

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center**

Accountants' Report and Financial Statements

June 30, 2011 and 2010



Hamilton County Public Hospital d/b/a Van Diest Medical Center

June 30, 2011 and 2010

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Webster City, Iowa

We have audited the accompanying balance sheets of Hamilton County Public Hospital d/b/a Van Diest Medical Center (the "Hospital"), as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the 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 standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Hamilton County Public Hospital d/b/a Van Diest Medical Center as of June 30, 2011 and 2010, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2011 on our consideration of Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary 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 has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

Kansas City, Missouri
October 14, 2011

Hamilton County Public Hospital d/b/a Van Diest Medical Center Management's Discussion and Analysis Years Ended June 30, 2011 and 2010

Introduction

This management's discussion and analysis of the financial performance of Hamilton County Public Hospital d/b/a Van Diest Medical Center (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased in 2011 by \$8,330,815 and decreased in 2010 by \$1,161,169.
- The Hospital's net assets decreased in 2011 by \$830,986 or 2.7% and increased in 2010 by \$32,602 or 0.1%.
- The Hospital reported an operating loss in 2011 and 2010 of \$1,294,452 and \$933,278, respectively.
- Net nonoperating revenues decreased in 2011 by \$495,561 or 79.9% compared to 2010, which decreased by \$32,054 or 4.9%.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets decreased by \$830,986 or 2.7% in 2011 over 2010 and increased \$32,602 or 0.1% in 2010 over 2009.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	\$ 4,024,944	\$ 3,786,685	\$ 3,741,150
Other current assets	8,407,986	9,840,385	9,202,177
Capital assets, net	33,295,747	29,225,427	8,777,835
Noncurrent cash and deposits and other	6,671,059	13,482,356	33,832,670
Total assets	<u>\$ 52,399,736</u>	<u>\$ 56,334,853</u>	<u>\$ 55,553,832</u>
Liabilities			
Current liabilities	\$ 3,041,804	\$ 5,020,935	\$ 3,162,516
Long-term debt	19,585,000	20,710,000	21,820,000
Total liabilities	<u>22,626,804</u>	<u>25,730,935</u>	<u>24,982,516</u>
Net Assets			
Invested in capital assets	12,941,825	8,482,418	6,666,106
Restricted - expendable	1,886,696	11,542,684	12,685,609
Unrestricted	14,944,411	10,578,816	11,219,601
Total net assets	<u>29,772,932</u>	<u>30,603,918</u>	<u>30,571,316</u>
Total liabilities and net assets	<u>\$ 52,399,736</u>	<u>\$ 56,334,853</u>	<u>\$ 55,553,832</u>

In 2011, noncurrent assets decreased by \$6,811,297 or 50.5% due to the final payout for the new computer software system and the Hospital's share of the building project including equipment.

Current liabilities decreased by \$1,979,131 or 39.4% due to the completion of the Hospital building project.

Net assets invested in capital assets increased \$4,459,407 or 52.6%, restricted net assets decreased by \$9,655,988 or 83.7% and unrestricted net assets increased by \$4,365,595 or 41.3% due to the completion of the building project.

In 2010, noncurrent assets decreased by \$20,350,314 or 60% due to the purchase of new computer software system and the Hospital's share of the building project including equipment.

In 2010, capital assets, net increased by \$20,447,592 or 233% due to the replacement hospital construction project, new computer system and equipment for the new facility. Costs in construction in progress were \$27,255,261 at year end.

Operating Results

In 2011, the Hospital's Decrease in Net Assets was \$830,986 compared to the Increase in Net Assets of \$32,602 in 2010 as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	\$ 21,513,702	\$ 18,372,236	\$ 18,305,746
Other operating revenues	216,368	226,001	194,022
Total operating revenues	<u>21,730,070</u>	<u>18,598,237</u>	<u>18,499,768</u>
Operating Expenses			
Salaries, wages and employee benefits	11,106,518	10,758,834	9,958,790
Medical supplies, professional fees and other	6,517,665	4,791,859	5,054,064
Depreciation and amortization	2,530,403	1,847,754	1,576,906
Other operating expenses	2,869,936	2,133,068	2,321,173
Total operating expenses	<u>23,024,522</u>	<u>19,531,515</u>	<u>18,910,933</u>
Operating Loss	<u>(1,294,452)</u>	<u>(933,278)</u>	<u>(411,165)</u>
Nonoperating Revenues (Expense)			
Property taxes	505,946	503,217	505,046
Interest expense	(557,077)	-	-
Interest income	31,484	98,697	162,939
Contributions	144,000	-	-
Other	-	18,000	(16,017)
Total nonoperating revenues	<u>124,353</u>	<u>619,914</u>	<u>651,968</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants, Contributions and Related Earnings	<u>(1,170,099)</u>	<u>(313,364)</u>	<u>240,803</u>
Capital Grants, Contributions and Related Earnings	<u>339,113</u>	<u>345,966</u>	<u>10,326,956</u>
Increase (Decrease) in Net Assets	<u>\$ (830,986)</u>	<u>\$ 32,602</u>	<u>\$ 10,567,759</u>

