

Morton County Health System
A Component Unit of Morton County, Kansas

Independent Accountants' Report and Financial Statements

December 31, 2011 and 2010

Morton County Health System
A Component Unit of Morton County, Kansas
December 31, 2011 and 2010

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Independent Accountants' Report

Board of Trustees
Morton County Health System
Elkhart, Kansas

We have audited the accompanying balance sheets of Morton County Health System, a component unit of Morton County, Kansas, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Morton County Health System as of December 31, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules for Net Patient Service Revenue, Contractual Allowances, Charity Care and Other Operating Revenues and Operating Expenses as listed in the table of 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 financial statements or to the 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 financial statements as a whole.

BKD, LLP

May 11, 2012

Morton County Health System
A Component Unit of Morton County, Kansas
Balance Sheets
December 31, 2011 and 2010

	2011	2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,233,609	\$ 914,542
Short-term certificates of deposit	707,809	689,277
Patient accounts receivable, net of allowance; 2011 - \$1,850,000, 2010 - \$1,891,000	1,936,243	1,978,419
Estimated amounts due from third-party payers	72,000	75,000
Supplies	547,776	623,930
Prepaid expenses and other	123,565	111,804
Total current assets	4,621,002	4,392,972
Capital Assets, Net	11,645,768	12,237,442
Total assets	\$ 16,266,770	\$ 16,630,414
 Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 648,411	\$ 702,428
Accrued expenses	1,030,188	1,229,005
Deferred revenue	22,475	22,475
Total current liabilities	1,701,074	1,953,908
 Net Assets		
Invested in capital assets, net of related debt	11,568,823	12,103,093
Unrestricted	2,996,873	2,573,413
Total net assets	14,565,696	14,676,506
Total liabilities and net assets	\$ 16,266,770	\$ 16,630,414

Morton County Health System
A Component Unit of Morton County, Kansas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$626,776, 2010 - \$605,019	\$ 13,827,808	\$ 14,773,871
Electronic health record incentive revenue	1,432,000	-
Other	40,695	34,414
Total operating revenues	15,300,503	14,808,285
Expenses		
Salaries and wages	9,507,060	9,710,021
Employee benefits	1,916,500	2,094,986
Contract services	722,676	953,646
Outside laboratory fees	71,135	70,119
Drugs	352,245	481,378
Medical and surgical supplies	756,399	678,094
Food	249,121	244,083
Utilities	470,495	421,758
Telephone	62,585	57,350
Legal and accounting	66,811	60,549
Dues	69,102	65,384
Insurance	180,176	175,048
Leases and rentals	248,008	271,950
Provider assessment	180,000	-
Other supplies and expenses	829,813	714,389
Depreciation	928,442	901,635
Total operating expenses	16,610,568	16,900,390
Operating Loss	(1,310,065)	(2,092,105)
Nonoperating Revenues		
County tax proceeds – intergovernmental revenue	1,150,000	1,029,372
Interest income	9,987	20,853
Noncapital gifts	9,538	17,504
Rental income	29,730	31,895
Total nonoperating revenues	1,199,255	1,099,624
Decrease in Net Assets	(110,810)	(992,481)
Net Assets, Beginning of Year	14,676,506	15,668,987
Net Assets, End of Year	\$ 14,565,696	\$ 14,676,506

Morton County Health System
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Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 13,872,984	\$ 14,732,947
Payments to suppliers and contractors	(4,190,786)	(4,093,389)
Payments to or on behalf of employees	(11,622,377)	(11,772,508)
Other receipts, net	1,477,100	58,723
Net cash used in operating activities	(463,079)	(1,074,227)
Noncapital Financing Activities		
Intergovernmental revenue	1,150,000	1,029,372
Noncapital gifts	9,538	17,504
Net cash provided by noncapital financing activities	1,159,538	1,046,876
Capital and Related Financing Activities		
Purchases of capital assets	(398,577)	(459,567)
Net cash used in capital and related financing activities	(398,577)	(459,567)
Investing Activities		
Interest income	9,987	20,853
Rental income	29,730	31,895
Proceeds from maturities of certificates of deposit	689,277	635,903
Purchases of certificates of deposit	(707,809)	-
Net cash provided by investing activities	21,185	688,651
Increase in Cash and Cash Equivalents	319,067	201,733
Cash and Cash Equivalents, Beginning of Year	914,542	712,809
Cash and Cash Equivalents, End of Year	\$ 1,233,609	\$ 914,542

