

Morton County Health System

Auditor's Report and Financial Statements

December 31, 2013 and 2012



Morton County Health System
A Component Unit of Morton County, Kansas
December 31, 2013 and 2012

Contents

Independent Auditor’s Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Revenues, Expenses and Changes in Net Position 4
Statements of Cash Flows..... 5
Notes to Financial Statements 7

Supplementary Information

Schedules of Net Patient Service Revenue..... 18
Schedules of Contractual Allowances, Charity Care and Other Operating Revenues 19
Schedules of Operating Expenses – Hospital 20
Schedules of Operating Expenses – Long-term Care Unit 21

Independent Auditor's 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, 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 provisions of the Kansas Municipal Audit and Accounting 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, 2013 and 2012, 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.

Other Matters

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
September 22, 2014

Morton County Health System
A Component Unit of Morton County, Kansas
Balance Sheets
December 31, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 365,319	\$ 998,232
Short-term certificates of deposit	83,105	723,380
Patient accounts receivable, net of allowance; 2013 - \$1,110,000, 2012 - \$1,740,000	1,722,933	1,453,752
Estimated amounts due from third-party payers	-	268,053
Supplies	630,779	545,899
Prepaid expenses and other	75,945	111,930
Total current assets	2,878,081	4,101,246
Capital Assets, Net	10,258,047	10,974,524
Other Assets		
Cash held by County - No Fund Warrants	2,500,000	-
Total assets	\$ 15,636,128	\$ 15,075,770
 Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 662,300	\$ 369,998
Accrued expenses	876,151	1,162,896
Estimated amounts due to third-party payers	149,528	-
Total current liabilities	1,687,979	1,532,894
Net Position		
Net investments in capital assets	10,258,047	10,950,457
Unrestricted	3,690,102	2,592,419
Total net position	13,948,149	13,542,876
Total liabilities and net position	\$ 15,636,128	\$ 15,075,770

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

	2013	2012
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2013 - \$629,130, 2012 - \$636,443	\$ 11,928,664	\$ 12,284,837
Electronic health record incentive revenue	3,600	1,323,682
Other	113,800	36,481
	<u>12,046,064</u>	<u>13,645,000</u>
Expenses		
Salaries and wages	9,013,630	8,703,727
Employee benefits	1,921,117	2,002,688
Contract services	1,057,556	982,419
Outside laboratory fees	90,689	71,551
Drugs	402,776	358,873
Medical and surgical supplies	708,158	639,794
Food	247,171	235,060
Utilities	478,557	414,166
Telephone	70,007	66,600
Legal and accounting	63,504	52,166
Insurance	220,046	134,325
Leases and rentals	283,677	281,008
Provider assessment	120,000	120,000
Other supplies and expenses	831,800	818,473
Depreciation	911,347	948,309
	<u>16,420,035</u>	<u>15,829,159</u>
	<u>(4,373,971)</u>	<u>(2,184,159)</u>
Nonoperating Revenues		
Noncapital appropriations - Morton County	1,735,500	1,139,922
No fund warrants	3,000,000	-
Interest income	1,057	7,222
Noncapital gifts	5,374	(11,875)
Rental income	37,313	26,070
	<u>4,779,244</u>	<u>1,161,339</u>
Increase (Decrease) in Net Position	405,273	(1,022,820)
Net Position, Beginning of Year	<u>13,542,876</u>	<u>14,565,696</u>
Net Position, End of Year	<u>\$ 13,948,149</u>	<u>\$ 13,542,876</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 12,077,064	\$ 12,548,800
Payments to suppliers and contractors	(4,306,467)	(4,386,458)
Payments to or on behalf of employees	(11,221,492)	(10,573,707)
Other receipts, net	162,085	1,363,997
	<u>(3,288,810)</u>	<u>(1,047,368)</u>
Noncapital Financing Activities		
Noncapital appropriations - Morton County	1,735,500	1,139,922
No fund warrants	500,000	-
Noncapital gifts	5,374	(11,875)
	<u>2,240,874</u>	<u>1,128,047</u>
Capital and Related Financing Activities		
Purchases of capital assets	(263,622)	(333,777)
	<u>(263,622)</u>	<u>(333,777)</u>
Investing Activities		
Interest income	1,057	7,222
Rental income	37,313	26,070
Proceeds from maturities of certificates of deposit	640,275	707,809
Purchases of certificates of deposit	-	(723,380)
	<u>678,645</u>	<u>17,721</u>
Decrease in Cash and Cash Equivalents	(632,913)	(235,377)
Cash and Cash Equivalents, Beginning of Year	998,232	1,233,609
Cash and Cash Equivalents, End of Year	\$ 365,319	\$ 998,232

