

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center**  
Accountants' Report and Financial Statements  
June 30, 2012 and 2011



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

**June 30, 2012 and 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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 12, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting or other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information 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 not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*BKD, LLP*

Kansas City, Missouri  
October 12, 2012

# **Hamilton County Public Hospital d/b/a Van Diest Medical Center Management's Discussion and Analysis Years Ended June 30, 2012 and 2011**

## ***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, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

## ***Financial Highlights***

- Cash and cash equivalents increased in 2012 by \$1,537,022 and decreased in 2011 by \$8,330,815.
- The Hospital's net assets decreased in 2012 by \$224,685 or 0.8% and decreased in 2011 by \$830,986 or 2.7%.
- The Hospital reported an operating loss in 2012 and 2011 of \$171,431 and \$1,294,452, respectively.
- Net nonoperating revenues decreased in 2012 by \$303,481 or 244% compared to 2011, which decreased by \$495,561 or 79.9%.

## ***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 \$224,685 or 0.8% in 2012 over 2011 and decreased \$830,986 or 2.7% in 2011 over 2010.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 4,077,173	\$ 4,024,944	\$ 3,786,685
Other current assets	10,249,357	8,407,986	9,840,385
Capital assets, net	30,506,080	33,295,747	29,225,427
Noncurrent cash and deposits and other	6,670,410	6,671,059	13,482,356
	<hr/>	<hr/>	<hr/>
Total assets	\$ 51,503,020	\$ 52,399,736	\$ 56,334,853
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>			
Current liabilities	\$ 3,509,773	\$ 3,041,804	\$ 5,020,935
Long-term debt	18,445,000	19,585,000	20,710,000
	<hr/>	<hr/>	<hr/>
Total liabilities	21,954,773	22,626,804	25,730,935
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<b>Net Assets</b>			
Invested in capital assets	11,246,942	12,941,825	8,482,418
Restricted - expendable	1,870,674	1,886,696	11,542,684
Unrestricted	16,430,631	14,944,411	10,578,816
	<hr/>	<hr/>	<hr/>
Total net assets	29,548,247	29,772,932	30,603,918
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net assets	\$ 51,503,020	\$ 52,399,736	\$ 56,334,853
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In 2012, other current assets increased by \$1,841,371 or 21.9% due to the increase in collections on patient accounts and the receipt of stage 1 meaningful use stimulus funds from Medicaid in the amount of \$203,400. Net Capital assets decreased by \$2,789,667 or 8.4% due to the first full year of depreciation being taken on assets acquired in fiscal year 2011 for the new building project.

Total liabilities decreased by \$672,031 or 2.97% due to timely payments made on the long-term debt decreasing the total amount owed.

Unrestricted net assets increased \$1,486,220 or 9.94% due to an increase in revenues and a decrease in expenses unrelated to capital assets along with donations received for the building project.

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.

In 2011, current liabilities decreased by \$1,979,131 or 39.4% due to the completion of the Hospital building project.

In 2011, 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.

### **Operating Results**

In 2012, the Hospital's Decrease in Net Assets was \$224,685 compared to the Decrease in Net Assets of \$830,986 in 2011 as shown in Table 2.

**Table 2: Operating Results and Changes in Net Assets**

	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 22,368,375	\$ 21,513,702	\$ 18,372,236
Other operating revenues	1,293,330	216,368	226,001
Total operating revenues	<u>23,661,705</u>	<u>21,730,070</u>	<u>18,598,237</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	10,920,538	11,106,518	10,758,834
Medical supplies, professional fees and other	6,848,176	6,517,665	4,791,859
Depreciation and amortization	3,537,829	2,530,403	1,847,754
Other operating expenses	2,526,593	2,869,936	2,133,068
Total operating expenses	<u>23,833,136</u>	<u>23,024,522</u>	<u>19,531,515</u>
<b>Operating Loss</b>	<u>(171,431)</u>	<u>(1,294,452)</u>	<u>(933,278)</u>
<b>Nonoperating Revenues (Expense)</b>			
Property taxes	506,101	505,946	503,217
Interest expense	(728,436)	(557,077)	-
Interest income	43,207	31,484	98,697
Contributions	-	144,000	-
Other	-	-	18,000
Total nonoperating revenues (expense)	<u>(179,128)</u>	<u>124,353</u>	<u>619,914</u>
<b>Excess of Revenues Under Expenses Before Capital Grants, Contributions and Related Earnings</b>	<u>(350,559)</u>	<u>(1,170,099)</u>	<u>(313,364)</u>
<b>Capital Grants, Contributions and Related Earnings</b>	<u>125,874</u>	<u>339,113</u>	<u>345,966</u>
<b>Increase (Decrease) in Net Assets</b>	<u>\$ (224,685)</u>	<u>\$ (830,986)</u>	<u>\$ 32,602</u>

