

Morton County Health System

Independent Auditor's Report and Financial Statements

December 31, 2012 and 2011



Morton County Health System
A Component Unit of Morton County, Kansas
December 31, 2012 and 2011

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Morton County Health System
Elkhart, Kansas

We have audited the accompanying financial statements of Morton County Health System, a component unit of Morton County, Kansas, which comprise the balance sheets as of December 31, 2012 and 2011, 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 provisions of the Kansas Municipal Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Morton County Health System as of December 31, 2012 and 2011, 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.

Required Supplementary Information

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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are 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

Wichita, Kansas
June 12, 2013

Morton County Health System
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Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 998,232	\$ 1,233,609
Short-term certificates of deposit	723,380	707,809
Patient accounts receivable, net of allowance; 2012 - \$1,740,000, 2011 - \$1,850,000	1,394,530	1,936,243
Estimated amounts due from third-party payers	327,583	72,000
Supplies	545,899	547,776
Prepaid expenses and other	111,622	123,565
Total current assets	4,101,246	4,621,002
Capital Assets, Net	10,974,524	11,645,768
Total assets	\$ 15,075,770	\$ 16,266,770
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 369,998	\$ 648,411
Accrued expenses	1,162,896	1,030,188
Deferred revenue	-	22,475
Total current liabilities	1,532,894	1,701,074
Net Position		
Net investments in capital assets	10,950,457	11,568,823
Unrestricted	2,592,419	2,996,873
Total net position	13,542,876	14,565,696
Total liabilities and net position	\$ 15,075,770	\$ 16,266,770

Morton County Health System
A Component Unit of Morton County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$636,443, 2011 - \$626,776	\$ 12,284,837	\$ 13,827,808
Electronic health record incentive revenue	1,323,682	1,432,000
Other	36,481	40,695
Total operating revenues	<u>13,645,000</u>	<u>15,300,503</u>
Expenses		
Salaries and wages	8,703,727	9,507,060
Employee benefits	2,002,688	1,916,500
Contract services	982,419	722,676
Outside laboratory fees	71,551	71,135
Drugs	358,873	352,245
Medical and surgical supplies	639,794	756,399
Food	235,060	249,121
Utilities	414,166	460,653
Telephone	66,600	72,427
Legal and accounting	52,166	66,811
Insurance	134,325	180,176
Leases and rentals	281,008	248,008
Provider assessment	120,000	180,000
Other supplies and expenses	818,473	898,915
Depreciation	948,309	928,442
Total operating expenses	<u>15,829,159</u>	<u>16,610,568</u>
Operating Loss	<u>(2,184,159)</u>	<u>(1,310,065)</u>
Nonoperating Revenues		
County tax proceeds – intergovernmental revenue	1,139,922	1,150,000
Interest income	7,222	9,987
Noncapital gifts	(11,875)	9,538
Rental income	26,070	29,730
Total nonoperating revenues	<u>1,161,339</u>	<u>1,199,255</u>
Decrease in Net Position	(1,022,820)	(110,810)
Net Position, Beginning of Year	<u>14,565,696</u>	<u>14,676,506</u>
Net Position, End of Year	<u><u>\$ 13,542,876</u></u>	<u><u>\$ 14,565,696</u></u>

Morton County Health System
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Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 12,548,492	\$ 13,872,984
Payments to suppliers and contractors	(4,386,150)	(4,190,786)
Payments to or on behalf of employees	(10,573,707)	(11,622,377)
Other receipts, net	<u>1,363,997</u>	<u>1,477,100</u>
Net cash used in operating activities	<u>(1,047,368)</u>	<u>(463,079)</u>
Noncapital Financing Activities		
Intergovernmental revenue	1,139,922	1,150,000
Noncapital gifts	<u>(11,875)</u>	<u>9,538</u>
Net cash provided by noncapital financing activities	<u>1,128,047</u>	<u>1,159,538</u>
Capital and Related Financing Activities		
Purchases of capital assets	<u>(333,777)</u>	<u>(398,577)</u>
Net cash used in capital and related financing activities	<u>(333,777)</u>	<u>(398,577)</u>
Investing Activities		
Interest income	7,222	9,987
Rental income	26,070	29,730
Proceeds from maturities of certificates of deposit	707,809	689,277
Purchases of certificates of deposit	<u>(723,380)</u>	<u>(707,809)</u>
Net cash provided by investing activities	<u>17,721</u>	<u>21,185</u>
Increase (Decrease) in Cash and Cash Equivalents	(235,377)	319,067
Cash and Cash Equivalents, Beginning of Year	<u>1,233,609</u>	<u>914,542</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 998,232</u></u>	<u><u>\$ 1,233,609</u></u>

