

Lane County Hospital
A Component Unit of Lane County, Kansas
Independent Auditor's Report and Financial Statements
December 31, 2013 and 2012

Lane County Hospital
A Component Unit of Lane County, Kansas
December 31, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
Lane County Hospital
Dighton, Kansas

We have audited the accompanying financial statements of Lane County Hospital, a component unit of Lane County, Kansas, which comprise the balance sheets as of December 31, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lane County Hospital as of December 31, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted 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 statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Wichita, Kansas
May 9, 2014

Lane County Hospital
A Component Unit of Lane County, Kansas
Balance Sheets
December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash	\$ 252,053	\$ 133,276
Patient accounts receivable, net of allowance; 2013 – \$194,085, 2012 – \$198,787	524,297	510,162
Estimated amounts due from third-party payers	65,000	145,000
Supplies	64,256	68,046
Prepaid expenses and other	67,564	22,322
Total current assets	973,170	878,806
 Noncurrent Cash and Investments		
Board designated for capital acquisitions	6,597	1,428
Restricted by donors for specific operating activities	4,099	5,000
	10,696	6,428
 Capital Assets, Net	627,164	724,825
 Other Assets	145,380	145,380
Total assets	\$ 1,756,410	\$ 1,755,439

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Current maturities of long-term debt	\$ 43,408	\$ 34,872
Accounts payable	86,216	92,706
Accrued salaries and wages	125,667	128,927
Accrued vacation	114,921	113,072
Other accrued expenses	115,586	117,280
	<hr/>	<hr/>
Total current liabilities	485,798	486,857
Long-term Debt	59,856	57,029
	<hr/>	<hr/>
Total liabilities	545,654	543,886
Net Position		
Net investment in capital assets	523,900	632,924
Restricted - expendable for		
Specific operating activities	4,099	5,000
Unrestricted	682,757	573,629
	<hr/>	<hr/>
Total net position	1,210,756	1,211,553
	<hr/>	<hr/>
Total liabilities and net position	<u>\$ 1,756,410</u>	<u>\$ 1,755,439</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue	\$ 3,648,471	\$ 4,009,675
Outside services revenue	15,535	38,238
Other	<u>44,926</u>	<u>35,188</u>
Total operating revenues	<u>3,708,932</u>	<u>4,083,101</u>
Operating Expenses		
Salaries and wages	2,156,670	2,171,541
Employee benefits	551,256	585,671
Supplies and other	1,567,944	1,661,887
Depreciation	<u>162,636</u>	<u>172,609</u>
Total operating expenses	<u>4,438,506</u>	<u>4,591,708</u>
Operating Loss	<u>(729,574)</u>	<u>(508,607)</u>
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Lane County	710,273	200,000
Investment income	4,405	6,834
Interest expense	(5,485)	(7,215)
Noncapital grants and gifts	<u>19,584</u>	<u>16,715</u>
Total nonoperating revenues	<u>728,777</u>	<u>216,334</u>
Decrease in Net Position	(797)	(292,273)
Net Position, Beginning of Year	<u>1,211,553</u>	<u>1,503,826</u>
Net Position, End of Year	<u>\$ 1,210,756</u>	<u>\$ 1,211,553</u>

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients and third-party payers	\$ 3,714,336	\$ 3,798,327
Payments to suppliers	(2,174,547)	(2,199,600)
Payments to and on behalf of employees	(2,159,775)	(2,156,137)
Other receipts, net	60,461	73,426
Net cash used in operating activities	(559,525)	(483,984)
Noncapital Financing Activities		
Noncapital appropriations - Lane County	710,273	200,000
Noncapital grants and gifts	19,584	16,715
Net cash provided by noncapital financing activities	729,857	216,715
Capital and Related Financing Activities		
Principal paid on long-term debt	(46,610)	(32,821)
Interest payments on long-term debt	(5,485)	(7,215)
Proceeds from disposal of capital assets	7,405	-
Purchases of capital assets	(7,002)	-
Net cash used in capital and related financing activities	(51,692)	(40,036)
Investing Activities		
Change in investments	-	113,087
Investment income	4,405	6,834
Net cash provided by investing activities	4,405	119,921
Increase (Decrease) in Cash	123,045	(187,384)
Cash, Beginning of Year	139,704	327,088
Cash, End of Year	\$ 262,749	\$ 139,704
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 252,053	\$ 133,276
Cash in noncurrent cash and investments	10,696	6,428
Total cash	\$ 262,749	\$ 139,704