## **Operating 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 2012, the Hospital reported an operating loss of \$171,431 compared to a loss of \$1,294,452 in 2011. In 2011, the Hospital reported an operating loss of \$1,294,452 compared to a loss of \$933,278 in 2010. 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 2012 the primary components resulting in an operating loss were:

- Supplies and other expenses increased \$235,710 or 6.52%. The increase was due to additional rental fees for an onsite mobile MRI service, maintenance fees for equipment purchased for the new facility that went off warranty during the fiscal year and patient supply expense increase for orthopedic services. Expenses paid for asbestos abatement at the old facility are included in general services which had a decrease of \$194,809 or 17%.

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.

## **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 tax income remained relatively constant in 2012 compared to 2011 and in 2011 as compared to 2010, interest income increased in 2012 by \$11,723 due to more cash in the bank as compared to 2011. Interest expense increased by \$171,359 and \$557,077 in 2012 and 2011, respectively, due to long-term debt associated with the replacement hospital construction project. Contributions decreased by \$144,000 in 2012 as the Hospital received this amount in cash from an estate in the prior year.

### ***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 2012 was \$3,302,718 compared to cash provided by operating activities of \$66,708 in 2011.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2012, the Hospital had \$30,506,080 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$33,295,747 in 2011. The capital assets decreased due the first full year of depreciation taken on assets acquired the prior year for the new facility.

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.

#### **Debt**

- At June 30, 2012 and 2011, the Hospital had debt of \$19,585,000 and \$20,710,000 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:

- The old Hospital is in process of being razed, and will amount to \$237,088 in additional 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, 2012 and 2011

### Assets

	2012	2011
<b>Current Assets</b>		
Cash and cash equivalents	\$ 6,531,656	\$ 5,182,317
Short-term certificates of deposit	550,000	550,000
Restricted cash-debt service	312,068	156,247
Patient accounts receivable, net of allowance; 2012 - \$1,368,941, 2011 - \$1,211,557	4,077,173	4,024,944
Estimated amounts due from third-party payers	685,000	776,000
Property tax receivable	871,999	511,171
Other receivables	2,593	22,088
Supplies	1,083,988	964,236
Prepaid expenses and other	212,053	245,927
Total current assets	14,326,530	12,432,930
<b>Noncurrent Cash and Deposits</b>		
Internally designated	4,571,585	4,523,701
Externally restricted		
Donors	15,474	31,496
Held under loan agreement	1,855,200	1,855,200
	6,442,259	6,410,397
<b>Capital Assets, Net of Accumulated Depreciation</b>	30,506,080	33,295,747
<b>Other Assets</b>		
Deferred financing costs	228,151	260,662
Total assets	\$ 51,503,020	\$ 52,399,736

## Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 1,140,000	\$ 1,125,000
Accounts payable	538,624	459,990
Accrued interest	59,332	60,831
Accrued expenses	905,222	889,975
Deferred property tax revenue	<u>866,595</u>	<u>506,008</u>
Total current liabilities	3,509,773	3,041,804
<b>Long-term Debt</b>	<u>18,445,000</u>	<u>19,585,000</u>
Total liabilities	<u>21,954,773</u>	<u>22,626,804</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	11,246,942	12,941,825
Restricted - expendable for		
Capital assets	15,474	31,496
Debt service	1,855,200	1,855,200
Unrestricted	<u>16,430,631</u>	<u>14,944,411</u>
Total net assets	<u>29,548,247</u>	<u>29,772,932</u>
Total liabilities and net assets	<u>\$ 51,503,020</u>	<u>\$ 52,399,736</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, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Net patient service revenue, before provision for uncollectible accounts	\$ 24,035,843	\$ 22,677,256
Provision for uncollectible accounts	(1,667,468)	(1,163,554)
Net patient service revenue	<u>22,368,375</u>	<u>21,513,702</u>
Other	<u>1,293,330</u>	<u>216,368</u>
Total operating revenues	<u>23,661,705</u>	<u>21,730,070</u>
<b>Operating Expenses</b>		
Salaries and wages	8,289,822	8,489,305
Employee benefits	2,630,716	2,617,213
Medical professional fees	2,997,806	2,903,005
Supplies and other	3,850,370	3,614,660
Administrative services	1,256,544	1,398,381
General services	955,870	1,150,679
Depreciation and amortization	3,537,829	2,530,403
Insurance	<u>314,179</u>	<u>320,876</u>
Total operating expenses	<u>23,833,136</u>	<u>23,024,522</u>
<b>Operating Loss</b>	<u>(171,431)</u>	<u>(1,294,452)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	506,101	505,946
Interest expense	(728,436)	(557,077)
Interest income	43,207	31,484
Contributions	<u>-</u>	<u>144,000</u>
Total nonoperating revenues (expenses)	<u>(179,128)</u>	<u>124,353</u>
<b>Excess of Revenues Under Expenses Before Capital Grants, Contributions and Related Earnings</b>	(350,559)	(1,170,099)
<b>Capital Grants, Contributions and Related Earnings</b>	<u>125,874</u>	<u>339,113</u>
<b>Decrease in Net Assets</b>	(224,685)	(830,986)
<b>Net Assets, Beginning of Year</b>	<u>29,772,932</u>	<u>30,603,918</u>
<b>Net Assets, End of Year</b>	<u>\$ 29,548,247</u>	<u>\$ 29,772,932</u>

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 22,407,146	\$ 20,407,443
Payments to suppliers and contractors	(9,537,038)	(9,342,225)
Payments to employees	(10,905,291)	(11,182,571)
Other receipts and payments, net	<u>1,337,901</u>	<u>184,061</u>
Net cash provided by operating activities	<u>3,302,718</u>	<u>66,708</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	506,101	505,946
Gifts and grants for other than capital purposes	<u>-</u>	<u>144,000</u>
Net cash provided by noncapital financing activities	<u>506,101</u>	<u>649,946</u>
<b>Capital and Related Financing Activities</b>		
Principal payments on long-term debt	(1,125,000)	(1,110,000)
Interest payments on long-term debt	(729,935)	(558,276)
Gifts and grants for capital purposes	125,874	339,113
Proceeds from sale of capital assets	-	30,000
Purchase of capital assets	<u>(585,943)</u>	<u>(8,529,790)</u>
Net cash used in capital and related financing activities	<u>(2,315,004)</u>	<u>(9,828,953)</u>
<b>Investing Activities</b>		
Interest on deposits	43,207	31,484
Decrease in deposits and investments	<u>-</u>	<u>750,000</u>
Net cash provided by investing activities	<u>43,207</u>	<u>781,484</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,537,022	(8,330,815)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>9,893,761</u>	<u>18,224,576</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 11,430,783</u>	<u>\$ 9,893,761</u>

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 6,531,656	\$ 5,182,317
Restricted cash - debt service	312,068	156,247
Cash in noncurrent cash and deposits		
Internally designated	4,571,585	4,523,701
Externally restricted	<u>15,474</u>	<u>31,496</u>
	<u>\$ 11,430,783</u>	<u>\$ 9,893,761</u>
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (171,431)	\$ (1,294,452)
Depreciation and amortization	3,537,829	2,530,403
(Gain)/Loss on sale of capital assets	25,317	(21,216)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(52,229)	(238,259)
Estimated amounts due from and to third-party payers	91,000	(868,000)
Accounts payable and accrued expenses	(61,144)	51,792
Supplies	(119,752)	(269,409)
Prepaid expenses	33,874	186,940
Other assets and liabilities	<u>19,254</u>	<u>(11,091)</u>
Net cash provided by operating activities	<u>\$ 3,302,718</u>	<u>\$ 66,708</u>
 <b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in accounts payable	\$ 155,025	\$ -

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Notes to Financial Statements  
June 30, 2012 and 2011**

**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.

***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2012 and 2011, cash equivalents consisted primarily of money market accounts.