Operating Income/Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011, the Hospital reported an operating loss of \$1,294,452 compared to a loss of \$933,278 in 2010. In 2010, the Hospital reported an operating loss of \$933,278 compared to a loss of \$411,165 in 2009. The Hospital was formed and is operated primarily to serve residents of Hamilton County and the surrounding area. The Hospital is a critical access hospital (CAH), which allows the Hospital to receive reimbursement based on cost for Medicare and Medicaid program beneficiaries. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

In 2011 the primary components resulting in an operating loss were:

- Employee benefits increased \$294,928 or 12.7%. The increase was due to an increase in the employer share of health insurance premiums of \$277,390 or 24%.
- Medical professional fees increased \$608,077 or 26.5% due to the addition of specialty surgeons that amounted to an additional payout of \$582,261 in professional fees. This same group of specialty physicians also helped increase our revenue by \$3,131,833 or 16.8%.
- Supplies and other expenses increased \$1,117,729 or 44.8%, due to the final purchases of minor equipment for the new facility and continued payment of utilities for the old facility after moving.
- Administrative services increased \$457,178 or 48.6% due to the payment of moving and cleaning expenses for the new facility and minor equipment purchases.
- General services increased \$301,665 or 35.5% due to the final payments for minor equipment purchased for the new facility.
- Depreciation increased \$682,649 or 36.9%. The increase was due to the opening of the new Hospital replacement facility which including putting into service a new computer system valued at \$2.1 million.

In 2010 the primary components resulting in an operating loss were:

- Net patient service revenue remained fairly flat due to a decrease in inpatient days of 6.8% and a decrease in outpatient visits of 4%. Patient charges were increased at the first of July 2009 which helped offset the decrease in the patient census.
- Operating expenses increased by \$620,582 or 3.3%. The increase was due to increases in fulltime equivalents from 178 in 2009 to 183 in 2010. Wage increases for staff were kept at a minimum with an average of 1% or about \$63,000. Health insurance costs increased by 12% or about \$137,000.
- A total of \$945,785 in additional depreciation expense was also taken for asset impairment relating to the Hospital replacement project.

Nonoperating Revenues and Expenses and Capital Grants, Contributions and Related Earnings

- Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and contributions. While property taxes and interest income remained relatively constant in 2011 compared to 2010 and in 2010 as compared to 2009, interest expense increased by \$557,077 due to long-term debt associated with the replacement hospital construction project and contributions increased by \$144,000 as the Hospital received \$144,000 in cash from an estate. In 2009, the Hospital received \$10,000,000 in cash from a single donor with the request to use it to build a new replacement Hospital.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating and nonoperating revenues and expenses. It is also noted that cash provided by operating activities in 2011 was \$66,708 compared to cash provided by operating activities of \$538,209 in 2010.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$33,295,747 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$29,225,427 in 2010. The capital assets increased due to the building project.

At the end of 2010, the Hospital had \$29,225,427 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$8,777,835 in 2009. The capital assets increased due to the building project.

Debt

- At June 30, 2011 and 2010, the Hospital had debt of \$20,710,000 and \$21,820,000 which was incurred in 2009.

Factors Bearing on Hamilton County Public Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future:

- Continued ownership of the old hospital facility in which the Hospital is paying about \$116,000 a year in utility costs. If the old Hospital is razed, it will amount to about \$500,000 in costs to the Hospital.

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. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 515.832.9400.

Hamilton County Public Hospital d/b/a Van Diest Medical Center

Balance Sheets June 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	\$ 5,182,317	\$ 6,050,480
Short-term certificates of deposit	550,000	1,050,000
Restricted cash-capital assets/debt service	156,247	1,092,201
Patient accounts receivable, net of allowance; 2011 - \$1,211,557, 2010 - \$833,731	4,024,944	3,786,685
Estimated amounts due from third-party payers	776,000	-
Property tax receivable	511,171	509,006
Other receivables	22,088	11,004
Supplies	964,236	694,827
Prepaid expenses and other	245,927	432,867
	12,432,930	13,627,070
Noncurrent Cash and Deposits		
Internally designated	4,523,701	-
Externally restricted		
Donors	31,496	-
Held under loan agreement	1,855,200	13,187,095
	6,410,397	13,187,095
	33,295,747	29,225,427
Capital Assets, Net of Accumulated Depreciation		
	33,295,747	29,225,427
Other Assets		
Deferred financing costs	260,662	295,261
	260,662	295,261
Total assets	\$ 52,399,736	\$ 56,334,853

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 1,125,000	\$ 1,110,000
Accounts payable	459,990	332,145
Accounts payable - capital assets	-	1,954,882
Estimated amounts due to third-party payers	-	92,000
Accrued interest	60,831	62,030
Accrued expenses	889,975	966,028
Deferred property tax revenue	506,008	503,850
	<u>3,041,804</u>	<u>5,020,935</u>
Long-term Debt	<u>19,585,000</u>	<u>20,710,000</u>
	<u>22,626,804</u>	<u>25,730,935</u>
Net Assets		
Invested in capital assets, net of related debt	12,941,825	8,482,418
Restricted - expendable for		
Capital assets	31,496	9,687,484
Debt service	1,855,200	1,855,200
Unrestricted	14,944,411	10,578,816
	<u>29,772,932</u>	<u>30,603,918</u>
	<u>\$ 52,399,736</u>	<u>\$ 56,334,853</u>

Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue, before provision for uncollectible accounts	\$ 22,677,256	\$ 19,471,994
Provision for uncollectible accounts	(1,163,554)	(1,099,758)
Net patient service revenue	<u>21,513,702</u>	<u>18,372,236</u>
Other	<u>216,368</u>	<u>226,001</u>
Total operating revenues	<u>21,730,070</u>	<u>18,598,237</u>
Operating Expenses		
Salaries and wages	8,489,305	8,436,549
Employee benefits	2,617,213	2,322,285
Medical professional fees	2,903,005	2,294,928
Supplies and other	3,614,660	2,496,931
Administrative services	1,398,381	941,203
General services	1,150,679	849,014
Depreciation and amortization	2,530,403	1,847,754
Insurance	<u>320,876</u>	<u>342,851</u>
Total operating expenses	<u>23,024,522</u>	<u>19,531,515</u>
Operating Loss	<u>(1,294,452)</u>	<u>(933,278)</u>
Nonoperating Revenues (Expenses)		
Property taxes	505,946	503,217
Interest expense	(557,077)	-
Interest income	31,484	98,697
Contributions	144,000	-
Other	<u>-</u>	<u>18,000</u>
Total nonoperating revenues (expenses)	<u>124,353</u>	<u>619,914</u>
Excess of Revenues Over (Under) Expenses Before Capital Grants, Contributions and Related Earnings	<u>(1,170,099)</u>	<u>(313,364)</u>
Capital Grants, Contributions and Related Earnings	<u>339,113</u>	<u>345,966</u>
Increase (Decrease) in Net Assets	(830,986)	32,602
Net Assets, Beginning of Year	<u>30,603,918</u>	<u>30,571,316</u>
Net Assets, End of Year	<u>\$ 29,772,932</u>	<u>\$ 30,603,918</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Statements of Cash Flows
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 20,407,443	\$ 18,200,702
Payments to suppliers and contractors	(9,342,225)	(7,177,345)
Payments to employees	(11,182,571)	(10,727,423)
Other receipts and payments, net	<u>184,061</u>	<u>242,275</u>
Net cash provided by operating activities	<u>66,708</u>	<u>538,209</u>
Noncapital Financing Activities		
Property taxes supporting operations	505,946	503,217
Other	-	18,000
Gifts and grants for other than capital purposes	<u>144,000</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>649,946</u>	<u>521,217</u>
Capital and Related Financing Activities		
Principal payments on long-term debt	(1,110,000)	-
Interest payments on long-term debt	(558,276)	-
Gifts and grants for capital purposes	339,113	345,966
Proceeds from sale of capital assets	30,000	8,261
Purchase of capital assets	<u>(8,529,790)</u>	<u>(21,430,502)</u>
Net cash used in capital and related financing activities	<u>(9,828,953)</u>	<u>(21,076,275)</u>
Investing Activities		
Interest on deposits	31,484	98,697
Decrease in deposits and investments	<u>750,000</u>	<u>18,756,983</u>
Net cash provided by investing activities	<u>781,484</u>	<u>18,855,680</u>
Decrease in Cash and Cash Equivalents	(8,330,815)	(1,161,169)
Cash and Cash Equivalents, Beginning of Year	<u>18,224,576</u>	<u>19,385,745</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,893,761</u>	<u>\$ 18,224,576</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Statements of Cash Flows (Continued)
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 5,182,317	\$ 6,050,480
Restricted cash - capital assets/debt service	156,247	1,092,201
Cash in noncurrent cash and deposits		
Internally designated	4,523,701	
Externally restricted	<u>31,496</u>	<u>11,081,895</u>
	<u>\$ 9,893,761</u>	<u>\$ 18,224,576</u>
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (1,294,452)	\$ (933,278)
Depreciation and amortization	2,530,403	1,847,754
Gain on sale of capital assets	(21,216)	(8,261)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(238,259)	(45,535)
Estimated amounts due from and to third-party payers	(868,000)	(125,999)
Accounts payable and accrued expenses	51,792	48,806
Supplies	(269,409)	(75,603)
Prepaid expenses	186,940	(194,210)
Other assets and liabilities	<u>(11,091)</u>	<u>24,535</u>
Net cash provided by operating activities	<u>\$ 66,708</u>	<u>\$ 538,209</u>
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	<u>\$ -</u>	<u>\$ 1,954,882</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2011 and 2010**

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

Nature of Operations and Reporting Entity

Hamilton County Public Hospital d/b/a Van Diest Medical Center (the "Hospital") is a county public hospital under Chapter 347 of the Code of Iowa, located in Webster City, Iowa. Board members are elected by voters of Hamilton County. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Hamilton County area.

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, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes and investment income are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The 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, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2011 and 2010**

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 2% in 2011 and 3% in 2010 of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Risk Management

The Hospital 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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 and existing economic conditions.

Supplies

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

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2011 and 2010**

Noncurrent Cash and Deposits

Noncurrent cash and deposits include (1) assets restricted by donors, (2) assets restricted under a loan agreement, and (3) internally designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Such amounts include cash and certificates of deposit.

