

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center**
Auditor's Report and Financial Statements
June 30, 2013 and 2012



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

June 30, 2013 and 2012

Contents

Independent Auditor’s Report on Financial Statements and Supplementary Information.....	1
Management’s Discussion and Analysis	3
Financial Statements	
Balance Sheets.....	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	12
Supplementary Information	
Schedules of Patient Service Revenues	26
Schedules of Other Revenues.....	27
Schedules of Operating Expenses.....	28
Schedules of Patient Receivables and Allowance for Uncollectible Accounts	29
Schedules of Supplies and Prepaid Expenses.....	30
Other Supplementary Information	
Schedule of Officials	31
Schedule of Insurance Coverage	32
Independent Auditor’s 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 <i>Government Auditing Standards</i>.....	33
Schedule of Findings and Responses	37

Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of Hamilton County Public Hospital d/b/a Van Diest Medical Center (the "Hospital"), which comprise balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Public Hospital d/b/a Van Diest Medical Center as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information 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.

Supplementary Information

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 and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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.

Other Supplementary Information

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2013 on our consideration of the 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* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Hamilton County Public Hospital d/b/a Van Diest Medical Center Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased in 2013 by \$917,766 and increased in 2012 by \$1,537,022.
- The Hospital's net position decreased in 2013 by \$1,931,640 or 6.5% and decreased in 2012 by \$224,685 or 0.8%.
- The Hospital reported an operating loss in 2013 and 2012 of \$2,174,095 and \$171,431, respectively.
- Net nonoperating revenues increased in 2013 by \$350,631 or 196% compared to 2012, which decreased by \$303,481 or 244%.

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 position; 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 Position

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 Position 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, all liabilities and all deferred inflows and outflows of resources 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 position and changes in it. The Hospital's total net position—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 position 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 Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position decreased by \$1,931,640 or 6.5% in 2013 over 2012 and decreased \$224,685 or 0.8% in 2012 over 2011.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 2,664,658	\$ 4,077,173	\$ 4,024,944
Other current assets	12,031,931	10,249,357	8,407,986
Capital assets, net	27,409,287	30,506,080	33,295,747
Noncurrent cash and deposits and other	7,222,207	6,670,410	6,671,059
	<hr/>	<hr/>	<hr/>
Total assets	\$ 49,328,083	\$ 51,503,020	\$ 52,399,736
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Current liabilities	\$ 4,311,436	\$ 3,509,773	\$ 3,041,804
Long-term debt	17,400,040	18,445,000	19,585,000
	<hr/>	<hr/>	<hr/>
Total liabilities	21,711,476	21,954,773	22,626,804
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net Position			
Net investment in capital assets	9,240,317	11,246,942	12,941,825
Restricted - expendable	1,870,674	1,870,674	1,886,696
Unrestricted	16,505,616	16,430,631	14,944,411
	<hr/>	<hr/>	<hr/>
Total net position	27,616,607	29,548,247	29,772,932
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total liabilities and net position	\$ 49,328,083	\$ 51,503,020	\$ 52,399,736
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

In 2013, net patient accounts receivable decreased by \$1,412,515 or 35% due to an increased focus in collection efforts which in turn contributed to an increase in other current assets (which increased \$1,782,574 or 17.4%). An increase of \$770,614 or 88.4% in property tax receivable also contributed to the increase in other current assets. Net capital assets decreased by \$3,096,793 or 10% due to the first full year of depreciation being taken on assets acquired in fiscal year 2012 for the EMR project and a decline of additional capital purchases from the prior year.

Total liabilities decreased by \$243,297 or 1.1%. Changes included a deferred property tax revenue increase of \$767,023 relating to current liabilities and a decrease of long-term debt of \$1,019,960.

Net position decreased \$1,931,640 or 6.5% due to a decrease in net patient revenues.

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 position 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.