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Notes to Financial Statements  
June 30, 2012 and 2011**

***Property Taxes***

The Hospital received approximately 2% in both 2012 and 2011 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.

***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.

**Hamilton County Public Hospital  
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**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:

	<u>2012</u>	<u>2011</u>
Interest cost capitalized, net of interest income	\$ -	\$ 186,089
Interest cost charged to expense	<u>728,436</u>	<u>557,077</u>
Total interest incurred	<u>\$ 728,436</u>	<u>\$ 743,166</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, 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 reconsidered. Additional depreciation of \$95,672 was recognized for capital assets for the year ended June 30, 2011, 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 loss at June 30, 2011 was \$1,673,859, which was recognized over the twenty-three month period from acceptance of the project to estimated completion. The loss was included in depreciation and amortization expense in the statement of revenues, expenses and changes in net assets.

**Hamilton County Public Hospital**  
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***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.

***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 \$589,224 and \$404,594 for 2012 and 2011, respectively.

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***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.

***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2012, the Hospital completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately \$1,123,400, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net assets.

***Subsequent Events***

Subsequent events have been evaluated through the date of the Independent Accountants' Report, 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.

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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 63% and 59% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2012 and 2011, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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, 2012 and 2011. The Hospital's deposits in banks at June 30, 2012 and 2011 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, 2012 and 2011.

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**Summary of Carrying Value**

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

	<u>2012</u>	<u>2011</u>
Deposits	\$ 13,835,983	\$ 12,298,961
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 6,531,656	\$ 5,182,317
Short-term certificates of deposit	550,000	550,000
Restricted cash - capital assets/debt service	312,068	156,247
Noncurrent cash and deposits - internally designated	4,571,585	4,523,701
Noncurrent cash and deposits - externally restricted	<u>1,870,674</u>	<u>1,886,696</u>
	<u>\$ 13,835,983</u>	<u>\$ 12,298,961</u>

**Deposit and Investment Income**

Income on deposits and investments for the years ended June 30, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest on deposits	\$ 43,207	\$ 31,484
Interest on restricted contributions and related funds	<u>-</u>	<u>25,707</u>
	<u>\$ 43,207</u>	<u>\$ 57,191</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, 2012 and 2011 was:

	<b>2012</b>	<b>2011</b>
Medicare and Medicaid	\$ 1,464,039	\$ 1,280,905
Other third-party payers	1,099,647	1,187,077
Patients	2,849,451	2,739,126
Home care	32,977	28,577
ER physicians	-	816
	<u>5,446,114</u>	<u>5,236,501</u>
Less allowances for uncollectible accounts	<u>1,368,941</u>	<u>1,211,557</u>
	<u><u>\$ 4,077,173</u></u>	<u><u>\$ 4,024,944</u></u>

**Hamilton County Public Hospital  
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**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2012 and 2011 was:

	Beginning Balance	2012			Ending Balance
		Additions	Disposals	Construction Transfers	
Land	\$ 224,092	\$ -	\$ -	\$ -	\$ 224,092
Land improvements	3,250,153	-	-	-	3,250,153
Buildings	11,347,461	-	-	-	11,347,461
Fixed equipment	13,737,688	-	-	-	13,737,688
Major movable equipment	10,968,102	-	684,357	534,816	10,818,561
Construction in progress	28,139	743,468	-	(534,816)	236,791
	<u>39,555,635</u>	<u>743,468</u>	<u>684,357</u>	<u>-</u>	<u>39,614,746</u>
Less accumulated depreciation					
Land improvements	116,591	233,182	-	-	349,773
Buildings	593,905	797,172	-	-	1,391,077
Fixed equipment	450,902	901,804	-	-	1,352,706
Major movable equipment	5,098,490	1,573,160	656,540	-	6,015,110
	<u>6,259,888</u>	<u>3,505,318</u>	<u>656,540</u>	<u>-</u>	<u>9,108,666</u>
Capital assets, net	<u>\$ 33,295,747</u>	<u>\$ (2,761,850)</u>	<u>\$ 27,817</u>	<u>\$ -</u>	<u>\$ 30,506,080</u>

**Hamilton County Public Hospital  
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	Beginning Balance	2011		Construction Transfers	Ending Balance
		Additions	Disposals		
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>

The Hospital built a replacement facility which opened September 27, 2010.