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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	8 – 20 years
Buildings and leasehold improvements	5 – 40 years
Equipment	3 – 20 years
Computer software	3 – 5 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2011	2010
Interest cost capitalized, net of interest income	\$ 186,089	\$ 732,159
Interest cost charged to expense	<u>557,077</u>	<u>-</u>
Total interest incurred	<u>\$ 743,166</u>	<u>\$ 732,159</u>

Long-Lived Assets Accelerated Depreciation

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

At June 30, 2011 and 2010, the capital assets associated with the Hospital's old facility were considered for impairment. Although the capital assets related to the old facility were not considered impaired, the capital assets remaining estimated useful lives and salvage values were

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Notes to Financial Statements
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reconsidered. Additional depreciation of \$95,672 and \$945,785 was recognized for capital assets for the years ended June 30, 2011 and 2010, respectively, based on assets that would have been abandoned or otherwise not make the transition to the new facility which was completed as of October 1, 2010. The loss results from a reduction in the estimated useful life of these assets and the related acceleration of depreciation expense. The total estimated loss at June 30, 2011 was \$1,673,859, which is being recognized over the twenty-three month period from acceptance of the project to estimated completion. The loss is included in depreciation and amortization expense in the accompanying statement of revenue, expenses and changes in net assets.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the bonds outstanding method.

Compensated Absences and Post-retirement Benefits

Hospital policies permit most employees to accumulate paid time off 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 benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

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. 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.

**Hamilton County Public Hospital
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Notes to Financial Statements
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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. Charges excluded from revenue under the Hospital's charity care policy were \$404,594 and \$410,086 for 2011 and 2010, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Subsequent Events

Subsequent events have been evaluated through October 14, 2011 which is the date the financial statements were available to be issued.

Note 2: 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. These payment arrangements include:

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 53% and 49% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. 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.

Note 3: Deposits, Investments and Investment Income

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 Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2011 and 2010. The Hospital's deposits in banks at June 30, 2011 and 2010 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2011 and 2010.

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Summary of Carrying Value

The carrying value of deposits included in the balance sheets is as follows:

	<u>2011</u>	<u>2010</u>
Deposits	\$ 12,298,961	\$ 21,379,776
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,182,317	\$ 6,050,480
Short-term certificates of deposit	550,000	1,050,000
Restricted cash - capital assets/debt service	156,247	1,092,201
Noncurrent cash and deposits - internally designated	4,523,701	-
Noncurrent cash and deposits - externally restricted	<u>1,886,696</u>	<u>13,187,095</u>
	<u><u>\$ 12,298,961</u></u>	<u><u>\$ 21,379,776</u></u>

Deposit and Investment Income

Income on deposits and investments for the years ended June 30, 2011 and 2010 consisted of:

	<u>2011</u>	<u>2010</u>
Interest on deposits	\$ 31,484	\$ 98,697
Interest on restricted contributions and related funds	<u>25,707</u>	<u>207,119</u>
	<u><u>\$ 57,191</u></u>	<u><u>\$ 305,816</u></u>

**Hamilton County Public Hospital
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Notes to Financial Statements
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Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2011 and 2010 was:

	<u>2011</u>	<u>2010</u>
Medicare and Medicaid	\$ 1,280,905	\$ 1,133,468
Other third-party payers	1,187,077	884,826
Patients	2,739,126	2,565,430
Home care	28,577	35,876
ER physicians	816	816
	<u>5,236,501</u>	<u>4,620,416</u>
Less allowances for uncollectible accounts	<u>1,211,557</u>	<u>833,731</u>
	<u>\$ 4,024,944</u>	<u>\$ 3,786,685</u>

**Hamilton County Public Hospital
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Notes to Financial Statements
June 30, 2011 and 2010**

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2011 and 2010 was:

	2011				
	Beginning Balance	Additions	Disposals	Construction Transfers	Ending Balance
Land	\$ 224,092	\$ -	\$ -	\$ -	\$ 224,092
Land improvements	314,082	-	314,082	3,250,153	3,250,153
Buildings	5,204,820	-	5,204,820	11,347,461	11,347,461
Fixed equipment	3,364,705	-	3,364,705	13,737,688	13,737,688
Major movable equipment	7,889,178	89,446	2,375,931	5,365,409	10,968,102
Construction in progress	27,255,261	6,473,589	-	(33,700,711)	28,139
	<u>44,252,138</u>	<u>6,563,035</u>	<u>11,259,538</u>	<u>-</u>	<u>39,555,635</u>
Less accumulated depreciation					
Land improvements	302,301	128,372	314,082	-	116,591
Buildings	4,949,401	849,324	5,204,820	-	593,905
Fixed equipment	3,290,418	525,189	3,364,705	-	450,902
Major movable equipment	6,484,591	992,919	2,379,020	-	5,098,490
	<u>15,026,711</u>	<u>2,495,804</u>	<u>11,262,627</u>	<u>-</u>	<u>6,259,888</u>
Capital assets, net	<u>\$ 29,225,427</u>	<u>\$ 4,067,231</u>	<u>\$ (3,089)</u>	<u>\$ -</u>	<u>\$ 33,295,747</u>

