# BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## FINANCIAL STATEMENTS

**and**

## ADDITIONAL INFORMATION

**with**

## INDEPENDENT AUDITOR'S REPORT

## YEARS ENDED DECEMBER 31, 2011 AND 2010

**George, Bowerman & Noel, P.A.**
*Certified Public Accountants*

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**George, Bowerman & Noel, P.A.**
*Certified Public Accountants*
*Business Consultants*
*Tax Advisors*

Epic Center • 301 N. Main, Suite 1350 • Wichita, Kansas 67202 • Telephone (316) 262-6277 • Fax (316) 265-6150

# INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Bob Wilson Memorial Grant
County Hospital
Ulysses, Kansas

We have audited the financial statements, as listed in the table of contents, of Bob Wilson Memorial Grant County Hospital, a component unit of Grant County, Kansas, as of December 31, 2011 and 2010 and for the years then ended. These financial statements are the responsibility of the Hospital'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 Bob Wilson Memorial Grant County Hospital as of December 31, 2011 and 2010, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic 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. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to the prepare the basic 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 additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole

George, Bowerman & Noel, P.A.

Wichita, Kansas
August 13, 2012

## BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Bob Wilson Memorial Grant County Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2011 and 2010. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

### Financial Highlights

- The Hospital's net assets decreased by $702,289 or 2.28 percent in 2011 and decreased by $1,230,336 or 3.85 percent in 2010.

- Contractual allowances, charity care and bad debts reduced gross patient service revenue by $8,794,008 or 44.32 percent of gross patient service revenue in 2011 and by $10,980,337 or 48.52 percent of gross patient service revenue in 2010.

- The Hospital reported operating losses in both 2011 ($2,313,904) and 2010 ($3,045,062).

### Financial Statements

The Hospital's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net assets, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *balance sheet*, *statement of revenue, expenses and changes in net assets*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *balance sheet* presents information on the Hospital's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may indicate whether the financial position of the Hospital is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net assets for the year. This statement is an indication of the success of the Hospital's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The primary purpose of this statement is to provide information about the Hospital's cash receipts and cash payments during the year.

**Financial Position**

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on pages 7 and 8. The Hospital's net assets for each of the past three years is indicated in the following table.

| | December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Assets: | | | |
| Current assets | $ 6,129,450 | $ 4,652,591 | $ 8,315,960 |
| Capital assets, net | 26,403,117 | 28,167,150 | 25,289,878 |
| Other noncurrent assets | – | – | – |
| Total assets | $32,532,567 | $32,819,741 | $33,605,838 |
| Liabilities: | | | |
| Long-term liabilities | $ 984,867 | $ 120,072 | $ 121,741 |
| Other liabilities | 1,483,671 | 1,933,351 | 1,487,443 |
| Total liabilities | $ 2,468,538 | $ 2,053,423 | $ 1,609,184 |
| Net assets: | | | |
| Invested in capital assets, net | $24,893,267 | $28,167,150 | $25,289,878 |
| Unrestricted | 5,170,762 | 2,599,168 | 6,706,776 |
| Total net assets | $30,064,029 | $30,766,318 | $31,996,654 |

**Recent Financial Performance**

The schedule below is a summary of the Hospital's revenues, expenses and changes in net assets for the past three years.

| | Year ended December 31, | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Operating revenue | $11,098,890 | $11,669,958 | $11,342,423 |
| Operating expenses: | | | |
| Salaries | 6,301,179 | 7,757,495 | 7,677,129 |
| Employee benefits | 1,056,655 | 1,198,894 | 1,157,838 |
| Supplies and other | 3,963,226 | 3,863,978 | 3,909,275 |
| Depreciation and amortization | 2,091,734 | 1,894,653 | 827,926 |
| Total operating expenses | 13,412,794 | 14,715,020 | 13,572,168 |
| Operating loss | (2,313,904) | (3,045,062) | (2,229,745) |
| Nonoperating revenues (expenses): | | | |
| Taxes | 1,549,834 | 1,049,844 | 1,049,840 |
| Investment income | 7,251 | 30,209 | 135,437 |
| Interest expense | (29,206) | – | – |
| Grants and contributions | 17,766 | 24,372 | 20,000 |
| Other, net | 65,970 | 77,940 | 35,811 |
| Total nonoperating revenues (expenses) | 1,611,615 | 1,182,365 | 1,241,088 |
| Excess (deficit) of revenues over expenses before capital grants and contributions | (702,289) | (1,862,697) | (988,657) |
| Transfers from Grant County for capital assets | – | 632,361 | 12,723,510 |
| Increase (decrease) in net assets | $ (702,289) | $ (1,230,336) | $11,734,853 |
| Net assets at end of year | $30,064,029 | $30,766,318 | $31,996,654 |

