

Allegan General Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 5 - Property and Equipment

The details of property and equipment and depreciable lives are summarized as follows:

	1998	1997	Depreciable Life-Years
Land and improvements	\$ 786,648	\$ 777,553	10
Building and improvements	6,638,823	6,305,061	10-40
Equipment	8,480,456	7,763,673	3-20
Equipment under capital leases	420,820	352,838	5-10
Construction in progress	120,026	78,686	N/A
Total cost	16,446,773	15,277,811	
Less accumulated depreciation	11,121,681	10,279,283	
Less accumulated amortization of capital leases	81,796	158,764	
Net carrying amount	\$ 5,243,296	\$ 4,839,764	

Depreciation and amortization expense were included as follows:

	1998	1997
In operating expenses	\$ 865,869	\$ 794,332
In nonoperating gains	35,328	37,702
Total	\$ 901,197	\$ 832,034

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Note 6 - Cost Report Settlements

Approximately 68 percent of the Hospital's revenue from patient services is received from the Medicare, Medicaid and Blue Cross of Michigan programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement with these third-party payors follows:

• **Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient psychiatric services are reimbursed at cost subject to a per-case limit. Outpatient ambulatory surgery, radiology and laboratory services are paid on an established fee-for-service methodology. All other outpatient services are paid based upon a cost reimbursement methodology.

• **Medicaid** - Inpatient acute care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge, plus capital costs on a cost-based reimbursement methodology. Inpatient psychiatric services are reimbursed using a prospectively determined per diem rate. All outpatient services are paid on an established fee-for-service methodology.

• **Blue Cross** - The Hospital is reimbursed its controlled charges for services provided to Blue Cross subscribers.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs that is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.