Morton County Health System
A Component Unit of Morton 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	\$ (4,373,971)	\$ (2,184,159)
Depreciation	911,347	948,309
Loss on sale/disposal of assets	44,685	3,834
Provision for uncollectible accounts	629,130	636,443
Changes in operating assets and liabilities		
Patient accounts receivable	(898,311)	(94,422)
Estimated amounts due from and to third-party payers	417,581	(255,583)
Supplies and prepaid expenses	(48,895)	13,512
Accounts payable and accrued expenses	29,624	(115,302)
Net cash used in operating activities	<u>\$ (3,288,810)</u>	<u>\$ (1,047,368)</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ -	\$ 24,067

Morton County Health System
A Component Unit of Morton 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

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 noncapital appropriations derived 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.

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, 2013 and 2012, cash equivalents consisted primarily of money market accounts.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

Noncapital Appropriations – Morton County

The System received approximately 10% and 8% of its financial support from the proceeds of noncapital appropriations from the County in 2013 and 2012, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied by the County and shared with the System for operational purposes. Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Noncapital appropriations revenue is recognized in full in the year in which use is first permitted.

No Fund Warrants

On August 28, 2013, the County authorized the issuance of \$3,000,000 of No Fund Warrants from the County to the System to provide additional cash to support System operations and pay outstanding accounts payable. The funds are held by the County and distributed to the System as needed to fund operations. The warrants are general obligations of the County and do not constitute debt obligations of the System.

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

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

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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 Position

Net position of the System is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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 (EHR) technology. 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 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, the System qualified as a meaningful user for both the Medicare and Medicaid programs and recorded revenues of approximately \$1,323,000.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: 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. Current payment rates were last updated using 2008, 2009 and 2010 cost report data. Base rates have not 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% and 62% 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 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 has 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.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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 impact of that decision on the overall reimbursement to the System 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 System's net patient service revenue. Additionally, it is possible the System 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, 2013 and 2012, none of the System's bank balances of \$747,453 and \$1,734,975, respectively, were exposed to custodial credit risk.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 447,724	\$ 1,720,912
Petty cash	700	700
	<u>\$ 448,424</u>	<u>\$ 1,721,612</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 365,319	\$ 998,232
Short-term certificates of deposit	83,105	723,380
	<u>\$ 448,424</u>	<u>\$ 1,721,612</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 consisted of:

	2013	2012
Medicare	\$ 739,547	\$ 559,244
Medicaid	240,136	194,916
Blue Cross	250,561	278,127
Other third-party payers	223,941	235,250
Patients	1,378,748	1,926,215
	<u>2,832,933</u>	<u>3,193,752</u>
Less allowance for uncollectible accounts	<u>1,110,000</u>	<u>1,740,000</u>
	<u>\$ 1,722,933</u>	<u>\$ 1,453,752</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

Note 5: Capital Assets

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

	2013				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Building and land improvements	\$ 6,938,249	\$ -	\$ (37,223)	\$ -	\$ 6,901,026
Fixed equipment	2,721,346	-	(9,814)	-	2,711,532
Major moveable equipment	7,806,885	192,655	-	-	7,999,540
Care center and assisted living building and land improvements	9,957,092	-	-	-	9,957,092
Care center and assisted living fixed equipment	1,253,336	-	-	-	1,253,336
Care center and assisted living major moveable equipment	1,105,251	-	(18,009)	-	1,087,242
Construction in progress	5,206	46,900	-	-	52,106
	<u>29,787,365</u>	<u>239,555</u>	<u>(65,046)</u>	<u>-</u>	<u>29,961,874</u>
Less accumulated depreciation					
Building and land improvements	4,467,504	162,949	(20,361)	-	4,610,092
Fixed equipment	2,348,633	59,920	-	-	2,408,553
Major moveable equipment	6,889,871	362,680	-	-	7,252,551
Care center and assisted living building and land improvements	3,137,427	233,451	-	-	3,370,878
Care center and assisted living fixed equipment	1,138,127	21,514	-	-	1,159,641
Care center and assisted living major moveable equipment	831,279	70,833	-	-	902,112
	<u>18,812,841</u>	<u>911,347</u>	<u>(20,361)</u>	<u>-</u>	<u>19,703,827</u>
Capital Assets, Net	<u>\$ 10,974,524</u>	<u>\$ (671,792)</u>	<u>\$ (44,685)</u>	<u>\$ -</u>	<u>\$ 10,258,047</u>

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

	2012				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
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>

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.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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, 2013 and 2012, \$18,397 and \$64,711, 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, 2013, were:

2014	\$ 257,793
2015	<u>4,529</u>
Future minimum lease payments	<u><u>\$ 262,322</u></u>

Rental expense incurred on operating leases for 2013 and 2012 was \$283,677 and \$281,008, respectively.