**Hamilton County Public Hospital
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	Beginning Balance	2010			Ending Balance
		Additions	Disposals	Construction Transfers	
Land	\$ 224,092	\$ -	\$ -	\$ -	\$ 224,092
Land improvements	314,082	-	-	-	314,082
Buildings	5,204,820	-	-	-	5,204,820
Fixed equipment	3,364,705	-	-	-	3,364,705
Major movable equipment	7,647,076	515,048	272,946	-	7,889,178
Construction in progress	5,513,338	21,741,923	-	-	27,255,261
	<u>22,268,113</u>	<u>22,256,971</u>	<u>272,946</u>	<u>-</u>	<u>44,252,138</u>
Less accumulated depreciation					
Land improvements	266,567	35,734	-	-	302,301
Buildings	4,177,598	771,803	-	-	4,949,401
Fixed equipment	3,062,300	228,118	-	-	3,290,418
Major movable equipment	5,983,813	773,724	272,946	-	6,484,591
	<u>13,490,278</u>	<u>1,809,379</u>	<u>272,946</u>	<u>-</u>	<u>15,026,711</u>
Capital assets, net	<u>\$ 8,777,835</u>	<u>\$20,447,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,225,427</u>

The Hospital built a replacement facility which opened September 27, 2010 and is doing business as Van Diest Medical Center.

Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2011 and 2010:

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Loan (A)	\$ 21,820,000	\$ -	\$ 1,110,000	\$ 20,710,000	\$ 1,125,000
Total long-term debt	<u>\$ 21,820,000</u>	<u>\$ -</u>	<u>\$ 1,110,000</u>	<u>\$ 20,710,000</u>	<u>\$ 1,125,000</u>

**Hamilton County Public Hospital
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Notes to Financial Statements
June 30, 2011 and 2010**

	2010				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Long-term debt					
Loan (A)	\$ 21,820,000	\$ -	\$ -	\$ 21,820,000	\$ 1,110,000
Total long-term debt	\$ 21,820,000	\$ -	\$ -	\$ 21,820,000	\$ 1,110,000

(A) Loan; \$21,820,000 maturing serially through June 2026 with semiannual interest payments at rates from 1.30% to 4.55%. The Hospital borrowed the funds from Hamilton County, Iowa who issued General Obligation Bonds. The payments by the Hospital mirror the payments on these bonds. The Loan is secured by net revenues of the Hospital.

The Loan Resolution provides that a Debt Service Reserve fund be maintained in the amount of \$1,855,200. This amount is included in noncurrent cash and deposits. A fund was established in the amount of \$906,428 from the proceeds of the debt for capitalized interest, which was depleted in 2011. The Loan Resolution also requires that payment be made into a sinking fund in sufficient amount to pay the principal and interest due on the bonds. Sinking fund deposits were not required until July 1, 2010 for principal payments and January 1, 2011 for interest payments.

Scheduled principal and interest payments on the Loan are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2012	\$ 1,854,935	\$ 1,125,000	\$ 729,935
2013	1,851,935	1,140,000	711,935
2014	1,854,135	1,165,000	689,135
2015	1,852,340	1,190,000	662,340
2016	1,851,400	1,220,000	631,400
2017-2021	9,261,508	6,720,000	2,541,508
2022-2026	9,261,298	8,150,000	1,111,298
	\$ 27,787,551	\$ 20,710,000	\$ 7,077,551

**Hamilton County Public Hospital
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Notes to Financial Statements
June 30, 2011 and 2010**

Note 7: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. 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 Hospital's claims experience, no such accrual has been made.

Note 8: Restricted Net Assets

At June 30, 2011 and 2010, restricted expendable net assets were available for the following purposes:

	2011	2010
Capital assets	\$ 31,496	\$ 9,687,484
Debt service	1,855,200	1,855,200
	\$ 1,886,696	\$ 11,542,684

Note 9: Defined Benefit Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by State statute, to plan members and beneficiaries. The plan issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 4.5% and 4.3% of their annual covered salary and the Hospital is required to contribute 6.95% and 6.65% of annual covered payroll for 2011 and 2010, respectively. Contribution requirements are established by State statute. The Hospital's

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Notes to Financial Statements
June 30, 2011 and 2010**

contributions to the plan for 2011, 2010 and 2009 were \$572,344, \$545,061 and \$474,232, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.95% of annual covered salary for 2011.

Note 10: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the Hospital's budget for the year ended June 30, 2011:

	Accrual Basis	Budget
Amount to be raised by taxation	\$ 505,946	\$ 503,850
Other revenues/receipts	22,244,667	19,849,989
	22,750,613	20,353,839
Expenses/disbursements	23,581,599	25,050,000
	(830,986)	(4,696,161)
Balance, beginning of year	30,603,918	30,603,918
Balance, end of year	\$ 29,772,932	\$ 25,907,757

Note 11: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ in the near term.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2011 and 2010**

Note 12: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$53,750 and \$46,667 were incurred for the years ended June 30, 2011 and 2010, respectively.