Morton County Health System
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Statements of Cash Flows (Continued)
Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (2,184,159)	\$ (1,310,065)
Depreciation	948,309	928,442
Loss on sale/disposal of assets	3,834	4,405
Provision for uncollectible accounts	636,443	626,776
Changes in operating assets and liabilities		
Patient accounts receivable	(94,730)	(584,600)
Estimated amounts due from and to third-party payers	(255,583)	3,000
Supplies and prepaid expenses	13,820	64,393
Accounts payable and accrued expenses	<u>(115,302)</u>	<u>(195,430)</u>
Net cash used in operating activities	<u><u>\$ (1,047,368)</u></u>	<u><u>\$ (463,079)</u></u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 24,067	\$ 76,945

Morton County Health System
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Notes to Financial Statements
December 31, 2012 and 2011

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB).

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.

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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, 2012 and 2011, cash equivalents consisted primarily of money market accounts.

Intergovernmental Revenue

The System received approximately 8% and 7% in 2012 and 2011, respectively, 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.

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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.

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.

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Net Position

Net position of the System are classified in two components. Net investment in capital assets 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 position are remaining assets less remaining liabilities that do not meet the definition of investment in capital assets.

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 (CMS). 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

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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 2012 and 2011, the System qualified as a meaningful user for both the Medicare and Medicaid programs and has recorded revenues of approximately \$1,323,000 and \$1,432,000, respectively.

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 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 position 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.

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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. Prior to 2011, rates were computed each calendar quarter using an average of the 2005, 2006 and 2007 cost reports and changes in the Medicaid resident case mix index. 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 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. Rates were not rebased or inflated as of July 1, 2012. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 62% and 65% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2012 and 2011, 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.

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.

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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.

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, 2012 and 2011, \$1,080,119 and \$975,413 of the System's bank balances of \$1,734,975 and \$1,636,353, respectively, were exposed to custodial credit risk as follows:

	<u>2012</u>	<u>2011</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the System's name	<u>\$ 1,080,119</u>	<u>\$ 975,413</u>

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Summary of Carrying Values

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

	2012	2011
Carrying value		
Deposits	\$ 1,720,912	\$ 1,940,718
Petty cash	700	700
	<u>\$ 1,721,612</u>	<u>\$ 1,941,418</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 998,232	\$ 1,233,609
Short-term certificates of deposit	723,380	707,809
	<u>\$ 1,721,612</u>	<u>\$ 1,941,418</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, 2012 and 2011, consisted of:

	2012	2011
Medicare	\$ 559,244	\$ 1,037,778
Medicaid	194,916	184,905
Blue Cross	278,127	254,613
Other third-party payers	176,028	241,736
Patients	<u>1,926,215</u>	<u>2,067,211</u>
	3,134,530	3,786,243
Less allowance for uncollectible accounts	<u>1,740,000</u>	<u>1,850,000</u>
	<u>\$ 1,394,530</u>	<u>\$ 1,936,243</u>

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Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2012 and 2011, was:

	2012				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Building and land improvements	\$ 6,938,249	\$ -	\$ -	\$ -	\$ 6,938,249
Fixed equipment	2,658,552	23,571	-	39,223	2,721,346
Major moveable equipment	7,731,458	141,337	(73,784)	7,874	7,806,885
Care center and assisted living building and land improvements	9,957,092	-	-	-	9,957,092
Care center and assisted living fixed equipment	1,244,220	9,116	-	-	1,253,336
Care center and assisted living major moveable equipment	1,073,238	66,880	(34,867)	-	1,105,251
Construction in progress	12,308	39,995	-	(47,097)	5,206
	<u>29,615,117</u>	<u>280,899</u>	<u>(108,651)</u>	<u>-</u>	<u>29,787,365</u>
Less accumulated depreciation					
Building and land improvements	4,304,021	163,483	-	-	4,467,504
Fixed equipment	2,295,754	52,879	-	-	2,348,633
Major moveable equipment	6,548,284	412,432	(70,845)	-	6,889,871
Care center and assisted living building and land improvements	2,904,828	232,599	-	-	3,137,427
Care center and assisted living fixed equipment	1,112,728	25,399	-	-	1,138,127
Care center and assisted living major moveable equipment	803,734	61,517	(33,972)	-	831,279
	<u>17,969,349</u>	<u>948,309</u>	<u>(104,817)</u>	<u>-</u>	<u>18,812,841</u>
Capital Assets, Net	<u>\$ 11,645,768</u>	<u>\$ (667,410)</u>	<u>\$ (3,834)</u>	<u>\$ -</u>	<u>\$ 10,974,524</u>

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	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
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>

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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Notes to Financial Statements
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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 Position

At December 31, 2012 and 2011, \$64,711 and \$44,091, respectively, of unrestricted net position has been designated by the System's Board of Trustees for capital acquisitions. Designated net position remains under the control of the Board of Trustees, which may at its discretion later use this net position for other purposes.