Operating Results

In 2013, the Hospital's Decrease in Net Position was \$1,931,640 compared to the Decrease in Net Position of \$224,685 in 2012 as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 20,274,074	\$ 23,491,775	\$ 21,513,702
Other operating revenues	125,465	169,930	216,368
Total operating revenues	<u>20,399,539</u>	<u>23,661,705</u>	<u>21,730,070</u>
Operating Expenses			
Salaries, wages and employee benefits	11,131,561	10,920,538	11,106,518
Medical supplies, professional fees and other	5,189,606	6,848,176	6,517,665
Depreciation and amortization	3,533,485	3,537,829	2,530,403
Other operating expenses	2,718,982	2,526,593	2,869,936
Total operating expenses	<u>22,573,634</u>	<u>23,833,136</u>	<u>23,024,522</u>
Operating Loss	<u>(2,174,095)</u>	<u>(171,431)</u>	<u>(1,294,452)</u>
Nonoperating Revenues (Expense)			
Property taxes	867,894	506,101	505,946
Interest expense	(733,303)	(728,436)	(557,077)
Interest income	36,912	43,207	31,484
Contributions	-	-	144,000
Total nonoperating revenues (expense)	<u>171,503</u>	<u>(179,128)</u>	<u>124,353</u>
Excess of Revenues Under Expenses Before Capital Grants, Contributions and Related Earnings	<u>(2,002,592)</u>	<u>(350,559)</u>	<u>(1,170,099)</u>
Capital Grants, Contributions and Related Earnings	<u>70,952</u>	<u>125,874</u>	<u>339,113</u>
Decrease in Net Position	<u>\$ (1,931,640)</u>	<u>\$ (224,685)</u>	<u>\$ (830,986)</u>

Operating Losses

The first component of the overall change in the Hospital's net position 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 2013, the Hospital reported an operating loss of \$2,174,095 compared to a loss of \$171,431 in 2012. In 2012, the Hospital reported an operating loss of \$171,431 compared to a loss of \$1,294,452 in 2011. 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 2013 the primary components resulting in an operating loss were:

- Decrease in net patient service revenues of \$3,217,701 or 13.7%. The decrease was due to a decline in inpatient days and outpatient procedures.
- Continued expenses for the demolition of the old facility of \$230,088 were incurred during the year, included within other operating expenses.

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%.

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. Property tax income increased \$361,793 in 2013 compared to 2012 and was relatively consistent in 2012 as compared to 2011. Interest income decreased in 2013 by \$6,295. Interest expense increased by \$4,867 and \$171,359 in 2013 and 2012, respectively, due to long-term debt associated with the replacement hospital construction project. Consistent with 2012, there were no contributions received in 2013 as the Hospital received contributions in 2011 from an estate.

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 2013 was \$3,453,795 compared to cash provided by operating activities of \$3,302,718 in 2012.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$27,409,287 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$30,506,080 in 2012. The capital assets decreased due to depreciation taken.

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 to the first full year of depreciation taken on assets acquired during the prior year for the new facility.

Debt

- At June 30, 2013 and 2012, the Hospital had debt of \$19,170,000 and \$19,585,000 which was incurred in 2009. The debt is relating to G.O. bonds held in the name of Hamilton County, Iowa (County). The County, in turn, has an agreement with the Hospital for repayment of the Hospital portion of the debt. Refunding of the debt occurred during the fiscal year, which allows for a savings to the Hospital over the term of the debt of \$931,309 relating to interest. As part of this refunding transaction, the Hospital added \$725,000 in principal with this note to the County in 2013.

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:

- Government sequestration at 2% of our Medicare payments is estimated to be an average of a \$209,000 impact in the 2013/14 fiscal year.