Note 13: Significant Estimates and Concentrations

Current Economic Conditions

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

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

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Patient Service Revenues
Years Ended June 30, 2011 and 2010**

	2011			2010		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 4,406,633	\$ 3,597,232	\$ 809,401	\$ 3,967,498	\$ 3,164,138	\$ 803,360
Nursing Services						
Operating and recovery	5,609,259	980,244	4,629,015	4,675,624	651,301	4,024,323
Swing-bed	855,200	855,200		666,775	666,775	
Emergency	3,702,589	96,731	3,605,858	3,397,910	72,805	3,325,105
Delivery	217,557	141,490	76,067	206,422	115,044	91,378
Nursery	186,906	183,894	3,012	157,124	156,131	993
Obstetrics	451,113	340,859	110,254	369,863	282,150	87,713
Pediatric	187,320	187,320		116,480	116,480	
Home Care and Hospice	295,142	970	294,172	304,483	2,125	302,358
	<u>11,505,086</u>	<u>2,786,708</u>	<u>8,718,378</u>	<u>9,894,681</u>	<u>2,062,811</u>	<u>7,831,870</u>
Other Professional Services						
Central Supply	2,063,275	1,230,220	833,055	1,056,889	370,676	686,213
Ambulance	1,062,607	49,270	1,013,337	1,081,154	79,604	1,001,550
Blood	153,933	73,581	80,352	145,481	62,673	82,808
Electrocardiology	258,082	47,683	210,399	226,965	34,410	192,555
Radiology	4,601,652	606,286	3,995,366	4,266,737	497,443	3,769,294
Cardiac rehabilitation	156,674		156,674	184,999		184,999
Pharmacy	2,619,281	1,737,167	882,114	2,165,262	1,449,040	716,222
Chemistry	3,100,646	707,759	2,392,887	2,957,842	644,022	2,313,820
Diabetes education	26,294		26,294	25,437		25,437
Histology	91,254	21,660	69,594	84,264	12,051	72,213
Holter Monitor				3,075	106	2,969
Microbiology	630,515	166,081	464,434	579,063	141,599	437,464
Jewell Clinic	312,451		312,451	266,336	61	266,275
Stratford Clinic	171,556		171,556	176,780		176,780
Anesthesiology	647,782	234,524	413,258	541,993	167,418	374,575
Respiratory therapy	980,788	824,321	156,467	826,097	690,765	135,332
Physical therapy	617,125	156,864	460,261	530,157	131,733	398,424
Occupational therapy	199,239	98,128	101,111	143,698	80,942	62,756
Speech therapy	22,622	4,494	18,128	26,843	8,638	18,205
Corporate health	375		375	6,104		6,104
Dietary counseling				325		325
Sleep study	216,850		216,850	161,729		161,729
	<u>17,933,001</u>	<u>5,958,038</u>	<u>11,974,963</u>	<u>15,457,230</u>	<u>4,371,181</u>	<u>11,086,049</u>
Patient Service Revenue	33,844,720	<u>\$ 12,341,978</u>	<u>\$ 21,502,742</u>	29,319,409	<u>\$ 9,598,130</u>	<u>\$ 19,721,279</u>
Contractual Allowances	<u>(11,167,464)</u>			<u>(9,847,415)</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	22,677,256			19,471,994		
Provision for Uncollectible Accounts	<u>(1,163,554)</u>			<u>(1,099,758)</u>		
Net Patient Service Revenue	<u>\$ 21,513,702</u>			<u>\$ 18,372,236</u>		

**Hamilton County Public Hospital
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Schedules of Other Revenues
Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
Cafeteria revenue	\$ 103,057	\$ 92,877
Rebates	22,070	14,305
Services provided to other entities	17,308	62,549
Medical records transcripts	4,330	3,086
Sale of supplies and scrap	65	300
Gain on disposal of property and equipment	21,216	8,261
Grants	28,223	31,824
Speciality clinics	11,392	8,870
Miscellaneous	8,707	3,929
	<u>\$ 216,368</u>	<u>\$ 226,001</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2011 and 2010**

