978	(1,485,236)

Supplementary Information

Great Plains Health Alliance, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Agriculture Communities Facilities Direct Loans and Grants	10.766	KS-GPHA	\$ 1,463,368

Notes to Schedule

1. This schedule includes the federal awards activity of Great Plains Health Alliance, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
2. The Alliance did not provide federal awards to subrecipients during the year ended December 31, 2012.

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Great Plains Health Alliance, Inc.
Wichita, Kansas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Governmental Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Great Plains Health Alliance, Inc. (Alliance), which comprise the balance sheet as of December 31, 2012, and the related statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2013, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principle. The financial statements of Great Plains of Ellinwood County, Inc.; Great Plains of Ottawa County, Inc.; Great Plains of Republic County, Inc.; Great Plains of Cheyenne County, Inc. d/b/a Cheyenne County Hospital; Great Plains of Sabetha, Inc.; Great Plains of Phillips County, Inc.; Great Plains of Smith County, Inc.; and Great Plains of Kiowa County, Inc., which are included in the Alliance's financial statements, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Alliance is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Alliance's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alliance's internal control. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Alliance's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Board of Directors
Great Plains Health Alliance, Inc.
(Continued)

Compliance

As part of obtaining reasonable assurance about whether the Alliance's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Other Matters

We noted certain matters that we reported to the Alliance's management in a separate letter dated September 25, 2013.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not provide an opinion on the effectiveness of the Alliance's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Alliance's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
September 25, 2013

**Independent Auditor's Report on Compliance with
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133**

Board of Directors
Great Plains Health Alliance, Inc.
Wichita, Kansas

Report on Compliance for Each Major Federal Program

We have audited the compliance of Great Plains Health Alliance, Inc. (Alliance) with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The Alliance's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Alliance's management.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Alliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Alliance's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Alliance's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Alliance complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of the Alliance is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Alliance's internal control over compliance with the requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Alliance's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing over internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Wichita, Kansas
September 25, 2013

Great Plains Health Alliance, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2012

7. The Alliance's major programs were:

Cluster/Program	CFDA Number	Grant or Identifying Number	Amount
U.S. Department of Agriculture Communities Facilities Direct Loans and Grants	10.766	KS-GPHA	\$ 1,463,368

8. The threshold used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133 was \$300,000.

9. The Alliance qualified as a low-risk auditee as that term is defined in OMB Circular A-133? Yes No

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Findings Required to be Reported by OMB Circular A-133

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Great Plains Health Alliance, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2012

Reference Number	Summary of Finding	Status
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No matters are reportable.