Morton County Health System
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Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (1,310,065)	\$ (2,092,105)
Depreciation	928,442	901,635
Loss on sale/disposal of assets	4,405	24,309
Provision for uncollectible accounts	626,776	605,019
Changes in operating assets and liabilities		
Patient accounts receivable	(584,600)	(670,943)
Estimated amounts due from third-party payers	3,000	25,000
Supplies and prepaid expenses	64,393	34,910
Accounts payable and accrued expenses	(195,430)	97,948
Net cash used in operating activities	\$ (463,079)	\$ (1,074,227)
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 76,945	\$ 134,349

Morton County Health System
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Notes to Financial Statements
December 31, 2011 and 2010

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

Nature of Operations and Reporting Entity

Morton County Health System (System) is an acute care hospital located in Elkhart, Kansas. The System is a component unit of Morton County (County) and the Board of County Commissioners appoints members to the Board of Trustees of the System. The System primarily earns revenues by providing inpatient, outpatient, long-term health care services and an assisted living center for the benefit of the community.

Basis of Accounting and Presentation

The financial statements of the System have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific, such as intergovernmental revenue from property taxes and investment income, are included in nonoperating revenues and expenses. The System first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Government Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011 and 2010, cash equivalents consisted primarily of money market accounts.

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Intergovernmental Revenue

The System received approximately 7% in both 2011 and 2010 of its financial support from the proceeds of property taxes levied by the County and shared with the System for System purposes. One hundred percent of these funds were used to support operations in both years.

Taxes are assessed by the County in November and are received beginning in January of each year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Risk Management

The System 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; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than 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 Workers Risk Cooperative. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund.

Patient Accounts Receivable

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the System analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts.

For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for uncollectible accounts, if necessary.

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 System records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

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Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the System:

Building and land improvements	10 – 50 years
Fixed equipment	5 – 15 years
Major moveable equipment	3 – 20 years
Long-term care unit building and land improvements	10 – 50 years
Long-term care unit fixed equipment	5 – 15 years
Long-term care unit major moveable equipment	3 – 20 years

Compensated Absences

System 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 Assets

Net assets of the System are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets.

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Net Patient Service Revenue

The System has agreements with third-party payers that provide for payments to the System 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 System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the System 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 System is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The System recognizes revenue when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the System completed the first-year requirements under the Medicare program and has recorded revenue of approximately \$1,432,000.

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Subsequent Events

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

Note 2: Net Patient Service Revenue

The System recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the System's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the System records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of revenues, expenses and changes in net assets as a component of net patient service revenue.

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge or per billable service unit. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient gero-psychiatric and skilled nursing services (skilled swing-bed) are paid at prospectively determined per diem rates that are based on the patients' acuity. The System is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the System and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective reimbursement methodology. Medicaid reimbursement for long-term care facility residents is based on a cost-based prospective reimbursement methodology. The System is reimbursed at a prospective rate with annual costs 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. As part of a provider assessment program approved by CMS on February 2, 2011, rates were updated retroactively to July 1, 2010, using 2007, 2008 and 2009 cost report data. Additional net revenues relative to the provider assessment program for the period from July 1, 2010 through June 30, 2011 (the

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State’s fiscal year), were approximately \$81,000 and are included in 2011 change in net assets. Effective July 1, 2011, rates were updated using 2008, 2009 and 2010 cost report data.

Approximately 64% and 62% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible recorded estimates will change materially in the near term.

The System also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the System under the agreements includes prospectively determined rates per discharge and discounts from established charges.

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 System’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, 2011 and 2010, \$975,413 and \$739,762 of the System’s bank balances of \$1,636,353 and \$1,648,293, respectively, were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution’s trust department or agent in other than the System’s name	<u>\$ 975,413</u>	<u>\$ 739,762</u>

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Notes to Financial Statements
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Summary of Carrying Values

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

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 1,940,718	\$ 1,603,119
Petty cash	700	700
	<u>\$ 1,941,418</u>	<u>\$ 1,603,819</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,233,609	\$ 914,542
Short-term certificates of deposit	707,809	689,277
	<u>\$ 1,941,418</u>	<u>\$ 1,603,819</u>

Note 4: Patient Accounts Receivable

The System 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, 2011 and 2010, consisted of:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 1,037,778	\$ 1,020,490
Medicaid	184,905	217,048
Blue Cross	254,613	327,338
Other third-party payers	241,736	193,986
Patients	2,067,211	2,110,557
	<u>3,786,243</u>	<u>3,869,419</u>
Less allowance for uncollectible accounts	1,850,000	1,891,000
	<u>\$ 1,936,243</u>	<u>\$ 1,978,419</u>

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Notes to Financial Statements
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Note 5: Capital Assets