	2011			2010		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing	\$ 2,034,946	\$ 1,797,457	\$ 237,489	\$ 2,030,774	\$ 1,877,097	\$ 153,677
Nursery	76,571	62,230	14,341	67,542	58,676	8,866
Labor and delivery	116,754	56,062	60,692	91,090	45,258	45,832
Maternity	286,948	227,501	59,447	263,986	242,673	21,313
Operating	2,644,646	1,179,249	1,465,397	1,788,747	1,092,472	696,275
Emergency	1,522,961	639,419	883,542	1,492,704	606,164	886,540
	<u>6,682,826</u>	<u>3,961,918</u>	<u>2,720,908</u>	<u>5,734,843</u>	<u>3,922,340</u>	<u>1,812,503</u>
Other Professional Services						
Anesthesia	398,672		398,672	354,830		354,830
Central Supply	1,012,306	104,153	908,153	477,902	90,445	387,457
Ambulance	230,706	196,290	34,416	249,825	210,217	39,608
Laboratory	886,044	370,655	515,389	926,417	372,296	554,121
Blood	88,865		88,865	91,361		91,361
Electrocardiology	13,839		13,839	10,542		10,542
Radiology	788,233	311,107	477,126	721,792	302,348	419,444
Pharmacy	921,790	335,096	586,694	819,570	312,628	506,942
Cardiac rehabilitation	93,427	78,635	14,792	92,579	85,914	6,665
Diabetes education	18,955		18,955	24,078		24,078
Physical therapy	310,522	14,173	296,349	264,022	45,007	219,015
Social services	8,685	8,136	549	22,046	21,621	425
Durable medical equipment	171,098	101,175	69,923	174,518	107,293	67,225
Specialty clinics	30,259	3,952	26,307	13,084	10,722	2,362
Inhalation therapy	409,417	285,819	123,598	377,403	279,942	97,461
Corporate health	236		236	62		62
Jewell Clinic	218,342	157,093	61,249	221,397	155,754	65,643
Stratford Clinic	178,955	131,457	47,498	178,017	131,443	46,574
Free Clinic	4		4	12		12
Occupational therapy	102,575		102,575	72,108		72,108
Speech therapy	11,568		11,568	13,421		13,421
	<u>5,894,498</u>	<u>2,097,741</u>	<u>3,796,757</u>	<u>5,104,986</u>	<u>2,125,630</u>	<u>2,979,356</u>
General Services						
Dietary	544,336	315,997	228,339	483,123	296,365	186,758
Operation of plant	907,704	182,069	725,635	724,658	202,545	522,113
Housekeeping	325,578	244,556	81,022	294,424	261,440	32,984
Laundry	115,683		115,683	107,159		107,159
	<u>1,893,301</u>	<u>742,622</u>	<u>1,150,679</u>	<u>1,609,364</u>	<u>760,350</u>	<u>849,014</u>
Administrative Services						
Public relations/Marketing	114,745	39,366	75,379	132,788	37,990	94,798
Medical records	443,174	359,256	83,918	363,119	341,087	22,032
Patient accounts	151,991	148,180	3,811	144,125	140,590	3,535
Admitting	554,712	433,017	121,695	476,368	384,260	92,108
Administration	754,388	273,909	480,479	554,762	265,291	289,471
Data processing	644,137	158,878	485,259	482,891	151,396	331,495
Human resources	245,722	105,990	139,732	262,004	164,851	97,153
Quality management	176,536	168,428	8,108	153,375	142,764	10,611
	<u>3,085,405</u>	<u>1,687,024</u>	<u>1,398,381</u>	<u>2,569,432</u>	<u>1,628,229</u>	<u>941,203</u>
Insurance	<u>320,876</u>		<u>320,876</u>	<u>342,851</u>		<u>342,851</u>
Employee Benefits	<u>2,617,213</u>		<u>2,617,213</u>	<u>2,322,285</u>		<u>2,322,285</u>
Depreciation	<u>2,530,403</u>		<u>2,530,403</u>	<u>1,847,754</u>		<u>1,847,754</u>
	<u>\$ 23,024,522</u>	<u>\$ 8,489,305</u>	<u>\$ 14,535,217</u>	<u>\$ 19,531,515</u>	<u>\$ 8,436,549</u>	<u>\$ 11,094,966</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2011 and 2010**

Schedule of Patient Receivables

	<u>2011</u>		<u>2010</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 2,715,808	50%	\$ 2,339,499	50%
31-60 days	619,721	11%	766,720	16%
61-90 days	265,884	5%	459,779	10%
91-120 days	232,452	4%	193,257	4%
Over 4 months	<u>1,603,890</u>	<u>30%</u>	<u>943,671</u>	<u>20%</u>
Total	5,437,755	<u>100%</u>	4,702,926	<u>100%</u>
Home care, net of allowance	28,577		35,876	
ER Physicians, net of allowance	816		816	
Bad debt accounts, net of allowance	664,405		672,083	
Less contractual allowances	895,052		791,285	
Less allowance for uncollectible accounts	<u>1,211,557</u>		<u>833,731</u>	
Net patient receivables	<u>\$ 4,024,944</u>		<u>\$ 3,786,685</u>	

Allowance for Uncollectible Accounts

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 833,731	\$ 715,264
Provision for year	1,163,554	1,099,758
Recoveries of accounts previously written off	<u>118,306</u>	<u>107,613</u>
	2,115,591	1,922,635
Accounts written off	<u>904,034</u>	<u>1,088,904</u>
Balance, end of year	<u>\$ 1,211,557</u>	<u>\$ 833,731</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedule of Officials
June 30, 2011**

Name	Title	Term Expires
Board of Trustees		
Carroll Ose	Chairperson	2012
George Heller	Vice Chairman	2012
John Hemingway	Treasurer	2014
Stephen Mourlam	Secretary	2014
Hank Witt	Member	2014
Nancy Derman	Member	2016
Don Bottorff	Member	2016
Hospital Officials		
Palmer Schneider	Chief Executive Officer	
Alice Heinrichs	Chief Financial Officer	

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2011 and 2010**

Supplies

	<u>2011</u>	<u>2010</u>
General	\$ 48,007	\$ 57,167
Pharmacy	206,846	203,405
Central supply	597,951	226,977
Dietary	14,246	11,622
Plant operation and maintenance	12,528	36,590
Laboratory	62,500	78,231
Surgical services	-	57,794
Radiology	15,521	12,390
Jewell Clinic	6,637	10,651
	<u>\$ 964,236</u>	<u>\$ 694,827</u>