The first component of the overall change in the Hospital's net assets is its operating income (loss)—generally, the difference between net patient service and the expenses incurred to perform those services. In 2011 the Hospital reported an operating loss of $2,313,904 as compared to an operating loss of $3,045,062 in 2010.

The primary components of the decrease in the operating losses in 2011 are:

- A decrease in salaries, wages and benefis of approximately $1,600,000 or 18%.

- A decrease in contractual adjustments of $2,104,343 or 22%. The decrease in contractual adjustments is primarily due to increases in certain Medicare and Medicaid special reimbursement programs including the inpatient low volume adjusment, the Transitional Outpatient Payments (TOPS) and the Medicaid

Disproportionate Share (DSH) program. Reimbursement under the special programs increased by approximately $1,032,000 in 2011.

- The increases in Medicare and Medicaid reimbursements were offset by an increase in depreciation expense of approximately $200,000.

- The results from operations were negatively affected by a significant decrease in inpatient services. Total inpatient days decreased 809 or 36% in 2011. The primary decrease in service was to Medicare patients which resulted in a decrease in Medicare reimbursement for inpatient services of approximately $865,000 in 2011.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs are expenses for medical supplies and prescription drugs. Some of the major factors contributing to the increased medical supply and drug costs include the introduction of new drugs that cannot be obtained in generic form, and changes in therapeutic mix.

Nonoperating revenues consist primarily of property taxes levied by the County, investment earnings, and grants and contributions.

Capital grants and contributions of $632,361 in 2010 and $12,723,510 in 2009 consist of transfers of capital assets, related to the building project, from Grant County that were financed, in part, by general obligation bonds issued by the County.

## Capital Assets

At the end of 2011, the Hospital had $26,403,117 invested in capital assets, net of accumulated depreciation, as compared to $28,167,150 at the end of 2010, as detailed in Note 5 to the financial statements. The Hospital acquired additional capital assets costing approximately $328,000 in 2011 and approximately $4,772,000 in 2010. The significant additions in 2010 were primarily due to the construction project completed in 2010 (Note 8).

## Debt

The Hospital leases certain property and equipment under capital lease agreements including new leases in 2011 for $1,789,450 for computer ($1,745,355) and medical ($44,095) equipment.

## Other Economic Factors

Management expects the current economic conditions to continue over the next year.

## Issues Facing the Hospital

There are issues facing the Hospital that could result in material changes in its financial position in the long term. Among these issues are:

- Risks related to Medicare and Medicaid reimbursement. A significant portion of the Hospital's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years. The Hospital was selected to participate in the Rural Community Hospital Demonstration Program. The program is effective January 1, 2012 through December 31, 2017 and will change reimbursements due the Hospital for inpatient acute and swing-bed services to cost basis as compared the the current system of propectively determined rates. Based on current cost report data, total Medicare reimbursement is expected to increase by approximately $950,000 under the program.

- Healthcare reform. In 2010, the federal government enacted sweeping new legislation that will significantly impact virtually all aspects of the healthcare delivery and insurance systems in the country. Portions of the legislation will be implemented over the next several years. However, most of the detailed implemented regulations have not yet been issued and accordingly, any specific effects on operations of the Hospital are currently undeterminable. Management continues to closely monitor the progression of the implementation of the legislation.

- Employment and labor issues. The Hospital is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.

- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the Hospital in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.

- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the Hospital are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the Hospital.

- Building project. As discussed in Note 8 to the financial statements, Hospital management initiated a major renovation/construction project in 2008. The project was completed during 2010.

## Contacting The Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Administration Department, at Bob Wilson Memorial Grant County Hospital, 415 N. Main, Ulysses, Kansas 67880.

**BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL**

**BALANCE SHEETS**

ASSETS

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents (Notes 1 and 3) | $ 1,945,316 | $ 404,745 |
| Short-term investments (Note 3) | 1,004,256 | 1,001,274 |
| Accounts receivable, net of allowance for doubtful accounts of $614,454 in 2011 and $487,779 in 2010 (Notes 1 and 4) | 2,071,136 | 2,421,282 |
| Estimated third-party payer settlements (Note 2) | 603,478 | 255,515 |
| Inventories (Note 1) | 280,812 | 293,730 |
| Other | 224,452 | 276,045 |
| Total current assets | 6,129,450 | 4,652,591 |
| Property and equipment, at cost (Notes 1, 5 and 8): | | |
| Land improvements | 345,198 | 345,198 |
| Buildings | 28,526,958 | 28,523,900 |
| Fixed equipment | 1,403,209 | 1,403,209 |
| Movable equipment | 6,195,283 | 5,879,114 |
| Construction in progress | 257,175 | 248,701 |
| | 36,727,823 | 36,400,122 |
| Less accumulated depreciation | 10,324,706 | 8,232,972 |
| Property and equipment net of accumulated depreciation | 26,403,117 | 28,167,150 |
| Total assets | $32,532,567 | $ 32,819,741 |

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND NET ASSETS

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Current liabilities: | | |
| Accounts payable | $ 708,463 | $ 1,735,235 |
| Salaries and wages payable | 31,012 | 15,236 |
| Compensated absences payable (Notes 1 and 6) | 162,100 | 172,500 |
| Payroll taxes payable | 3,077 | 10,380 |
| Current portion of long-term debt (Note 6) | 579,019 | – |
| Total current liabilities | 1,483,671 | 1,933,351 |
| Non-current liabilities: | | |
| Long-term debt (Note 6) | 930,831 | – |
| Compensated absences payable (Notes 1 and 6) | 54,036 | 120,072 |
| Total non-current liabilities | 984,867 | 120,072 |
| Total liabilities | 2,468,538 | 2,053,423 |
| Net assets (Note 1): | | |
| Invested in capital assets net of related debt | 24,893,267 | 28,167,150 |
| Unrestricted | 5,170,762 | 2,599,168 |
| Total net assets | 30,064,029 | 30,766,318 |
| Total liabilities and net assets | $ 32,532,567 | $ 32,819,741 |

## BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Operating revenues: | | |
| Net patient service revenue (Note 1) | $ 11,045,970 | $ 11,649,671 |
| Other | 52,920 | 20,287 |
| Total operating revenue | 11,098,890 | 11,669,958 |
| Operating expenses: | | |
| Salaries | 6,301,179 | 7,757,495 |
| Employee benefits | 1,056,655 | 1,198,894 |
| Supplies and other | 3,963,226 | 3,863,978 |
| Depreciation (Note 1) | 2,091,734 | 1,894,653 |
| Total operating expenses | 13,412,794 | 14,715,020 |
| Operating loss | (2,313,904) | (3,045,062) |
| Nonoperating revenues (expenses): | | |
| Taxes (from Grant County) | 1,549,834 | 1,049,844 |
| Investment income | 7,251 | 30,209 |
| Interest expense | (29,206) | – |
| Noncapital grants and contributions | 17,766 | 24,372 |
| Other | 65,970 | 77,940 |
| Total nonoperating revenues (expenses) | 1,611,615 | 1,182,365 |
| Expenses over revenues before capital grants and contributions | (702,289) | (1,862,697) |
| Transfers from Grant County for capital assets (Note 8) | – | 632,361 |
| Decrease in net assets | (702,289) | (1,230,336) |
| Net assets at beginning of year | 30,766,318 | 31,996,654 |
| Net assets at end of year | $ 30,064,029 | $ 30,766,318 |

The accompanying notes are an integral part of the financial statements.

## BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## STATEMENTS OF CASH FLOWS

| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Receipts from and on behalf of patients | $ 11,048,153 | $ 11,240,059 |
| Payments to suppliers and contractors | (4,932,790) | (3,367,432) |
| Payments to employees | (6,361,839) | (7,821,597) |
| Payments for employee benefits | (1,056,655) | (1,198,894) |
| Other receipts and payments, net | 52,920 | 20,287 |
| Net cash flows used by operating activities | (1,250,211) | (1,127,577) |
| Cash flows from noncapital financing activities: | | |
| Property taxes for operations | 1,549,834 | 1,049,844 |
| Grants and contributions | 65,970 | 77,940 |
| Other | 17,766 | 24,372 |
| Net cash flows provided by noncapital financing activities | 1,633,570 | 1,152,156 |
| Cash flows used by capital and related financing activities – | | |
| Purchases of property and equipment | (283,606) | (4,139,564) |
| Proceeds from capital lease | 1,745,355 | – |
| Principal payments on long-term debt | (279,600) | – |
| Interest payments on long-term debt | (29,206) | – |
| Net cash flows provided (used) by capital and related financing activities | 1,152,943 | (4,139,564) |
| Cash flows from investing activities: | | |
| Net (increases) decreases in investments | (2,982) | 779,646 |
| Investment income | 7,251 | 30,209 |
| Net cash flows provided by investing activities | 4,269 | 809,855 |
| Net increase (decrease) in cash and cash equivalents | 1,540,571 | (3,305,130) |
| Cash and cash equivalents at beginning of year | 404,745 | 3,709,875 |
| Cash and cash equivalents at end of year | $ 1,945,316 | $ 404,745 |

The accompanying notes are an integral part of the financial statements.

| | Year ended December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Reconciliation of operating loss to net cash used by operating activities: | | |
| Operating loss | $ (2,313,904) | $ (3,045,062) |
| Adjustments to reconcile operating loss to net cash flows used in operating activities: | | |
| Depreciation and amortization | 2,091,734 | 1,894,653 |
| Provision for doubtful accounts | 891,359 | 996,995 |
| Net (increases) decreases in current assets: | | |
| Accounts receivable | (541,213) | (1,230,512) |
| Inventories | 12,918 | (5,319) |
| Estimated third-party payer settlements | (347,963) | (176,095) |
| Other | 51,593 | (6,476) |
| Net increases (decreases) in current liabilities: | | |
| Accounts payable | (1,026,772) | 499,382 |
| Salaries and wages payable | 15,776 | (59,933) |
| Compensated absences payable | (76,436) | (4,169) |
| Payroll taxes payable | (7,303) | 8,959 |
| Net cash used by operating activities | $ (1,250,211) | $ (1,127,577) |

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and business activity

Bob Wilson Memorial Grant County Hospital (Hospital) is owned by Grant County, Kansas and provides acute inpatient, outpatient, swing bed, home health and rural health clinic services. The Board of County Commissioners appoints the members of the Board of Trustees. For this reason, the Hospital is considered to be a component unit of Grant County, Kansas.

### Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

### Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Patient accounts receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, payer mix trends, and existing economic conditions. As a service to patients, the Hospital bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are generally due in full when billed. If the patient is unable to pay the full amount at the time the patient is billed, the Hospital negotiates a payment plan whereby monthly payments are made by the patient on the account. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. If future actual default rates on accounts receivable differ from those currently anticipated, the Hospital may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

### Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

### Capital assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated using the straight-line method over their estimated useful lives as follows:

| | |
|---|---|
| Land improvements | 10 - 12 years |
| Buildings | 5 - 40 years |
| Fixed equipment | 5 - 25 years |
| Equipment | 3 - 20 years |

Maintenance and repairs are charged to expense as incurred and betterments are capitalized. Gains and losses from sales or disposals are included in income in the period of disposition.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Net patient service revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, per diem payments, and discounted charges. 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.

### Grants and contributions

From time to time, the Hospital receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

### Compensated absences

The Hospital's employees earn vacation days at varying rates depending on years of service. Employees may accumulate vacation days up to a specified maximum. Compensated absence liabilities are computed using the regular pay rates in effect at the balance sheet date.

### Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital provided $279,689 and $238,793 of charity care for the years ended December 31, 2011 and 2010, respectively, estimated by multiplying the System's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

### Net assets

Net assets of the Hospital are classified into two components as follows:

*Net assets invested in capital assets net of related debt* – consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

*Unrestricted net assets* – are remaining net assets that do not meet the definition of *invested in capital assets net of related debt* or *restricted.*

### Cash and cash equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

### Risk management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital carries commercial insurance for all risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The Hospital pays fixed premiums for annual medical malpractice coverage under an occurrence-basis policy. The Hospital accrues the expenses of its share of malpractice claim costs, if any, of reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Based on the Hospital's own claims experience, no accrual, for medical malpractice costs has been made in the accompanying financial statements.

## 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income taxes

As a governmental entity, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and similar provisions of state law.

### Subsequent events

Subsequent events have been evaluated through August 13, 2012, which is the date the financial statements were available to be issued.

### Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation. The reclassifications had no effect on the change in net assets.

## 2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payers is as follows:

- Medicare – Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, which includes capital costs. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Outpatient services are generally paid based on a prospectively determined amount per procedure. Certain outpatient services are paid on a cost reimbursement basis using a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2009.

- Medicaid– Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates for each day of hospitalization with no retrospective adjustment.

  Due to certain financial and clinical criteria, the Hospital also received Medicaid disproportionate share (DSH) funding. Medicaid DSH payments were $1,145,208 and $454,261 for 2011 and 2010, respectively.

## 2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS (continued)

Approximately 47% and 41% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for each of the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

## 3. DEPOSITS AND INVESTMENTS

Applicable state statutes authorize the Hospital to invest in (1) temporary notes or no-fund warrants issued by the Hospital (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

The following is a summary of deposits and investments:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash and cash equivalents: | | |
| Cash on hand | $ 694 | $ 594 |
| Interest bearing checking accounts | 1,944,622 | 404,151 |
| | 1,945,316 | 404,745 |
| Short-term investments: | | |
| Certificates of deposit | 1,004,256 | 1,001,274 |
| Totals | $ 2,949,572 | $ 1,406,019 |

## 3. DEPOSITS AND INVESTMENTS (continued)

Custodial credit risk for deposits is the risk that in the event of bank failure, the Hospital's deposits may not be returned or the Hospital will not be able to recover collateral securities in the possession of an outside party. The Hospital's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statures define the allowable pledged securities.

The following is a summary of the depository balances compared with deposit collateralization:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Depository balances | $ 3,080,912 | $ 1,569,776 |
| Less: FDIC insurance coverage | (500,000) | (250,000) |
| | 2,580,912 | 1,319,776 |
| Less: Pledged securities coverage | (2,580,912) | (1,319,776) |
| Amount unsecured | $ – | $ – |
| Fair value of pledged securities | $ 3,728,549 | $ 3,063,763 |

## 4. CONCENTRATIONS OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Medicare and Medicaid | 29% | 42% |
| Commercial insurance | 38% | 30% |
| Other | 33% | 28% |
| | 100 % | 100 % |

## 5. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2011 and 2010 were as follows:

| | Balance At December 31, 2010 | Additions | Disposals | Balance At December 31, 2011 |
|---|---|---|---|---|
| Land improvements | $ 345,198 | $ – | $ – | $ 345,198 |
| Buildings | 28,523,900 | 3,058 | – | 28,526,958 |
| Fixed equipment | 1,403,209 | – | – | 1,403,209 |
| Movable equipment | 5,879,114 | 316,169 | – | 6,195,283 |
| Construction in progress | 248,701 | 8,474 | – | 257,175 |
| Total cost | 36,400,122 | 327,701 | – | 36,727,823 |
| Less accumulated depreciation for: | | | | |
| Land improvements | $ 60,128 | $ 20,053 | $ – | $ 80,181 |
| Buildings | 4,436,478 | 1,404,557 | | 5,841,035 |
| Fixed equipment | 449,218 | 85,197 | – | 534,415 |
| Movable equipment | 3,287,148 | 581,927 | | 3,869,075 |
| Total accumulated depreciation | 8,232,972 | 2,091,734 | – | 10,324,706 |
| Total capital assets, net | $ 28,167,150 | $ (1,764,033) | $ – | $ 26,403,117 |

| | Balance At December 31, 2009 | Additions | Disposals | Balance At December 31, 2010 |
|---|---|---|---|---|
| Land improvements | $ 52,859 | $ 292,339 | $ – | $ 345,198 |
| Buildings | 25,903,777 | 3,886,239 | 1,266,116 | 28,523,900 |
| Fixed equipment | 369,307 | 1,033,902 | – | 1,403,209 |
| Movable equipment | 5,477,204 | 735,530 | 333,620 | 5,879,114 |
| Construction in progress | 1,424,786 | (1,176,085) | – | 248,701 |
| Total cost | 33,227,933 | 4,771,925 | 1,599,736 | 36,400,122 |