Lane County Hospital
A Component Unit of Lane County, Kansas
Statements of Cash Flows (Continued)
Years Ended December 31, 2013 and 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (729,574)	\$ (508,607)
Depreciation	162,636	172,609
(Gain) loss on disposal of capital assets	(7,405)	77
Provision for uncollectible accounts	116,310	29,942
Changes in operating assets and liabilities		
Patient accounts receivable	(130,445)	(26,290)
Estimated amounts due from and to third-party payers	80,000	(215,000)
Supplies	3,790	(6,823)
Prepaid expenses and other	(45,242)	27,829
Accounts payable and accrued expenses	(9,595)	42,279
	\$ (559,525)	\$ (483,984)
 Supplemental Cash Flows Information		
Capital lease obligations incurred for capital assets	\$ 57,973	\$ -

Lane County Hospital
A Component Unit of Lane County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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

Nature of Operations and Reporting Entity

Lane County Hospital (Hospital) is an acute care hospital located in Dighton, Kansas. The Hospital is a component unit of Lane County (County) and is governed by an appointed Board of Trustees (Board). The Hospital provides inpatient, outpatient and emergency care services as well as long-term care and clinic services to patients in the Lane County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally federal and state grants and county 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 county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less or that have not been designated by the Board for capital acquisitions to be cash equivalents. There are no cash equivalents at December 31, 2013 and 2012.

Lane County Hospital
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Noncapital Appropriations – Lane County

The Hospital received approximately 16% in 2013 and 5% in 2012 of its financial support from Lane County property tax levy, sales taxes and miscellaneous appropriations.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from property 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, except workers' compensation. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place within the plan to cover claims incurred but not reported and no additional amounts have been accrued related to claims for this plan.

Investments and Investment Income

Investments in nonnegotiable certificates of deposit are carried at amortized cost. Noncurrent cash and investments primarily consist of funds internally designated by the Board for future capital acquisitions, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Noncurrent cash and investments also includes funds restricted by donors for specific operating activities.

Investment income includes interest income on investments carried at other than fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

Lane County Hospital
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Notes to Financial Statements
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Capital Assets

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

Land improvements	5-50 years
Buildings	10-50 years
Fixed equipment	10-20 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. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

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

Lane County Hospital
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Notes to Financial Statements
December 31, 2013 and 2012

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Subsequent Events

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

Note 2: Net Patient Service Revenue

The Hospital 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 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 audits thereof by the Medicare administrative contractor.

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Notes to Financial Statements
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Medicaid. The Medicaid State Plan provides for a cost reimbursement methodology for inpatient and outpatient services rendered to beneficiaries for services through December 31, 2012. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment. Effective January 1, 2013, the Hospital is reimbursed on a prospective payment methodology for inpatient and outpatient services rendered to beneficiaries, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Current payment rates were last updated using 2008, 2009 and 2010 cost report data. Base rates have not been rebased or inflated since July 1, 2010; however, effective January 1, 2014, an additional 1.25% payment add-on was approved. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 69% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2013 and 2012, 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.

Net patient service revenue for the years ended December 31 is as follows:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue	\$ 3,978,721	\$ 4,117,267
Contractual adjustments:		
Medicare	64,486	241,537
Medicaid	24,912	7,784
Blue Cross	(218,609)	(220,795)
Other	(82,145)	(84,035)
Charity care	(536)	(12,027)
Administrative discounts	(2,048)	(10,114)
Provision for uncollectible accounts	(116,310)	(29,942)
	<u>\$ 3,648,471</u>	<u>\$ 4,009,675</u>

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Notes to Financial Statements
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Note 3: Deposits

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

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

At December 31, 2013 and 2012, respectively, \$48,342 and \$0 of the Hospital's bank balances of \$298,842 and \$136,013 were exposed to custodial credit risk as follows:

	2013	2012
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	<u>\$ 48,342</u>	<u>\$ -</u>

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 262,549	\$ 139,504
Petty cash	200	200
	<u>\$ 262,749</u>	<u>\$ 139,704</u>
Included in the following balance sheet captions		
Cash	\$ 252,053	\$ 133,276
Board designated for capital acquisitions	6,597	1,428
Restricted by donors for specific operating activities	4,099	5,000
	<u>\$ 262,749</u>	<u>\$ 139,704</u>

Lane County Hospital
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Notes to Financial Statements
December 31, 2013 and 2012

Note 4: Patient Accounts Receivable

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

	<u>2013</u>	<u>2012</u>
Medicare	\$ 198,876	\$ 209,620
Medicaid	92,419	59,405
Blue Cross	47,880	39,781
Other third-party payers	40,901	66,074
Self-pay	<u>338,306</u>	<u>334,069</u>
	718,382	708,949
Less allowance for uncollectible accounts	<u>(194,085)</u>	<u>(198,787)</u>
	<u>\$ 524,297</u>	<u>\$ 510,162</u>