Morton County Health System
A Component Unit of Morton County, Kansas
Notes to Financial Statements
December 31, 2013 and 2012

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 2.1% and 1.8% for 2013 and 2.9% and 2.3% for 2012, respectively. Contributions actually made by plan members and the System aggregated \$186,855 and \$162,555 (net of forfeitures of approximately \$13,500) during 2013 and \$254,175 and \$204,195 (net of forfeitures of approximately \$17,000) during 2012, respectively.

Supplementary Information

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Net Patient Service Revenue
Years Ended December 31, 2013 and 2012

	2013		
	Inpatient	Outpatient	Total
Hospital			
Nursing, dietary and room service	\$ 931,593	\$ 512,074	\$ 1,443,667
Intensive care	108,048	-	108,048
Swing-beds	74,429	-	74,429
Gero-psychiatric unit	1,200,600	-	1,200,600
Operating room	69,692	452,848	522,540
Anesthesiology	46,916	210,238	257,154
Nuclear medicine	8,853	282,351	291,204
CT scans	117,325	423,868	541,193
Radiology sonogram	26,646	109,253	135,899
MRI	7,500	199,500	207,000
Radiology	38,479	276,224	314,703
Laboratory	632,826	1,854,332	2,487,158
Respiratory therapy	287,603	114,401	402,004
Physical therapy	40,535	310,624	351,159
Occupational therapy	-	-	-
Electrocardiology	28,089	117,607	145,696
Central service	170,832	219,102	389,934
Pharmacy	1,318,298	681,805	2,000,103
Emergency	35,098	239,915	275,013
Emergency room physician	-	308,944	308,944
Clinic	-	1,726,921	1,726,921
Total hospital	<u>5,143,362</u>	<u>8,040,007</u>	<u>13,183,369</u>
Long-term Care Unit			
Nursing, dietary and room service	3,569,450	-	3,569,450
Central service and supply	65,169	-	65,169
Total long-term care unit	<u>3,634,619</u>	<u>-</u>	<u>3,634,619</u>
Assisted Living Center			
Total long-term care unit	<u>634,009</u>	<u>-</u>	<u>634,009</u>
Gross patient service revenue	<u>\$ 9,411,990</u>	<u>\$ 8,040,007</u>	17,451,997
Contractual allowances and charity care			<u>5,523,333</u>
Net patient service revenue			<u>\$ 11,928,664</u>

2012

Inpatient	Outpatient	Total
\$ 837,678	\$ 604,014	\$ 1,441,692
82,845	-	82,845
85,020	-	85,020
943,050	-	943,050
28,288	246,417	274,705
35,830	139,138	174,968
435	84,379	84,814
114,216	359,027	473,243
24,507	74,464	98,971
13,500	204,000	217,500
39,642	291,539	331,181
579,619	1,652,328	2,231,947
317,760	123,046	440,806
43,382	226,714	270,096
6,649	21,011	27,660
18,788	83,511	102,299
189,351	191,183	380,534
1,345,023	718,177	2,063,200
24,128	231,403	255,531
-	303,442	303,442
-	1,639,028	1,639,028
4,729,711	7,192,821	11,922,532
3,410,134	-	3,410,134
70,656	-	70,656
3,480,790	-	3,480,790
588,005	-	588,005
\$ 8,798,506	\$ 7,192,821	15,991,327
		3,706,490
		\$ 12,284,837

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, 2013 and 2012

	2013	2012
Contractual Allowances and Charity Care		
Charity Care	\$ -	\$ 753
Contractual Allowances		
Medicare		
Hospital	3,272,490	1,788,593
Medicaid		
Hospital	363,482	517,431
Long-term care unit	(7,023)	(86,654)
Blue Cross	727,560	584,438
Commercial insurers	367,081	151,155
Administrative adjustments	170,613	116,326
Provision for uncollectible accounts	629,130	634,448
	\$ 5,523,333	\$ 3,706,490
 Other Operating Revenues		
Loss on disposal of capital assets	\$ (44,685)	\$ (3,834)
Cafeteria sales	34,808	34,151
Chart fees	3,002	2,738
Other	120,675	3,426
	\$ 113,800	\$ 36,481

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Hospital
Years Ended December 31, 2013 and 2012