## 5. CAPITAL ASSETS (continued)

| | Balance At December 31, 2009 | Additions | Disposals | Balance At December 31, 2010 |
|---|---|---|---|---|
| Less accumulated depreciation for: | | | | |
| Land improvements | 51,695 | 8,433 | – | 60,128 |
| Buildings | 4,451,709 | 1,250,885 | 1,266,116 | 4,436,478 |
| Fixed equipment | 376,740 | 72,478 | – | 449,218 |
| Movable equipment | 3,057,911 | 562,857 | 333,620 | 3,287,148 |
| Total accumulated depreciation | 7,938,055 | 1,894,653 | 1,599,736 | 8,232,972 |
| Total capital assets, net | $ 25,289,878 | $ 2,877,272 | $ – | $ 28,167,150 |

## 6. LONGT-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term debt and other noncurrent liabilities for the years ended December 31, 2011 and 2010:

| | Balance At December 31, 2010 | Additions | Reductions | Balance At December 31, 2011 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Capital lease obligations | $ – | $1,789,450 | $ 279,600 | $1,509,850 | $ 579,019 |
| Other liabilities: | | | | | |
| Compensated absences payable | 292,572 | 542,476 | 618,912 | 216,136 | 162,100 |
| Total noncurrent liabilities | $ 292,572 | $2,331,926 | $ 898,512 | $1,725,986 | $ 741,119 |

## 6. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

| | Balance At December 31, 2009 | Additions | Reductions | Balance At December 31, 2010 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Capital lease obligations | $ – | $ – | $ – | $ – | $ – |
| Other liabilities: | | | | | |
| Compensated absences payable | 296,741 | 623,156 | 627,325 | 292,572 | 172,500 |
| Total noncurrent liabilities | $ 296,741 | $ 623,156 | $ 627,325 | $ 292,572 | $ 172,500 |

### Capitalized lease obligations

The Hospital leases certain assets under capital lease agreements including new leases of $1,789,450 for computer and medical equipment in 2011. Interest expensed under the capital lease agreements was $29,206 and $–0– for the years ended December 31, 2011 and 2010, respectively. The following is an analysis of the financial presentation of the capital leases:

| | December 31, 2011 | December 31, 2010 |
|---|---|---|
| Movable equipment | $ 1,643,293 | $ – |
| Less accumulated depreciation | (904,416) | – |
| | $ 736,876 | $ – |

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2011:

## 6. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

| | |
|---|---|
| Year ending December 31, | |
| 2012 | $ 624,634 |
| 2013 | 624,634 |
| 2014 | 317,719 |
| 2015 | 10,804 |
| 2016 | 8,914 |
| Total minimum lease payments | 1,586,705 |
| Less amount representing interest | 76,855 |
| Present value of net minimum lease payments | $1,509,850 |

## 7. DEFINED CONTRIBUTION PENSION PLAN

The Hospital maintains a defined contribution pension plan covering substantially all employees. A third-party has been contracted to administer the plan.

Covered employees are required by the Plan to contribute 6 percent of their covered compensation. The employer is required to match full-time employee contributions and 1.5 percent of part-time employees' effective compensation. This plan is provided in lieu of the social security portion of FICA. Benefits begin to vest after one year of service, with full vesting after four years of service. Pension cost, which is funded as accrued, was $307,591 and $380,584 for the years ended December 31, 2011 and 2010.

## 8. CONSTRUCTION PROJECT

In November 2006, the voters of Grant County, Kansas approved the issuance of general obligation bonds to fund, in part, a major construction and renovation project for the Hospital facility. Accordingly, on October 1, 2007 and February 1, 2008, $9,750,000 of Series 2007A General Obligation bonds and $9,750,000 of Series 2008A General Obligation bonds, respectively, were issued by the County to provide financing for the project.

The project, completed in 2010, included construction of an addition to the facility as well as remodeling, renovating, furnishing and equipping the existing facility. The total approximate cost of the project was $26 million and was financed by the general obligation bonds and other available Hospital and County funds. Costs incurred directly by the County are contributed to and capitalized by the Hospital.

## 9. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital is required to allow qualifying retirees to participate in the group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of the subsidy, if any, has not been quantified in these financial statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Hospital under this plan.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

The following methods and assumptions were used by the Hospital in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Investments – Consisting of bank certificates of deposit, of which the carrying amounts reported in the balance sheet approximates the fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

## 10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates its fair value.

The carrying amounts and fair value of the Hospital's financial instruments at December 31, 2011 and 2010 are as follows:

| | December 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $ 1,945,316 | $ 1,945,316 | $ 404,745 | $ 404,745 |
| Investments | 1,004,256 | 1,004,256 | 1,001,274 | 1,001,274 |
| Accounts and other receivables | 2,071,136 | 2,071,136 | 2,421,282 | 2,421,282 |
| Estimated third-party payor settlements | 603,478 | 603,478 | 255,515 | 255,515 |
| Accounts and other payables | 742,552 | 742,552 | 1,760,851 | 1,760,851 |

## 11. CONTINGENCIES

The Hospital is a defendant in a discrimination suit and is represented the Hospital's legal counsel. Management represents that any potential loss incurred will not exceed insurance coverage.