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, 2013 and 2012**

Assets

	<u>2013</u>	<u>2012</u>
Current Assets		
Cash and cash equivalents	\$ 7,666,675	\$ 6,531,656
Short-term certificates of deposit	1,150,000	550,000
Restricted cash-debt service	159,185	312,068
Patient accounts receivable, net of allowance; 2013 - \$1,106,000, 2012 - \$1,393,000	2,664,658	4,077,173
Estimated amounts due from third-party payers	-	685,000
Property tax receivable	1,642,613	871,999
Other receivables	6,000	2,593
Supplies	1,122,008	1,083,988
Prepaid expenses and other	285,450	212,053
	<u>14,696,589</u>	<u>14,326,530</u>
Noncurrent Cash and Deposits		
Internally designated	4,507,215	4,571,585
Externally restricted		
Donors	15,474	15,474
Held under loan agreement	1,855,200	1,855,200
Certificates of deposit	550,000	-
	<u>6,927,889</u>	<u>6,442,259</u>
Capital Assets, Net of Accumulated Depreciation	<u>27,409,287</u>	<u>30,506,080</u>
Other Assets		
Deferred financing costs	294,318	228,151
	<u>49,328,083</u>	<u>51,503,020</u>
Total assets	<u>\$ 49,328,083</u>	<u>\$ 51,503,020</u>

Liabilities and Net Position

	2013	2012
Current Liabilities		
Current maturities of long-term debt	\$ 1,165,000	\$ 1,140,000
Accounts payable	416,677	383,599
Accounts payable - capital assets	72,029	155,025
Estimated amounts due to third-party payers	160,000	-
Accrued interest	57,433	59,332
Accrued expenses	806,679	905,222
Deferred property tax revenue	1,633,618	866,595
	<hr/>	<hr/>
Total current liabilities	4,311,436	3,509,773
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Long-term Debt	17,400,040	18,445,000
	<hr/>	<hr/>
Total liabilities	21,711,476	21,954,773
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	9,240,317	11,246,942
Restricted - expendable for		
Capital assets	15,474	15,474
Debt service	1,855,200	1,855,200
Unrestricted	16,505,616	16,430,631
	<hr/>	<hr/>
Total net position	27,616,607	29,548,247
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Total liabilities and net position	\$ 49,328,083	\$ 51,503,020
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**Hamilton County Public Hospital
d/b/a Van Diest Medical Center**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue, before provision for uncollectible accounts	\$ 21,929,852	\$ 25,159,243
Provision for uncollectible accounts	<u>(1,655,778)</u>	<u>(1,667,468)</u>
Net patient service revenue	20,274,074	23,491,775
Other	<u>125,465</u>	<u>169,930</u>
 Total operating revenues	 <u>20,399,539</u>	 <u>23,661,705</u>
Operating Expenses		
Salaries and wages	8,397,067	8,289,822
Employee benefits	2,734,494	2,630,716
Medical professional fees	2,242,826	2,997,806
Supplies and other	2,946,780	3,850,370
Administrative services	1,323,469	1,256,544
General services	1,019,334	955,870
Depreciation and amortization	3,533,485	3,537,829
Insurance	<u>376,179</u>	<u>314,179</u>
 Total operating expenses	 <u>22,573,634</u>	 <u>23,833,136</u>
Operating Loss	<u>(2,174,095)</u>	<u>(171,431)</u>
Nonoperating Revenues (Expenses)		
Property taxes	867,894	506,101
Interest expense	(733,303)	(728,436)
Interest income	<u>36,912</u>	<u>43,207</u>
 Total nonoperating revenues (expenses)	 <u>171,503</u>	 <u>(179,128)</u>
Excess of Revenues Under Expenses Before Capital Grants, Contributions and Related Earnings	 <u>(2,002,592)</u>	 <u>(350,559)</u>
Capital Grants, Contributions and Related Earnings	<u>70,952</u>	<u>125,874</u>
Decrease in Net Position	 <u>(1,931,640)</u>	 <u>(224,685)</u>
Net Position, Beginning of Year	 <u>29,548,247</u>	 <u>29,772,932</u>
Net Position, End of Year	 <u>\$ 27,616,607</u>	 <u>\$ 29,548,247</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 22,531,589	\$ 23,530,546
Payments to suppliers and contractors	(7,986,927)	(9,537,038)
Payments to employees	(11,230,104)	(10,905,291)
Other receipts and payments, net	<u>139,237</u>	<u>214,501</u>
Net cash provided by operating activities	<u>3,453,795</u>	<u>3,302,718</u>
Noncapital Financing Activities		
Property taxes supporting operations	<u>867,894</u>	<u>506,101</u>
Net cash provided by noncapital financing activities	<u>867,894</u>	<u>506,101</u>
Capital and Related Financing Activities		
Proceeds from bond issuance	1,038,219	-
Deferred financing costs	(244,740)	-
Principal payments on long-term debt	(1,140,000)	(1,125,000)
Interest payments on long-term debt	(1,505,414)	(729,935)
Gifts and grants for capital purposes	70,952	125,874
Proceeds from sale of capital assets	3,000	-
Purchase of capital assets	<u>(512,852)</u>	<u>(585,943)</u>
Net cash used in capital and related financing activities	<u>(2,290,835)</u>	<u>(2,315,004)</u>
Investing Activities		
Interest on deposits	36,912	43,207
Increase in deposits and investments	<u>(1,150,000)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(1,113,088)</u>	<u>43,207</u>
Increase in Cash and Cash Equivalents	917,766	1,537,022
Cash and Cash Equivalents, Beginning of Year	<u>11,430,783</u>	<u>9,893,761</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 12,348,549</u></u>	<u><u>\$ 11,430,783</u></u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012**