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	<u>2013</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 29,188	\$ -	\$ -	\$ 29,188
Land improvements	63,117	-	-	63,117
Buildings	2,317,662	-	-	2,317,662
Fixed equipment	666,501	-	-	666,501
Major moveable equipment	<u>944,617</u>	<u>64,975</u>	<u>(16,328)</u>	<u>993,264</u>
	<u>4,021,085</u>	<u>64,975</u>	<u>(16,328)</u>	<u>4,069,732</u>
Less accumulated depreciation				
Land improvements	19,376	3,424	-	22,800
Buildings	1,848,283	90,235	-	1,938,518
Fixed equipment	594,872	9,001	-	603,873
Major moveable equipment	<u>833,729</u>	<u>59,976</u>	<u>(16,328)</u>	<u>877,377</u>
	<u>3,296,260</u>	<u>162,636</u>	<u>(16,328)</u>	<u>3,442,568</u>
Capital Assets, Net	<u>\$ 724,825</u>	<u>\$ (97,661)</u>	<u>\$ -</u>	<u>\$ 627,164</u>

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	2012			Ending Balance
	Beginning Balance	Additions	Disposals	
Land	\$ 29,188	\$ -	\$ -	\$ 29,188
Land improvements	63,117	-	-	63,117
Buildings	2,317,662	-	-	2,317,662
Fixed equipment	724,112	-	(57,611)	666,501
Major moveable equipment	1,229,999	-	(285,382)	944,617
	<u>4,364,078</u>	<u>-</u>	<u>(342,993)</u>	<u>4,021,085</u>
Less accumulated depreciation				
Land improvements	15,952	3,424	-	19,376
Buildings	1,752,892	95,391	-	1,848,283
Fixed equipment	642,915	9,568	(57,611)	594,872
Major moveable equipment	1,054,808	64,226	(285,305)	833,729
	<u>3,466,567</u>	<u>172,609</u>	<u>(342,916)</u>	<u>3,296,260</u>
Capital Assets, Net	<u>\$ 897,511</u>	<u>\$ (172,609)</u>	<u>\$ (77)</u>	<u>\$ 724,825</u>

Note 6: Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$300,000 of coverage for each medical incident and \$900,000 of aggregate coverage for each policy year.

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

Lane County Hospital
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Notes to Financial Statements
December 31, 2013 and 2012

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2013					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 91,901	\$ 57,973	\$ 46,610	\$ 103,264	\$ 43,408	\$ 59,856
	2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Capital lease obligations	\$ 124,722	\$ -	\$ 32,821	\$ 91,901	\$ 34,872	\$ 57,029

Capital Lease Obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases for the years ended December 31 are as follows:

	2013	2012
Equipment	\$ 230,178	\$ 172,205
Accumulated depreciation	(134,973)	(71,346)
	\$ 95,205	\$ 100,859

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The following is a schedule by year of future minimum lease payments under the capital lease including interest at rates of 4.50% to 8.00% together with the present value of the future minimum lease payments as of December 31:

Year Ending December 31,	Capital Lease	
	Principal	Interest
2014	\$ 43,408	\$ 5,227
2015	21,017	3,109
2016	13,655	2,263
2017	14,379	1,539
2018	2,387	778
2019 - 2021	8,418	1,078
	<u>\$ 103,264</u>	<u>\$ 13,994</u>

Note 8: Pension Plan

The Hospital maintains a defined contribution pension plan (401(a) plan) for all eligible employees. Eligibility is established by all employees who are at least 18 years of age and have completed one or more hours of service. Employer and mandated employee contributions are computed at the rate of 2% of annual compensation for all employees. The employer also makes supplemental contributions up to an additional 4% of the annual compensation that eligible employees voluntarily defers into the additional defined contribution plan as described below. 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 remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Contributions actually made by plan members and the Hospital aggregated \$89,778 and \$89,778 during 2013 and \$81,606 and \$81,606 during 2012, respectively. Benefits start vesting immediately with 100% vesting after five years of service. In case of death or disability, all funds contributed by the Hospital are 100% vested. In the case of termination of an employee prior to retirement, all funds contributed by the Hospital which are not vested will be returned to the Hospital.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled \$35,224 and \$29,581 during 2013 and 2012, respectively. The plan year begins on January 1 and ends December 31.

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Note 9: Management/Services Agreement

The Board has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2013 and 2012, were \$262,513 and \$223,423, respectively. Amounts due to GPHA at December 31, 2013 and 2012, totaled \$22,526 and \$19,818, respectively.

Note 10: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible that the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Kansas has not yet indicated whether or not it will participate in the expansion of the Medicaid program. The legislature has passed HCR 5013 indicating it does not intend to pursue Medicaid expansion, however, that is not yet law as of the date of this report. The impact of that decision on the overall reimbursement to the Hospital cannot be quantified at this point.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible that it will have a negative impact on the Hospital's net patient service revenue. Additionally, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.

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Note 11: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

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