## 12. SUBSEQUENT EVENTS

Subsequent to year-end the Hospital entered into a capital lease agreement for computer equipment for approximately $468,000.

ADDITIONAL INFORMATION

## BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## SCHEDULE OF PATIENT SERVICE REVENUE

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Inpatient | Outpatient | Total | Inpatient | Outpatient | Total |
| Adults and pediatrics | $1,192,315 | $ 385,442 | $ 1,577,757 | $1,940,182 | $ 387,952 | $ 2,328,134 |
| Nursery | 70,224 | – | 70,224 | 57,000 | – | 57,000 |
| Operating room | 659,813 | 3,323,241 | 3,983,054 | 754,121 | 3,774,753 | 4,528,874 |
| Labor and delivery | 499,421 | 67,588 | 567,009 | 451,055 | 63,264 | 514,319 |
| Anesthesiology | 239,276 | 903,358 | 1,142,634 | 259,370 | 879,080 | 1,138,450 |
| Imaging | 263,042 | 2,271,786 | 2,534,828 | 446,735 | 2,839,274 | 3,286,009 |
| Laboratory | 467,848 | 1,892,855 | 2,360,703 | 786,180 | 1,992,223 | 2,778,403 |
| Respiratory therapy | 296,310 | 121,035 | 417,345 | 529,597 | 102,326 | 631,923 |
| Physical therapy | 63,205 | 224,389 | 287,594 | 88,204 | 2,433 | 90,637 |
| Electrocardiology | 25,740 | 114,042 | 139,782 | 44,902 | 149,327 | 194,229 |
| Central services and supply | 421,841 | 536,321 | 958,162 | 688,284 | 621,822 | 1,310,106 |
| Pharmacy | 506,134 | 678,020 | 1,184,154 | 778,105 | 691,082 | 1,469,187 |
| Emergency services | 187,289 | 3,124,774 | 3,312,063 | 229,044 | 2,583,242 | 2,812,286 |
| Clinic | – | 1,236,795 | 1,236,795 | – | 1,362,278 | 1,362,278 |
| Home health | – | 67,874 | 67,874 | – | 128,173 | 128,173 |
| | $4,892,458 | $ 14,947,520 | 19,839,978 | $7,052,779 | $ 15,577,229 | 22,630,008 |
| Contractual adjustments | | | (7,517,351) | | | (9,621,694) |
| Charity care | | | (385,298) | | | (361,648) |
| Bad debts | | | (891,359) | | | (996,995) |
| Net patient service revenue | | | $ 11,045,970 | | | $ 11,649,671 |