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

	2011				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Building and land improvements	\$ 6,918,519	\$ -	\$ -	\$ 19,730	\$ 6,938,249
Fixed equipment	2,658,552	-	-	-	2,658,552
Major moveable equipment	7,515,900	242,983	(27,425)	-	7,731,458
Care center and assisted living building and land improvements	9,935,162	21,930	-	-	9,957,092
Care center and assisted living fixed equipment	1,244,220	-	-	-	1,244,220
Care center and assisted living major moveable equipment	1,036,675	49,396	(12,833)	-	1,073,238
Construction in progress	5,174	26,864	-	(19,730)	12,308
	<u>29,314,202</u>	<u>341,173</u>	<u>(40,258)</u>	<u>-</u>	<u>29,615,117</u>
Less accumulated depreciation					
Building and land improvements	4,138,311	165,710	-	-	4,304,021
Fixed equipment	2,239,557	56,197	-	-	2,295,754
Major moveable equipment	6,190,355	382,799	(24,870)	-	6,548,284
Care center and assisted living building and land improvements	2,672,582	233,602	(1,356)	-	2,904,828
Care center and assisted living fixed equipment	1,083,089	29,639	-	-	1,112,728
Care center and assisted living major moveable equipment	752,866	60,495	(9,627)	-	803,734
	<u>17,076,760</u>	<u>928,442</u>	<u>(35,853)</u>	<u>-</u>	<u>17,969,349</u>
Capital Assets, Net	<u>\$ 12,237,442</u>	<u>\$ (587,269)</u>	<u>\$ (4,405)</u>	<u>\$ -</u>	<u>\$ 11,645,768</u>

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	2010				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Building and land improvements	\$ 6,700,213	\$ 47,996	\$ -	\$ 170,310	\$ 6,918,519
Fixed equipment	2,658,552	-	-	-	2,658,552
Major moveable equipment	7,057,096	509,643	(56,074)	5,235	7,515,900
Care center and assisted living building and land improvements	9,935,162	-	-	-	9,935,162
Care center and assisted living fixed equipment	1,244,220	-	-	-	1,244,220
Care center and assisted living major moveable equipment	1,019,499	-	(13,866)	31,042	1,036,675
Construction in progress	175,484	36,277	-	(206,587)	5,174
	<u>28,790,226</u>	<u>593,916</u>	<u>(69,940)</u>	<u>-</u>	<u>29,314,202</u>
Less accumulated depreciation					
Building and land improvements	3,973,972	164,339	-	-	4,138,311
Fixed equipment	2,169,275	70,282	-	-	2,239,557
Major moveable equipment	5,875,210	347,431	(32,286)	-	6,190,355
Care center and assisted living building and land improvements	2,441,539	231,043	-	-	2,672,582
Care center and assisted living fixed equipment	1,052,046	31,043	-	-	1,083,089
Care center and assisted living major moveable equipment	708,714	57,497	(13,345)	-	752,866
	<u>16,220,756</u>	<u>901,635</u>	<u>(45,631)</u>	<u>-</u>	<u>17,076,760</u>
Capital Assets, Net	<u>\$ 12,569,470</u>	<u>\$ (307,719)</u>	<u>\$ (24,309)</u>	<u>\$ -</u>	<u>\$ 12,237,442</u>

Note 6: Medical Malpractice Claims

The System purchases medical malpractice insurance 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 \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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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 System's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Designated Net Assets

At December 31, 2011 and 2010, \$44,091 and \$28,506, respectively, of unrestricted net assets has been designated by the System's Board of Trustees for capital acquisitions. Designated net assets remain under the control of the Board of Trustees, which may at its discretion later use these net assets for other purposes.

Note 8: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014. These leases generally contain renewal and/or buyout options which require the System to pay some executory costs including property taxes and insurance. The lease agreement contains an option to upgrade the equipment within the first 24 months of the lease term. Rental payments include minimum rentals.

Future minimum lease payments at December 31, 2011, were:

2012	\$ 230,340
2013	221,940
2014	<u>203,445</u>
Future minimum lease payments	<u><u>\$ 655,725</u></u>

Rental expense incurred on operating leases for 2011 and 2010 was \$248,008 and \$271,950, respectively.

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Note 9: Pension Plan

The System contributes to a defined contribution pension plan and deferred compensation plan covering substantially all employees. Pension expense is recorded for the amount of the System's required contributions, determined in accordance with the terms of the plans. The plans are administered by Trustees appointed by the Morton County Board of Trustees. The plans provide retirement benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan documents and were established and can be amended by action of the System's governing body. Contribution rates for plan members and the System expressed as a percentage of covered payroll were 4.9% and 1.7% for 2011 and 5.1% and 3.0% for 2010, respectively. Contributions actually made by plan members and the System aggregated \$463,960 and \$166,135 (net of forfeitures of approximately \$74,000) during 2011 and \$493,960 and \$284,401 during 2010, respectively.