	2013	2012
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 7,666,675	\$ 6,531,656
Restricted cash - debt service	159,185	312,068
Cash in noncurrent cash and deposits		
Internally designated	4,507,215	4,571,585
Externally restricted	15,474	15,474
	\$ 12,348,549	\$ 11,430,783
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	\$ (2,174,095)	\$ (171,431)
Depreciation and amortization	3,533,485	3,537,829
Loss on sale of capital assets	20,770	25,317
Changes in operating assets and liabilities		
Patient accounts receivable, net	1,412,515	(52,229)
Estimated amounts due from and to third-party payers	845,000	91,000
Accounts payable and accrued expenses	(65,465)	(61,144)
Supplies	(38,020)	(119,752)
Prepaid expenses	(73,397)	33,874
Other assets and liabilities	(6,998)	19,254
Net cash provided by operating activities	\$ 3,453,795	\$ 3,302,718
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 72,029	\$ 155,025

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources 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, 2013 and 2012, 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, 2013 and 2012**

Property Taxes

The Hospital received approximately 4% in 2013 and 2% in 2012 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, (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 and (4) certificates of deposit. Such amounts include cash and certificates of deposit.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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

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.

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

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 Position

Net position of the Hospital is classified in three components. Net investment in capital assets, 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 position is made up of noncapital assets that must be used for a particular purpose as specified

Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012

by creditors, grantors or donors external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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 \$793,054 and \$589,224 for 2013 and 2012, 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.

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 (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on the reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. 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. The final amount for any payment year under both programs

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 has recognized the incentive payment received for qualified EHR technology expenditures during 2013 and 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of \$22,250 and \$1,123,400, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position as of and for the years ended June 30, 2013 and 2012, respectively.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor’s Report, which is the date the financial statements were available to be issued.

Reclassifications

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

Note 2: Net Patient Service Revenue

The 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. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.

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.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Approximately 65% and 60% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible 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, 2013 and 2012. The Hospital's deposits in banks at June 30, 2013 and 2012 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, 2013 and 2012.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Summary of Carrying Value

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

	2013	2012
Deposits	<u>\$ 15,903,749</u>	<u>\$ 13,835,983</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 7,666,675	\$ 6,531,656
Short-term certificates of deposit	1,150,000	550,000
Restricted cash - capital assets/debt service	159,185	312,068
Noncurrent cash and deposits - internally designated	4,507,215	4,571,585
Noncurrent cash and deposits - externally restricted	1,870,674	1,870,674
Noncurrent cash and deposits - certificates of deposit	<u>550,000</u>	<u>-</u>
	<u>\$ 15,903,749</u>	<u>\$ 13,835,983</u>

Deposit Income

Income on deposits for the years ended June 30, 2013 and 2012 consisted of:

	2013	2012
Interest on deposits	<u>\$ 36,912</u>	<u>\$ 43,207</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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, 2013 and 2012 was:

	<u>2013</u>	<u>2012</u>
Medicare and Medicaid	\$ 961,333	\$ 1,464,039
Other third-party payers	832,220	1,099,647
Patients	1,937,167	2,849,451
Home care	39,938	57,036
	<u>3,770,658</u>	<u>5,470,173</u>
Less allowances for uncollectible accounts	<u>1,106,000</u>	<u>1,393,000</u>
	<u>\$ 2,664,658</u>	<u>\$ 4,077,173</u>

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2013 and 2012 was:

	Beginning Balance	2013			Ending Balance
	Balance	Additions	Disposals	Construction Transfers	Balance
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	-	-	9,981	13,747,669
Major movable equipment	10,818,561	-	276,722	640,064	11,181,903
Construction in progress	236,791	426,856	-	(650,045)	13,602
	<u>39,614,746</u>	<u>426,856</u>	<u>276,722</u>	<u>-</u>	<u>39,764,880</u>
Less accumulated depreciation					
Land improvements	349,773	231,432	-	-	581,205
Buildings	1,391,077	797,172	-	-	2,188,249
Fixed equipment	1,352,706	902,304	-	-	2,255,010
Major movable equipment	6,015,110	1,571,971	255,952	-	7,331,129
	<u>9,108,666</u>	<u>3,502,879</u>	<u>255,952</u>	<u>-</u>	<u>12,355,593</u>
Capital assets, net	<u>\$ 30,506,080</u>	<u>\$ (3,076,023)</u>	<u>\$ 20,770</u>	<u>\$ -</u>	<u>\$ 27,409,287</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

	Beginning Balance	Additions	2012 Disposals	Construction Transfers	Ending Balance
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>

During 2013, the Board of Trustees approved a project for a new MRI machine for a total cost of \$1,600,000, with an expected completion date of December 2013. The project will be funded through Hospital building fund reserves. As of June 30, 2013, construction in progress included \$7,642 in costs related to this project.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2013 and 2012:

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Loan (A)	\$ 19,585,000	\$ 725,000	\$ 1,140,000	\$ 19,170,000	\$ 1,165,000
Unamortized loss on refunding	-	(941,446)	(34,868)	(906,578)	-
Unamortized premiums	-	313,219	11,601	301,618	-
Total long-term debt	<u>\$ 19,585,000</u>	<u>\$ 96,773</u>	<u>\$ 1,116,733</u>	<u>\$ 18,565,040</u>	<u>\$ 1,165,000</u>
2012					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Loan (A)	\$ 20,710,000	\$ -	\$ 1,125,000	\$ 19,585,000	\$ 1,140,000
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>

(A) Loan; \$21,820,000 maturing serially through June 2026 with semiannual interest payments at rates from 1.30% to 4.15%. The Hospital borrowed the funds from Hamilton County, Iowa who issued General Obligation Bonds some of which were refunded to secure more favorable interest rates in 2013. The transaction completed by the County resulted in additional amounts due under the loan of \$725,000. The County was able to secure more favorable interest rates on the related bonds, which will be passed along to the Hospital. 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.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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

Year Ending June 30,	Total to be Paid	Principal	Interest
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	2,017,384	1,480,000	537,384
2019 - 2023	8,710,590	7,775,000	935,590
2024 - 2026	5,289,800	5,085,000	204,800
	<u>\$ 23,426,059</u>	<u>\$ 19,170,000</u>	<u>\$ 4,256,059</u>

Upon issuance and delivery of the Bonds, the County defeased a portion of the Hospital related outstanding 2009 bonds in the total principal amount of \$13,615,000. Proceeds from the Bonds were used to purchase securities that were deposited in trust under an escrow agreement sufficient in amount to pay future principal, interest and redemption premiums on the defeased bonds. This advance refunding transaction resulted in an extinguishment of debt since the County was legally released from its obligation on the 2009 bonds at the time of the defeasance. Accordingly, the County 2009 bonds, aggregating \$13,615,000 at June 30, 2013 remain outstanding, but related amounts are excluded from the Hospital's balance sheets.

The County completed the advance refunding for the Hospital to reduce its total debt service payments over the 13 years by \$931,309 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$810,531.