**Note 6: Long-term Obligations**

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2012 and 2011:

	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-term debt</b>					
Loan (A)	<u>\$ 20,710,000</u>	<u>\$ -</u>	<u>\$ 1,125,000</u>	<u>\$ 19,585,000</u>	<u>\$ 1,140,000</u>
Total long-term debt	<u>\$ 20,710,000</u>	<u>\$ -</u>	<u>\$ 1,125,000</u>	<u>\$ 19,585,000</u>	<u>\$ 1,140,000</u>

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	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
<b>Long-term debt</b>					
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>

(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. 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. This amount is included in current restricted cash.

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

Year Ending June 30,	Total to be Paid	Principal	Interest
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	1,850,410	1,255,000	595,410
2018-2022	9,266,298	6,965,000	2,301,298
2023-2026	7,406,098	6,650,000	756,098
	<u>\$ 25,932,616</u>	<u>\$ 19,585,000</u>	<u>\$ 6,347,616</u>

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**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, 2012 and 2011, restricted expendable net assets were available for the following purposes:

	<b>2012</b>	<b>2011</b>
Capital assets	\$ 15,474	\$ 31,496
Debt service	1,855,200	1,855,200
	\$ 1,870,674	\$ 1,886,696

**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 5.38% and 4.50% of their annual covered salary and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$645,097, \$572,344 and \$545,061,

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June 30, 2012 and 2011**

respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.07% of annual covered salary for 2012.

**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, 2012:

	<b>Accrual Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 506,101	\$ 506,008
Other revenues/receipts	23,830,786	24,423,784
	24,336,887	24,929,792
Expenses/disbursements	24,561,572	24,742,736
	(224,685)	187,056
Balance, beginning of year	29,772,932	29,772,932
Balance, end of year	\$ 29,548,247	\$ 29,959,988

**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  
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Notes to Financial Statements  
June 30, 2012 and 2011**

**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 \$57,022 and \$53,750 were incurred for the years ended June 30, 2012 and 2011, respectively.

**Note 13: Operating Leases**

Rental expense for all operating leases was \$294,187 and \$169,739 for the years ended June 30, 2012 and 2011, respectively.

**Note 14: 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  
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Schedules of Patient Service Revenues  
Years Ended June 30, 2012 and 2011**