	2013		
	Salaries	Other	Total
Nursing service	\$ 825,213	\$ 51,648	\$ 876,861
Intensive care	31,736	3,186	34,922
Gero-psychiatric unit	708,946	65,077	774,023
Operating room	190,540	157,003	347,543
Anesthesiology	198,265	12,533	210,798
Nuclear medicine	18,864	63,533	82,397
CT scans	15,588	223,075	238,663
MRI	-	45,250	45,250
Radiology	242,087	88,211	330,298
Laboratory	295,725	408,928	704,653
Respiratory therapy	168,836	66,952	235,788
Physical therapy	175,746	9,769	185,515
Occupational therapy	-	-	-
Electrocardiology	40,955	27,097	68,052
Cardiac rehabilitation	38,139	876	39,015
Central service	-	128,545	128,545
Pharmacy	34,666	496,621	531,287
Emergency room	391,090	74,900	465,990
Clinic	1,645,604	266,033	1,911,637
Lifeline	-	-	-
Depreciation	-	585,549	585,549
Employee benefits	9,214	1,421,750	1,430,964
Administration and general	530,482	795,707	1,326,189
Plant operations	203,541	352,216	555,757
Laundry and linen	45,234	10,994	56,228
Housekeeping	59,476	10,916	70,392
Dietary	139,096	83,976	223,072
Nursing administration	212,608	30,312	242,920
Medical records	143,368	54,962	198,330
Social service	6,689	87	6,776
Activities	22,233	3,218	25,451
	<u>6,393,941</u>	<u>5,538,924</u>	<u>11,932,865</u>
Long-term care unit	2,228,635	1,476,418	3,705,053
Assisted living center	<u>391,054</u>	<u>391,063</u>	<u>782,117</u>
	<u>\$ 9,013,630</u>	<u>\$ 7,406,405</u>	<u>\$ 16,420,035</u>

2012		
Salaries	Other	Total
\$ 817,938	\$ 39,196	\$ 857,134
22,545	2,949	25,494
674,912	59,328	734,240
141,733	104,135	245,868
272,055	17,321	289,376
17,218	43,299	60,517
13,997	224,026	238,023
-	45,425	45,425
214,798	114,030	328,828
314,641	331,352	645,993
179,510	65,195	244,705
199,366	4,801	204,167
42,380	1,274	43,654
35,624	14,194	49,818
38,979	1,560	40,539
-	136,305	136,305
44,817	444,496	489,313
322,458	132,444	454,902
1,511,509	271,500	1,783,009
-	300	300
-	628,794	628,794
12,161	1,488,448	1,500,609
490,102	653,100	1,143,202
222,308	310,308	532,616
39,724	14,728	54,452
58,680	10,182	68,862
146,786	87,279	234,065
217,457	32,358	249,815
136,300	52,350	188,650
5,287	13	5,300
18,789	2,944	21,733
<u>6,212,074</u>	<u>5,333,634</u>	<u>11,545,708</u>
2,117,945	1,431,334	3,549,279
<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>

Morton County Health System
A Component Unit of Morton County, Kansas
Schedules of Operating Expenses – Long-term Care Unit
Years Ended December 31, 2013 and 2012

	2013		
	Salaries	Other	Total
Nursing service	\$ 1,338,594	\$ 319,190	\$ 1,657,784
Central service and supplies	-	1,624	1,624
Pharmacy	-	29,208	29,208
Activities	77,009	9,285	86,294
Depreciation	-	199,408	199,408
Employee benefits	-	438,120	438,120
Administration and general	173,605	65,800	239,405
Plant operation and maintenance	69,139	172,176	241,315
Laundry and linen	54,425	15,259	69,684
Housekeeping	82,515	12,869	95,384
Dietary	205,451	208,231	413,682
Nursing administration	161,505	3,921	165,426
Medical records	29,772	1,058	30,830
Social service	36,620	269	36,889
	<u>\$ 2,228,635</u>	<u>\$ 1,476,418</u>	<u>\$ 3,705,053</u>

2012		
Salaries	Other	Total
\$ 1,227,310	\$ 267,257	\$ 1,494,567
-	36,186	36,186
-	30,717	30,717
84,898	12,539	97,437
-	188,579	188,579
-	456,653	456,653
182,656	56,580	239,236
58,938	157,210	216,148
54,053	17,778	71,831
79,556	11,781	91,337
209,000	194,722	403,722
153,075	568	153,643
30,099	685	30,784
38,360	79	38,439
\$ 2,117,945	\$ 1,431,334	\$ 3,549,279
\$ 2,117,945	\$ 1,431,334	\$ 3,549,279