Note 8: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2015. 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, 2012, were:

2013	\$ 276,288
2014	257,793
2015	<u>4,529</u>
Future minimum lease payments	<u>\$ 538,610</u>

Rental expense incurred on operating leases for 2012 and 2011 was \$281,008 and \$248,008, respectively.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2012 and 2011

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 2.9% and 2.3% for 2012 and 4.8% and 1.7% for 2011, respectively. Contributions actually made by plan members and the System aggregated \$254,175 and \$204,195 (net of forfeitures of approximately \$17,000) during 2012 and \$453,253 and \$166,135 (net of forfeitures of approximately \$74,000) during 2011, 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
A Component Unit of Morton County, Kansas
Schedules of Net Patient Service Revenue
Years Ended December 31, 2012 and 2011

	2012		
	Inpatient	Outpatient	Total
Hospital			
Nursing, dietary and room service	\$ 837,678	\$ 604,014	\$ 1,441,692
Intensive care	82,845	-	82,845
Swing-beds	85,020	-	85,020
Gero-psychiatric unit	943,050	-	943,050
Operating room	28,288	246,417	274,705
Anesthesiology	35,830	139,138	174,968
Nuclear medicine	435	84,379	84,814
CT scans	114,216	359,027	473,243
Radiology sonogram	24,507	74,464	98,971
MRI	13,500	204,000	217,500
Radiology	39,642	291,539	331,181
Laboratory	579,619	1,652,328	2,231,947
Respiratory therapy	317,760	123,046	440,806
Physical therapy	43,382	226,714	270,096
Occupational therapy	6,649	21,011	27,660
Electrocardiology	18,788	83,511	102,299
Central service	189,351	191,183	380,534
Pharmacy	1,345,023	718,177	2,063,200
Emergency	24,128	231,403	255,531
Radiology physician	-	-	-
Emergency room physician	-	303,442	303,442
Clinic	-	1,639,028	1,639,028
Lifeline	-	-	-
Total hospital	4,729,711	7,192,821	11,922,532
Long-term Care Unit			
Nursing, dietary and room service	3,410,134	-	3,410,134
Central service and supply	70,656	-	70,656
Total long-term care unit	3,480,790	-	3,480,790
Assisted Living Center	588,005	-	588,005
Gross patient service revenue	<u>\$ 8,798,506</u>	<u>\$ 7,192,821</u>	15,991,327
Contractual allowances and charity care			<u>3,706,490</u>
Net patient service revenue			<u>\$ 12,284,837</u>

2011		
Inpatient	Outpatient	Total
\$ 1,148,335	\$ 571,022	\$ 1,719,357
106,845	-	106,845
177,102	-	177,102
1,173,065	-	1,173,065
46,859	291,549	338,408
38,821	137,734	176,555
2,279	56,743	59,022
179,185	386,925	566,110
37,367	94,768	132,135
4,500	199,500	204,000
72,836	317,368	390,204
889,301	1,581,173	2,470,474
500,972	110,355	611,327
70,730	204,445	275,175
23,933	36,437	60,370
29,938	81,538	111,476
288,690	182,105	470,795
2,076,786	705,918	2,782,704
40,440	253,207	293,647
(249)	249	-
-	313,306	313,306
-	1,499,854	1,499,854
-	120	120
<u>6,907,735</u>	<u>7,024,316</u>	<u>13,932,051</u>
3,337,992	-	3,337,992
<u>112,370</u>	<u>-</u>	<u>112,370</u>
<u>3,450,362</u>	<u>-</u>	<u>3,450,362</u>
<u>568,120</u>	<u>-</u>	<u>568,120</u>
<u>\$ 10,926,217</u>	<u>\$ 7,024,316</u>	17,950,533
		<u>4,122,725</u>
		<u>\$ 13,827,808</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, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Contractual Allowances and Charity Care		
Charity Care	\$ 753	\$ (2,000)
Contractual Allowances		
Medicare		
Hospital	1,788,593	2,460,901
Medicaid		
Hospital	517,431	342,629
Long-term care unit	(86,654)	(171,047)
Blue Cross	584,438	473,286
Commercial insurers	151,179	250,468
Administrative adjustments	116,302	141,712
Provision for uncollectible accounts	634,448	626,776
	<u>\$ 3,706,490</u>	<u>\$ 4,122,725</u>
Other Operating Revenues		
Loss on disposal of capital assets	\$ (3,834)	\$ (4,405)
Cafeteria sales	34,151	41,128
Chart fees	2,738	6,784
Other	3,426	(2,812)
	<u>\$ 36,481</u>	<u>\$ 40,695</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Hospital
Years Ended December 31, 2012 and 2011