	2012			2011		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 5,357,529	\$ 4,322,465	\$ 1,035,064	\$ 4,406,633	\$ 3,597,232	\$ 809,401
<b>Nursing Services</b>						
Operating and recovery	5,288,152	1,075,971	4,212,181	5,609,259	980,244	4,629,015
Swing-bed	853,600	853,600		855,200	855,200	
Emergency	4,619,078	127,516	4,491,562	3,702,589	96,731	3,605,858
Delivery	211,094	161,525	49,569	217,557	141,490	76,067
Nursery	210,700	207,627	3,073	186,906	183,894	3,012
Obstetrics	482,415	350,200	132,215	451,113	340,859	110,254
Pediatric	167,482	167,482		187,320	187,320	
Home Care and Hospice	297,159	279	296,880	295,142	970	294,172
	<u>12,129,680</u>	<u>2,944,200</u>	<u>9,185,480</u>	<u>11,505,086</u>	<u>2,786,708</u>	<u>8,718,378</u>
<b>Other Professional Services</b>						
Central Supply	2,025,611	1,532,221	493,390	2,063,275	1,230,220	833,055
Ambulance	1,046,380	51,360	995,020	1,062,607	49,270	1,013,337
Blood	182,052	83,663	98,389	153,933	73,581	80,352
Electrocardiology	305,501	64,556	240,945	258,082	47,683	210,399
Radiology	5,229,413	864,585	4,364,828	4,601,652	606,286	3,995,366
Cardiac rehabilitation	192,659		192,659	156,674		156,674
Pharmacy	4,267,882	2,862,369	1,405,513	2,619,281	1,737,167	882,114
Chemistry	3,721,453	1,152,747	2,568,706	3,100,646	707,759	2,392,887
Diabetes education	18,753		18,753	26,294		26,294
Histology	96,348	20,119	76,229	91,254	21,660	69,594
Microbiology	663,100	190,144	472,956	630,515	166,081	464,434
Jewell Clinic	315,911		315,911	312,451		312,451
Stratford Clinic	180,884		180,884	171,556		171,556
Anesthesiology	650,821	253,157	397,664	647,782	234,524	413,258
Respiratory therapy	1,067,838	942,290	125,548	980,788	824,321	156,467
Physical therapy	639,095	179,239	459,856	617,125	156,864	460,261
Occupational therapy	178,941	97,648	81,293	199,239	98,128	101,111
Speech therapy	26,515	7,258	19,257	22,622	4,494	18,128
Corporate health	111		111	375		375
Dietary counseling	250		250			
Sleep study	152,779		152,779	216,850		216,850
	<u>20,962,297</u>	<u>8,301,356</u>	<u>12,660,941</u>	<u>17,933,001</u>	<u>5,958,038</u>	<u>11,974,963</u>
<b>Patient Service Revenue</b>	38,449,506	<u>\$ 15,568,021</u>	<u>\$ 22,881,485</u>	33,844,720	<u>\$ 12,341,978</u>	<u>\$ 21,502,742</u>
<b>Contractual Allowances</b>	<u>(14,413,663)</u>			<u>(11,167,464)</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	24,035,843			22,677,256		
<b>Provision for Uncollectible Accounts</b>	<u>(1,667,468)</u>			<u>(1,163,554)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 22,368,375</u>			<u>\$ 21,513,702</u>		

**Hamilton County Public Hospital  
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Schedules of Other Revenues  
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cafeteria revenue	\$ 107,108	\$ 103,057
Rebates	23,592	22,070
Services provided to other entities	2,093	17,308
Medical records transcripts	3,002	4,330
Sale of supplies and scrap	20,671	65
Gain (Loss) on disposal of property and equipment	(25,317)	21,216
Grants including Electronic Health Records	1,142,033	28,223
Speciality clinics	7,509	11,392
Miscellaneous	12,639	8,707
	<u>\$ 1,293,330</u>	<u>\$ 216,368</u>

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Schedules of Operating Expenses  
Years Ended June 30, 2012 and 2011**

