

Allegan General Hospital

Notes To Financial Statements December 31, 1997 and 1996

Note 1 - Nature of Business and Significant Accounting Policies

The Hospital is a short-term, acute care facility providing inpatient and outpatient healthcare services to residents of Allegan, Michigan. The Hospital is a subsidiary of Allegan Healthcare Group, Inc. (AHG). AHG was established as a nonprofit tax-exempt corporation to exercise certain supervisory functions over Allegan General Hospital, its officers and board of trustees. In addition, AHG wholly owns, directs, supervises and controls the administrative and financial matters of Health Centers, Inc.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents - The Hospital considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Inventories - Inventories are valued at the lower of cost, as determined under the first-in, first-out method, or market.

Property and Equipment - Property and equipment are stated at cost. Depreciation and amortization are charged to operations using the straight-line method. Maintenance and repairs are charged to expense as incurred.

Self Insurance - The Hospital acts as a self insurer for health insurance benefits up to limits as provided for in an agreement with its insurance plan administrator. The cost of claims, including an estimate for unprocessed claims, is recognized as an operating expense in the year of the incident.

Tax Status - The Hospital is tax-exempt under the Internal Revenue Code, and accordingly, no tax provision is provided for in its financial statements.

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Allegan General Hospital

Notes To Financial Statements December 31, 1997 and 1996

Note 1 - Nature Of Business And Significant Accounting Policies (Continued)

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care was approximately 1% of gross charges for the years ended December 31, 1997 and 1996.

Excess of Revenue over Expenses - The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Hospital reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expirations of donor restrictions when the assets are placed in service.