	2012		
	Salaries	Other	Total
Nursing service	\$ 817,938	\$ 39,196	\$ 857,134
Intensive care	22,545	2,949	25,494
Gero-psychiatric unit	674,912	59,328	734,240
Operating room	141,733	104,135	245,868
Anesthesiology	272,055	17,321	289,376
Nuclear medicine	17,218	43,299	60,517
CT scans	13,997	224,026	238,023
MRI	-	45,425	45,425
Radiology	214,798	114,030	328,828
Laboratory	314,641	331,352	645,993
Respiratory therapy	179,510	65,195	244,705
Physical therapy	199,366	4,801	204,167
Occupational therapy	42,380	1,274	43,654
Electrocardiology	35,624	14,194	49,818
Cardiac rehabilitation	38,979	1,560	40,539
Central service	-	136,305	136,305
Pharmacy	44,817	444,496	489,313
Emergency room	322,458	132,444	454,902
Clinic	1,511,509	271,500	1,783,009
Lifeline	-	300	300
Depreciation	-	628,794	628,794
Employee benefits	12,161	1,488,448	1,500,609
Administration and general	490,102	653,100	1,143,202
Plant operations	222,308	310,308	532,616
Laundry and linen	39,724	14,728	54,452
Housekeeping	58,680	10,182	68,862
Dietary	146,786	87,279	234,065
Nursing administration	217,457	32,358	249,815
Medical records	136,300	52,350	188,650
Social service	5,287	13	5,300
Activities	18,789	2,944	21,733
	<u>6,212,074</u>	<u>5,333,634</u>	<u>11,545,708</u>
Long-term care unit	2,117,945	1,431,334	3,549,279
Assisted living center	<u>373,708</u>	<u>360,464</u>	<u>734,172</u>
	<u>\$ 8,703,727</u>	<u>\$ 7,125,432</u>	<u>\$ 15,829,159</u>

2011		
Salaries	Other	Total
\$ 954,995	\$ 72,316	\$ 1,027,311
44,656	5,396	50,052
745,536	106,290	851,826
139,727	58,178	197,905
289,016	14,792	303,808
20,735	44,154	64,889
15,744	222,253	237,997
-	45,474	45,474
238,770	108,580	347,350
341,313	346,224	687,537
183,732	81,314	265,046
194,581	8,237	202,818
93,775	1,081	94,856
37,457	15,942	53,399
38,992	289	39,281
-	165,938	165,938
45,790	492,264	538,054
389,084	96,136	485,220
1,682,661	280,525	1,963,186
-	67	67
-	604,706	604,706
19,264	1,462,191	1,481,455
560,211	791,567	1,351,778
257,834	302,061	559,895
44,526	12,088	56,614
62,543	11,468	74,011
153,754	103,775	257,529
211,613	20,458	232,071
129,578	52,313	181,891
6,104	82	6,186
19,996	3,926	23,922
6,921,987	5,530,085	12,452,072
2,239,772	1,225,394	3,465,166
345,301	348,029	693,330
<u>\$ 9,507,060</u>	<u>\$ 7,103,508</u>	<u>\$ 16,610,568</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Long-term Care Unit
Years Ended December 31, 2012 and 2011

	2012		
	Salaries	Other	Total
Nursing service	\$ 1,227,310	\$ 267,257	\$ 1,494,567
Central service and supplies	-	36,186	36,186
Pharmacy	-	30,717	30,717
Activities	84,898	12,539	97,437
Depreciation	-	188,579	188,579
Employee benefits	-	456,653	456,653
Administration and general	182,656	56,580	239,236
Plant operation and maintenance	58,938	157,210	216,148
Laundry and linen	54,053	17,778	71,831
Housekeeping	79,556	11,781	91,337
Dietary	209,000	194,722	403,722
Nursing administration	153,075	568	153,643
Medical records	30,099	685	30,784
Social service	38,360	79	38,439
	<u>\$ 2,117,945</u>	<u>\$ 1,431,334</u>	<u>\$ 3,549,279</u>

2011		
Salaries	Other	Total
\$ 1,287,681	\$ 54,750	\$ 1,342,431
-	43,552	43,552
-	1,213	1,213
75,429	10,571	86,000
-	192,578	192,578
-	413,508	413,508
212,864	77,238	290,102
78,858	208,988	287,846
57,318	10,527	67,845
73,705	10,990	84,695
225,479	198,885	424,364
159,096	1,535	160,631
30,435	874	31,309
38,907	185	39,092
<u>\$ 2,239,772</u>	<u>\$ 1,225,394</u>	<u>\$ 3,465,166</u>