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing	\$ 2,036,636	\$ 1,734,299	\$ 302,337	\$ 2,034,946	\$ 1,797,457	\$ 237,489
Nursery	73,605	62,529	11,076	76,571	62,230	14,341
Labor and delivery	105,399	61,319	44,080	116,754	56,062	60,692
Maternity	225,772	201,586	24,186	286,948	227,501	59,447
Operating	2,510,020	1,136,348	1,373,672	2,644,646	1,179,249	1,465,397
Emergency	1,617,845	649,875	967,970	1,522,961	639,419	883,542
	<u>6,569,277</u>	<u>3,845,956</u>	<u>2,723,321</u>	<u>6,682,826</u>	<u>3,961,918</u>	<u>2,720,908</u>
<b>Other Professional Services</b>						
Anesthesia	386,869		386,869	398,672		398,672
Central Supply	1,260,814	100,499	1,160,315	1,012,306	104,153	908,153
Ambulance	222,866	182,945	39,921	230,706	196,290	34,416
Laboratory	871,448	334,765	536,683	886,044	370,655	515,389
Blood	104,064		104,064	88,865		88,865
Electrocardiology	14,133		14,133	13,839		13,839
Radiology	800,282	309,179	491,103	788,233	311,107	477,126
Pharmacy	1,026,046	342,776	683,270	921,790	335,096	586,694
Cardiac rehabilitation	82,339	73,986	8,353	93,427	78,635	14,792
Diabetes education	13,199		13,199	18,955		18,955
Physical therapy	311,997		311,997	310,522	14,173	296,349
Social services	450		450	8,685	8,136	549
Durable medical equipment	176,924	101,380	75,544	171,098	101,175	69,923
Specialty clinics	6,643	3,947	2,696	30,259	3,952	26,307
Inhalation therapy	355,498	267,486	88,012	409,417	285,819	123,598
Corporate health	72		72	236		236
Jewell Clinic	224,769	162,465	62,304	218,342	157,093	61,249
Stratford Clinic	139,895	95,089	44,806	178,955	131,457	47,498
Free Clinic				4		4
Occupational therapy	87,806		87,806	102,575		102,575
Speech therapy	13,258		13,258	11,568		11,568
	<u>6,099,372</u>	<u>1,974,517</u>	<u>4,124,855</u>	<u>5,894,498</u>	<u>2,097,741</u>	<u>3,796,757</u>
<b>General Services</b>						
Dietary	522,885	341,271	181,614	544,336	315,997	228,339
Operation of plant	796,571	175,335	621,236	907,704	182,069	725,635
Housekeeping	294,953	251,539	43,414	325,578	244,556	81,022
Laundry	109,606		109,606	115,683		115,683
	<u>1,724,015</u>	<u>768,145</u>	<u>955,870</u>	<u>1,893,301</u>	<u>742,622</u>	<u>1,150,679</u>
<b>Administrative Services</b>						
Public relations/Marketing	146,570	38,588	107,982	114,745	39,366	75,379
Medical records	382,083	329,163	52,920	443,174	359,256	83,918
Patient accounts	143,837	139,975	3,862	151,991	148,180	3,811
Admitting	517,615	405,116	112,499	554,712	433,017	121,695
Administration	777,897	358,319	419,578	754,388	273,909	480,479
Data processing	550,898	148,843	402,055	644,137	158,878	485,259
Human resources	244,434	103,942	140,492	245,722	105,990	139,732
Quality management	194,414	177,258	17,156	176,536	168,428	8,108
	<u>2,957,748</u>	<u>1,701,204</u>	<u>1,256,544</u>	<u>3,085,405</u>	<u>1,687,024</u>	<u>1,398,381</u>
<b>Insurance</b>	<u>314,179</u>		<u>314,179</u>	<u>320,876</u>		<u>320,876</u>
<b>Employee Benefits</b>	<u>2,630,716</u>		<u>2,630,716</u>	<u>2,617,213</u>		<u>2,617,213</u>
<b>Depreciation</b>	<u>3,537,829</u>		<u>3,537,829</u>	<u>2,530,403</u>		<u>2,530,403</u>
	<u>\$ 23,833,136</u>	<u>\$ 8,289,822</u>	<u>\$ 15,543,314</u>	<u>\$ 23,024,522</u>	<u>\$ 8,489,305</u>	<u>\$ 14,535,217</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, 2012 and 2011**

**Schedule of Patient Receivables**

	<u>2012</u>		<u>2011</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 2,868,142	49%	\$ 2,715,808	50%
31-60 days	1,096,520	19%	619,721	11%
61-90 days	385,095	7%	265,884	5%
91-120 days	250,148	4%	232,452	4%
Over 4 months	<u>1,254,769</u>	<u>21%</u>	<u>1,603,890</u>	<u>30%</u>
Total	5,854,674	<u>100%</u>	5,437,755	<u>100%</u>
Home care, net of allowance	32,977		28,577	
ER Physicians, net of allowance	-		816	
Bad debt accounts, net of allowance	809,129		664,405	
Less contractual allowances	1,250,666		895,052	
Less allowance for uncollectible accounts	<u>1,368,941</u>		<u>1,211,557</u>	
Net patient receivables	<u>\$ 4,077,173</u>		<u>\$ 4,024,944</u>	

**Allowance for Uncollectible Accounts**

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,211,557	\$ 833,731
Provision for year	1,667,468	1,163,554
Recoveries of accounts previously written off	<u>153,291</u>	<u>118,306</u>
	3,032,316	2,115,591
Accounts written off	<u>1,663,375</u>	<u>904,034</u>
Balance, end of year	<u>\$ 1,368,941</u>	<u>\$ 1,211,557</u>