Prepaid Expenses

	<u>2011</u>	<u>2010</u>
Insurance	\$ 67,258	\$ 92,284
Health Insurance/consultants' fees/other	178,669	340,583
	<u>\$ 245,927</u>	<u>\$ 432,867</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedule of Insurance Coverage
Year Ended June 30, 2011**

Employers Mutual

Policy No. 1x6-16-17-12, expiring January 1, 2012

Property blanket building and contents	\$ 21,000,000
Loss of income and extra expense	6,000,000
Personal Property blanket	841,500
Personal Property blanket, Stratford	10,434,844
Equipment breakdown	Replacement Cost
Data processing equipment	Replacement Cost

National Indemnit of Mid-America

Policy No.75 APN 359318, expiring July 2, 2012

Comprehensive automobile liability

Liability	1,000,000
Hired and non-owned auto physical damage	ACV w/ \$500 ded

PIC Wisconsin (Ruhl & Ruhl)

Comprehensive hospital liability, expiring February 1, 2012

Hospital professional liability, Policy No. 131280	1,000,000/3,000,000
General liability, Policy No. 131280	1,000,000/3,000,000
Employee benefits, Policy No. 131280	1,000,000/3,000,000

ProAssurance Corporation

Excess liability, Expiring February 1, 2012

Excess medical liability, Policy No. CH252	5,000,000/5,000,000
Umbrella liability, Policy No. CH252	10,000,000/10,000,000

Chubb Group of Insurance Companies

Policy No. 6801-9588, expiring January 1, 2012

Directors' and officers' liability	3,000,000/3,000,000
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**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Trustees
Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Webster City, Iowa

We have audited the financial statements of Hamilton County Public Hospital d/b/a Van Diest Medical Center as of and for the year ended June 30, 2011 and have issued our report thereon dated October 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 14, 2011.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2011. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2011.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2011 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the Trustee minutes but were not.

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Disbursements for Equipment and Supplies

We noted no disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Unclaimed Property

The Hospital is required to evaluate the need to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital evaluated and was not required to file the unclaimed property report for the year ended June 30, 2011.

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This report is intended solely for the information and use of the governing body, management and the State of Iowa, and others within the Hospital and is not intended to be, and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 14, 2011

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2011**

Reference Number	Finding
None	

Board of Trustees and Management
Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Webster City, Iowa

In planning and performing our audit of the financial statements of Hamilton County Public Hospital d/b/a Van Diest Medical Center (VDMC) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting. Some individuals within the Hospital have incompatible duties in two financial

statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. Following is a summary of various incompatible duties we identified:

Cash Disbursements Cycle

- Financial Analyst and Accountant have duties that include access to signed checks and recording responsibilities.

Payroll Cycle

- The Financial Analyst and the Accountant have access to signed checks and the ability to record payroll-related information.

Management should evaluate the costs versus the benefits of further segregating these duties or adding monitoring or other compensating controls.

Audit Adjustments

During the course of performing the audit, we identified misstatements resulting in audit journal entries to adjust the financial statement amounts. We proposed adjustments to management based on our testing related to the following accounts, including accounts receivable contractual allowances and capital assets.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Accounts Receivable Aging

During our audit we reviewed the accounts receivable aging and noted an increase in receivables over 120 days old of \$660,000 or 70%. We suggest that the formal collection procedures be reviewed to ensure they are being followed. Continuous review of the accounts receivable aging by management will also ensure staff are following Hospital procedures to collect the receivables in a timely manner.

Debt Service Coverage Ratio

As a requirement in your loan covenants, the Hospital will be required to maintain a debt service coverage ratio of 1.25 for your year ending June 30, 2012. The Hospital should monitor this ratio during the year and take all necessary steps to be in compliance at June 30, 2012.

Medicare and Medicaid Reimbursement

The Federal government is currently evaluating ways to cut expenses due to the current economic conditions. Medicare and Medicaid programs are all being evaluated in this progress. The Hospital should continue to monitor the status of the proposed reimbursement cuts and take steps to ensure the Hospital can meet debt covenants in the event of reduced reimbursements.

Electronic Health Records

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Variables that determine the total funding available to a hospital include total discharges, the percentage of patient days attributable to Medicare Part A and Part C patients and the percentage of charges attributable to charity care. Implementing regulations to be issued by the Centers for Medicare & Medicaid Services (CMS) will determine how these variables are measured and what constitutes meaningful users of certified EHR technology.

Normal Medicare payments to hospitals and physicians will be reduced slightly beginning in 2015, if certified EHR technology is not in use. Limited exemptions are available for up to five years for hospitals that demonstrate that becoming a meaningful user of certified EHR technology would create a hardship. We recommend the Hospital monitor the development of the CMS implementing regulations. The Hospital should continue to develop its work plan to guide its implementation efforts related to certified EHR technology.

Current Economic Environment

The current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets recorded in the financial statements could change, resulting in material future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Trustees vigilantly monitor and aggressively manage all of these matters, including:

- Review and monitor allowances for uncollectible accounts
- Evaluate financing needs and liquidity plans

* * * * *

This communication is intended solely for the information and use of Management, the Board of Trustees, and others within the Hospital, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 14, 2011