## BOB WILSON MEMORIAL GRANT COUNTY HOSPITAL

## SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

| | Year ended December 31, 2011 | | | | |
|---|---|---|---|---|---|
| Department | Salaries | Supplies and other | Depreciation | Total | Percent of total operating expenses |
| Routine service: | | | | | |
| Adult and pediatrics | $ 1,135,413 | $ 64,186 | $ – | $ 1,199,599 | 8.95 % |
| Nursery | – | 2,240 | – | 2,240 | 0.02 |
| | 1,135,413 | 66,426 | – | 1,201,839 | 8.97 |
| Ancillary services: | | | | | |
| Operating room | 683,031 | 492,457 | – | 1,175,488 | 8.76 |
| Labor and delivery | 376,769 | 23,059 | – | 399,828 | 2.98 |
| Anesthesiology | – | 424,706 | – | 424,706 | 3.17 |
| Radiology | 223,140 | 344,710 | – | 567,850 | 4.23 |
| Laboratory | 278,096 | 270,313 | – | 548,409 | 4.09 |
| Respiratory therapy | 196,498 | 17,827 | – | 214,325 | 1.60 |
| Physical therapy | 58,066 | 55,802 | – | 113,868 | 0.85 |
| Electrocardiology | 22,401 | 3,335 | – | 25,736 | 0.19 |
| Central services and supply | 110,275 | 253,072 | – | 363,347 | 2.71 |
| Pharmacy | 88,467 | 297,549 | – | 386,016 | 2.88 |
| Emergency services | 566,985 | 317,233 | – | 884,218 | 6.59 |
| Clinic | 893,521 | 196,274 | – | 1,089,795 | 8.13 |
| Home health | 106,297 | 57,792 | – | 164,089 | 1.22 |
| | 3,603,546 | 2,754,129 | – | 6,357,675 | 47.40 |
| General services: | | | | | |
| Nursing administration | 88,824 | 36 | – | 88,860 | 0.66 |
| Operation of plant | 113,139 | 385,860 | – | 498,999 | 3.72 |
| Laundry | 33,973 | 5,201 | – | 39,174 | 0.29 |
| Housekeeping | 146,584 | 14,509 | – | 161,093 | 1.20 |
| Dietary | 128,666 | 82,463 | – | 211,129 | 1.57 |
| Medical records | 153,119 | 41,806 | – | 194,925 | 1.45 |
| Administration and general | 897,915 | 612,796 | – | 1,510,711 | 11.26 |
| Employee benefits | – | 1,056,655 | – | 1,056,655 | 7.88 |
| Depreciation | – | – | 2,091,734 | 2,091,734 | 15.60 |
| | 1,562,220 | 2,199,326 | 2,091,734 | 5,853,280 | 43.63 |
| | $ 6,301,179 | $ 5,019,881 | $ 2,091,734 | $ 13,412,794 | 100.00 % |

| Department | Salaries | Supplies and other | Depreciation | Total | Percent of total operating expenses |
|---|---|---|---|---|---|
| | Year ended December 31, 2010 | | | | |
| Routine service: | | | | | |
| Adult and pediatrics | $ 1,132,724 | $ 48,783 | $ – | $ 1,181,507 | 8.03 % |
| Nursery | – | 1,691 | – | 1,691 | 0.01 |
| | 1,132,724 | 50,474 | – | 1,183,198 | 8.04 |
| Ancillary services: | | | | | |
| Operating room | 1,883,009 | 145,391 | – | 2,028,400 | 13.78 |
| Labor and delivery | 312,570 | 40,084 | – | 352,654 | 2.40 |
| Anesthesiology | – | 425,077 | – | 425,077 | 2.89 |
| Radiology | 242,478 | 375,289 | – | 617,767 | 4.20 |
| Laboratory | 289,086 | 305,823 | – | 594,909 | 4.04 |
| Respiratory therapy | 210,330 | 39,411 | – | 249,741 | 1.70 |
| Physical therapy | 4,086 | 35,970 | – | 40,056 | 0.27 |
| Electrocardiology | 23,377 | 15,351 | – | 38,728 | 0.26 |
| Central services and supply | 112,798 | 344,138 | – | 456,936 | 3.11 |
| Pharmacy | 67,815 | 281,629 | – | 349,444 | 2.37 |
| Emergency services | 645,098 | 320,504 | – | 965,602 | 6.56 |
| Clinic | 1,010,322 | 317,970 | – | 1,328,292 | 9.03 |
| Home health | 136,175 | 78,456 | – | 214,631 | 1.46 |
| | 4,937,144 | 2,725,093 | – | 7,662,237 | 52.07 |
| General services: | | | | | |
| Nursing administration | 193,225 | 211 | – | 193,436 | 1.31 |
| Operation of plant | 103,939 | 368,285 | – | 472,224 | 3.21 |
| Laundry | 36,398 | 3,194 | – | 39,592 | 0.27 |
| Housekeeping | 145,243 | 11,922 | – | 157,165 | 1.07 |
| Dietary | 125,853 | 73,333 | – | 199,186 | 1.35 |
| Medical records | 189,108 | 45,574 | – | 234,682 | 1.59 |
| Administration and general | 893,861 | 585,892 | – | 1,479,753 | 10.06 |
| Employee benefits | – | 1,198,894 | – | 1,198,894 | 8.15 |
| Depreciation | – | – | 1,894,653 | 1,894,653 | 12.88 |
| | 1,687,627 | 2,287,305 | 1,894,653 | 5,869,585 | 39.89 |
| | $ 7,757,495 | $ 5,062,872 | $ 1,894,653 | $ 14,715,020 | 100.00 % |