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Schedules of Supplies and Prepaid Expenses  
Years Ended June 30, 2012 and 2011**

**Supplies**

	<u>2012</u>	<u>2011</u>
General	\$ 54,955	\$ 48,007
Pharmacy	268,102	206,846
Central supply	652,190	597,951
Dietary	11,394	14,246
Plant operation and maintenance	-	12,528
Laboratory	73,279	62,500
Radiology	16,099	15,521
Jewell Clinic	7,969	6,637
	<u>\$ 1,083,988</u>	<u>\$ 964,236</u>

**Prepaid Expenses**

	<u>2012</u>	<u>2011</u>
Insurance	\$ 78,961	\$ 67,258
Health Insurance/other	<u>133,092</u>	<u>178,669</u>
	<u>\$ 212,053</u>	<u>\$ 245,927</u>

## **Other Supplementary Information**

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Schedule of Officials  
June 30, 2012**

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

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Schedule of Insurance Coverage  
Year Ended June 30, 2012**

Employers Mutual

Policy No. 1B6-16-17-13, expiring January 1, 2013

Property blanket building and contents	\$ 20,000,000
Loss of income and extra expense	6,000,000
Spoilage	50,000
Personal Property blanket	866,745
Personal Property blanket, Stratford	10,747,890
Equipment breakdown	Replacement Cost
Data processing equipment	Replacement Cost

National Indemnit of Mid-America

Policy No.75 APN 304955, expiring July 1, 2012

Comprehensive automobile liability

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

ProAssurance (Ruhl & Ruhl)

Comprehensive hospital liability, expiring February 1, 2013

Hospital professional liability, Policy No. CH251	1,000,000/3,000,000
General liability, Policy No. CH251	1,000,000/3,000,000

ProAssurance Corporation

Excess liability, Expiring February 1, 2013

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, 2013

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, 2012 and have issued our report thereon dated October 12, 2012. 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***

Management of the Hospital is responsible for establishing and maintaining effective 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 12, 2012.

### ***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, 2012 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, 2012. 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, 2012.

#### **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, 2012 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, 2012.

\* \* \* \* \*

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 12, 2012

**Hamilton County Public Hospital  
d/b/a Van Diest Medical Center  
Schedule of Findings and Responses  
Year Ended June 30, 2012**

<b>Reference Number</b>	<b>Finding</b>
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 (Hospital) as of and for the year ended June 30, 2012, 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

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

### Payroll Cycle

- The Financial Analyst and 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 accounts receivable contractual and bad debt allowances.

## **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 accounting controls and the 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.

### ***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 process. Currently, the Hospital should expect a 2% reduction in Medicare reimbursement starting January 2, 2013. 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.

### ***New GASB Standards***

The Governmental Accounting Standards Board has issued several new standards within the past few years. While most of the new standards will have minimal impact on the Hospital, we have noted below the standards we believe will have the most impact on the Hospital.

#### ***Governmental Accounting Standards Board Statement No. 65, Reporting Items Previously Recognized as Assets and Liabilities***

GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in the financial statements (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources, etc.). Concepts Statement No. 4 also indicated that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in subsequent authoritative pronouncements. Only two such pronouncements have been issued, GASB 53, *Accounting and Financial Reporting for Derivative*

*Instruments and GASB 60, Accounting and Financial Reporting for Service Concession Arrangements.* This standard amends the classification of certain items currently reported as assets and liabilities. One potential impact for the Hospital is that all future debt issuance costs will be expensed as incurred instead of amortized over the life of any new debt.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012, or the Hospital's 2014 fiscal year.

**Governmental Accounting Standards Board No. 68, Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27**

GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined-benefit pension plans, cost-sharing plans, defined-contribution plans and plans with insured benefits. More specifically, it would require the Hospital to recognize pension expense based on an actuarial valuation, as opposed to current guidance of recognizing pension expense based on contributions actually made, or contractually required to be made. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed.

We recommend the Hospital begin reviewing these changes in order to evaluate the potential impact on the financial statements.

The effective date for this standard is generally for periods beginning after June 15, 2014.

**Current Economic Conditions**

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, 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 12, 2012