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.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 8: Restricted Net Position

At June 30, 2013 and 2012, restricted expendable net position were available for the following purposes:

	2013	2012
Capital assets	\$ 15,474	\$ 15,474
Debt service	1,855,200	1,855,200
	\$ 1,870,674	\$ 1,870,674

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 5.78% and 5.38% of their annual covered salary and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2013, 2012 and 2011 were \$686,346, \$645,097 and \$572,344, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.67% of annual covered salary for 2013.

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Notes to Financial Statements
June 30, 2013 and 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, 2013:

	Accrual Basis	Budget
Amount to be raised by taxation	\$ 867,894	\$ 866,595
Other revenues/receipts	<u>20,507,403</u>	<u>24,738,714</u>
	21,375,297	25,605,309
Expenses/disbursements	<u>23,306,937</u>	<u>25,588,525</u>
	(1,931,640)	16,784
Balance, beginning of year	<u>29,548,247</u>	<u>29,548,247</u>
Balance, end of year	<u><u>\$ 27,616,607</u></u>	<u><u>\$ 29,565,031</u></u>

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, 2013 and 2012

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 \$56,798 and \$57,022 were incurred for the years ended June 30, 2013 and 2012, respectively.

Note 13: Operating Leases

Rental expense for all operating leases was \$400,714 and \$294,187 for the years ended June 30, 2013 and 2012, respectively.

Supplementary Information

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Patient Service Revenues
Years Ended June 30, 2013 and 2012**

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 5,366,407	\$ 3,891,930	\$ 1,474,477	\$ 5,357,529	\$ 4,322,465	\$ 1,035,064
Nursing Services						
Operating and recovery	3,818,569	576,063	3,242,506	5,288,152	1,075,971	4,212,181
Swing-bed	799,488	799,488		853,600	853,600	
Emergency	4,457,598	143,360	4,314,238	4,619,078	127,516	4,491,562
Delivery	237,815	149,388	88,427	211,094	161,525	49,569
Nursery	206,652	203,851	2,801	210,700	207,627	3,073
Obstetrics	466,649	337,550	129,099	482,415	350,200	132,215
Pediatric	115,320	115,320		167,482	167,482	
Home Care and Hospice	247,989	1,960	246,029	297,159	279	296,880
	<u>10,350,080</u>	<u>2,326,980</u>	<u>8,023,100</u>	<u>12,129,680</u>	<u>2,944,200</u>	<u>9,185,480</u>
Other Professional Services						
Central supply	630,223	396,667	233,556	2,025,611	1,532,221	493,390
Ambulance	1,174,246	57,765	1,116,481	1,046,380	51,360	995,020
Blood	172,547	74,070	98,477	182,052	83,663	98,389
Electrocardiology	306,431	63,336	243,095	305,501	64,556	240,945
Radiology	5,230,405	884,013	4,346,392	5,229,413	864,585	4,364,828
Cardiac rehabilitation	144,455		144,455	192,659		192,659
Pharmacy	3,889,103	2,571,194	1,317,909	4,267,882	2,862,369	1,405,513
Chemistry	3,956,671	1,218,385	2,738,286	3,721,453	1,152,747	2,568,706
Diabetes education	17,154		17,154	18,753		18,753
Histology	150,817	27,548	123,269	96,348	20,119	76,229
Microbiology	646,273	184,951	461,322	663,100	190,144	472,956
Jewell Clinic	255,090		255,090	315,911		315,911
Stratford Clinic	268,455		268,455	180,884		180,884
Anesthesiology	476,568	172,200	304,368	650,821	253,157	397,664
Respiratory therapy	963,381	823,834	139,547	1,067,838	942,290	125,548
Physical therapy	586,838	134,279	452,559	639,095	179,239	459,856
Occupational therapy	151,962	83,054	68,908	178,941	97,648	81,293
Speech therapy	14,659	4,360	10,299	26,515	7,258	19,257
Corporate health	-		-	111		111
Dietary counseling	200		200	250		250
Sleep study	218,757		218,757	152,779		152,779
Wound Care Clinic	1,013		1,013			
	<u>19,255,248</u>	<u>6,695,656</u>	<u>12,559,592</u>	<u>20,962,297</u>	<u>8,301,356</u>	<u>12,660,941</u>
Patient Service Revenue	34,971,735	<u>\$ 12,914,566</u>	<u>\$ 22,057,169</u>	38,449,506	<u>\$ 15,568,021</u>	<u>\$ 22,881,485</u>
Contractual Allowances	(13,064,133)			(14,413,663)		
Electronic Health Records						
Incentive Program Revenue	<u>22,250</u>			<u>1,123,400</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	21,929,852			25,159,243		
Provision for Uncollectible Accounts	<u>(1,655,778)</u>			<u>(1,667,468)</u>		
Net Patient Service Revenue	<u>\$ 20,274,074</u>			<u>\$ 23,491,775</u>		