Note 10: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the System.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the government may have an adverse effect on cash flows related to the Medicare and Medicaid programs.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the System's ability to maintain sufficient liquidity.

Supplementary Information

Morton County Health System
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Schedules of Net Patient Service Revenue
Years Ended December 31, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Hospital			
Nursing, dietary and room service	\$ 1,148,335	\$ 571,022	\$ 1,719,357
Intensive care	106,845	-	106,845
Swing-beds	177,102	-	177,102
Gero-psychiatric unit	1,173,065	-	1,173,065
Operating room	46,859	291,549	338,408
Anesthesiology	38,821	137,734	176,555
Nuclear medicine	2,279	56,743	59,022
CT scans	179,185	386,925	566,110
Radiology sonogram	37,367	94,768	132,135
MRI	4,500	199,500	204,000
Radiology	72,836	317,368	390,204
Laboratory	889,301	1,581,173	2,470,474
Respiratory therapy	500,972	110,355	611,327
Physical therapy	70,730	204,445	275,175
Occupational therapy	23,933	36,437	60,370
Electrocardiology	29,938	81,538	111,476
Central service	288,690	182,105	470,795
Pharmacy	2,076,786	705,918	2,782,704
Emergency	40,440	253,207	293,647
Radiology physician	(249)	249	-
Emergency room physician	-	313,306	313,306
Clinic	-	1,499,854	1,499,854
Lifeline	-	120	120
	<u>6,907,735</u>	<u>7,024,316</u>	<u>13,932,051</u>
Long-term Care Unit			
Nursing, dietary and room service	3,337,992	-	3,337,992
Central service and supply	112,370	-	112,370
	<u>3,450,362</u>	<u>-</u>	<u>3,450,362</u>
	<u>568,120</u>	<u>-</u>	<u>568,120</u>
Assisted Living Center			
Gross patient service revenue	<u>\$ 10,926,217</u>	<u>\$ 7,024,316</u>	17,950,533
Contractual allowances and charity care			<u>4,122,725</u>
Net patient service revenue			<u>\$ 13,827,808</u>

2010		
Inpatient	Outpatient	Total
\$ 1,389,122	\$ 418,068	\$ 1,807,190
116,571	-	116,571
213,357	-	213,357
1,482,000	-	1,482,000
73,667	387,451	461,118
74,945	217,814	292,759
5,638	52,773	58,411
231,864	364,154	596,018
61,030	99,801	160,831
12,000	211,500	223,500
100,728	351,969	452,697
1,090,827	1,397,270	2,488,097
531,175	92,527	623,702
66,593	268,275	334,868
23,042	21,495	44,537
43,357	71,763	115,120
275,787	170,870	446,657
2,408,048	544,673	2,952,721
49,960	200,446	250,406
104,302	251,816	356,118
-	268,777	268,777
-	1,733,926	1,733,926
-	3,510	3,510
<u>8,354,013</u>	<u>7,128,878</u>	<u>15,482,891</u>
3,495,286	-	3,495,286
110,077	-	110,077
<u>3,605,363</u>	<u>-</u>	<u>3,605,363</u>
<u>550,995</u>	<u>-</u>	<u>550,995</u>
<u>\$ 12,510,371</u>	<u>\$ 7,128,878</u>	19,639,249
		<u>4,865,378</u>
		<u>\$ 14,773,871</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Contractual Allowances, Charity Care and Other Operating Revenues
Years Ended December 31, 2011 and 2010

	2011	2010
Contractual Allowances and Charity Care		
Charity Care	\$ (2,000)	\$ 18,216
Contractual Allowances		
Medicare		
Hospital	2,460,901	2,798,814
Medicaid		
Hospital	342,629	461,951
Long-term care unit	(171,047)	150,998
Blue Cross	473,286	468,809
Commercial insurers	250,468	228,531
Administrative adjustments	141,712	133,040
Provision for uncollectible accounts	626,776	605,019
	\$ 4,122,725	\$ 4,865,378
 Other Operating Revenues		
Loss on disposal of capital assets	\$ (4,405)	\$ (24,309)
Cafeteria sales	41,128	47,044
Chart fees	6,784	4,661
Other	(2,812)	7,018
	\$ 40,695	\$ 34,414

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Hospital
Years Ended December 31, 2011 and 2010

	2011		
	Salaries	Other	Total
Nursing service	\$ 954,995	\$ 72,316	\$ 1,027,311
Intensive care	44,656	5,396	50,052
Gero-psychiatric unit	745,536	106,290	851,826
Operating room	139,727	58,178	197,905
Anesthesiology	289,016	14,792	303,808
Nuclear medicine	20,735	44,154	64,889
CT scans	15,744	222,253	237,997
MRI	-	45,474	45,474
Radiology	238,770	108,580	347,350
Laboratory	341,313	346,224	687,537
Respiratory therapy	183,732	81,314	265,046
Physical therapy	194,581	8,237	202,818
Occupational therapy	93,775	1,081	94,856
Electrocardiology	37,457	15,942	53,399
Cardiac rehabilitation	38,992	289	39,281
Central service	-	165,938	165,938
Pharmacy	45,790	492,264	538,054
Emergency room	389,084	96,136	485,220
Clinic	1,682,661	280,525	1,963,186
Lifeline	-	67	67
Depreciation	-	604,706	604,706
Employee benefits	19,264	1,462,191	1,481,455
Administration and general	560,211	791,567	1,351,778
Plant operations	257,834	302,061	559,895
Laundry and linen	44,526	12,088	56,614
Housekeeping	62,543	11,468	74,011
Dietary	153,754	103,775	257,529
Nursing administration	211,613	20,458	232,071
Medical records	129,578	52,313	181,891
Social service	6,104	82	6,186
Activities	19,996	3,926	23,922
	<u>6,921,987</u>	<u>5,530,085</u>	<u>12,452,072</u>
Long-term care unit	2,239,772	1,225,394	3,465,166
Assisted living center	<u>345,301</u>	<u>348,029</u>	<u>693,330</u>
	<u>\$ 9,507,060</u>	<u>\$ 7,103,508</u>	<u>\$ 16,610,568</u>

2010		
Salaries	Other	Total
\$ 969,146	\$ 53,506	\$ 1,022,652
38,159	4,241	42,400
746,772	74,471	821,243
209,763	106,174	315,937
206,254	8,471	214,725
10,378	47,663	58,041
15,834	312,774	328,608
-	67,349	67,349
231,186	220,119	451,305
320,490	355,036	675,526
173,108	66,068	239,176
147,791	37,569	185,360
58,959	2,031	60,990
39,835	20,750	60,585
38,664	808	39,472
-	117,374	117,374
43,923	614,746	658,669
411,956	78,899	490,855
1,852,201	286,754	2,138,955
315	2,039	2,354
-	582,052	582,052
26,037	1,536,087	1,562,124
507,872	560,283	1,068,155
252,762	287,218	539,980
42,219	14,045	56,264
62,654	11,462	74,116
156,620	91,646	248,266
244,947	23,501	268,448
167,977	23,016	190,993
6,737	46	6,783
22,863	4,750	27,613
<u>7,005,422</u>	<u>5,610,948</u>	<u>12,616,370</u>
2,331,821	1,250,046	3,581,867
<u>372,778</u>	<u>329,375</u>	<u>702,153</u>
<u><u>\$ 9,710,021</u></u>	<u><u>\$ 7,190,369</u></u>	<u><u>\$ 16,900,390</u></u>

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Long-term Care Unit
Years Ended December 31, 2011 and 2010

	2011		
	Salaries	Other	Total
Nursing service	\$ 1,287,681	\$ 54,750	\$ 1,342,431
Central service and supplies	-	43,552	43,552
Pharmacy	-	1,213	1,213
Activities	75,429	10,571	86,000
Depreciation	-	192,578	192,578
Employee benefits	-	413,508	413,508
Administration and general	212,864	77,238	290,102
Plant operation and maintenance	78,858	208,988	287,846
Laundry and linen	57,318	10,527	67,845
Housekeeping	73,705	10,990	84,695
Dietary	225,479	198,885	424,364
Nursing administration	159,096	1,535	160,631
Medical records	30,435	874	31,309
Social service	38,907	185	39,092
	<u>\$ 2,239,772</u>	<u>\$ 1,225,394</u>	<u>\$ 3,465,166</u>

2010		
Salaries	Other	Total
\$ 1,351,357	\$ 44,406	\$ 1,395,763
-	41,999	41,999
-	705	705
80,933	8,996	89,929
-	188,224	188,224
-	509,986	509,986
197,158	57,161	254,319
91,158	174,233	265,391
60,554	15,332	75,886
72,527	11,209	83,736
225,073	195,970	421,043
172,911	1,013	173,924
43,088	742	43,830
37,062	70	37,132
\$ 2,331,821	\$ 1,250,046	\$ 3,581,867
\$ 2,331,821	\$ 1,250,046	\$ 3,581,867