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Other Revenues
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cafeteria revenue	\$ 97,945	\$ 107,108
Rebates	14,866	23,592
Services provided to other entities	1,785	2,093
Medical records transcripts	3,186	3,002
Sale of supplies and scrap	564	20,671
Loss on disposal of property and equipment	(20,770)	(25,317)
Grants	16,514	18,633
Speciality clinics	9,833	7,509
Miscellaneous	1,542	12,639
	<u>\$ 125,465</u>	<u>\$ 169,930</u>

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012**

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing	\$ 1,939,636	\$ 1,726,307	\$ 213,329	\$ 2,036,636	\$ 1,734,299	\$ 302,337
Nursery	82,045	68,365	13,680	73,605	62,529	11,076
Labor and delivery	101,984	54,187	47,797	105,399	61,319	44,080
Maternity	231,575	205,565	26,010	225,772	201,586	24,186
Operating	1,702,478	1,086,775	615,703	2,510,020	1,136,348	1,373,672
Emergency	1,702,672	703,507	999,165	1,617,845	649,875	967,970
	<u>5,760,390</u>	<u>3,844,706</u>	<u>1,915,684</u>	<u>6,569,277</u>	<u>3,845,956</u>	<u>2,723,321</u>
Other Professional Services						
Anesthesia	284,631		284,631	386,869		386,869
Central supply	425,780	100,967	324,813	1,260,814	100,499	1,160,315
Ambulance	270,246	185,508	84,738	222,866	182,945	39,921
Laboratory	924,000	342,560	581,440	871,448	334,765	536,683
Blood	93,804		93,804	104,064		104,064
Electrocardiology	17,489		17,489	14,133		14,133
Radiology	873,769	341,691	532,078	800,282	309,179	491,103
Pharmacy	999,617	337,010	662,607	1,026,046	342,776	683,270
Cardiac rehabilitation	68,310	61,659	6,651	82,339	73,986	8,353
Diabetes education	10,954		10,954	13,199		13,199
Physical therapy	275,387		275,387	311,997		311,997
Social services	495		495	450		450
Durable medical equipment	139,469	81,408	58,061	176,924	101,380	75,544
Specialty clinics	13,590	11,109	2,481	6,643	3,947	2,696
Inhalation therapy	332,878	220,332	112,546	355,498	267,486	88,012
Corporate health	-		-	72		72
Jewell Clinic	229,363	171,342	58,021	224,769	162,465	62,304
Stratford Clinic	205,342	145,874	59,468	139,895	95,089	44,806
Main Clinic	25,067	25,000	67			
Dayton Clinic	25,567	864	24,703			
Wound Clinic	1,726	443	1,283			
Special Care Unit	3,357	3,206	151			
Occupational therapy	74,724		74,724	87,806		87,806
Speech therapy	7,330		7,330	13,258		13,258
	<u>5,302,895</u>	<u>2,028,973</u>	<u>3,273,922</u>	<u>6,099,372</u>	<u>1,974,517</u>	<u>4,124,855</u>
General Services						
Dietary	495,146	340,037	155,109	522,885	341,271	181,614
Operation of plant	904,090	182,552	721,538	796,571	175,335	621,236
Housekeeping	276,727	241,621	35,106	294,953	251,539	43,414
Laundry	107,581		107,581	109,606		109,606
	<u>1,783,544</u>	<u>764,210</u>	<u>1,019,334</u>	<u>1,724,015</u>	<u>768,145</u>	<u>955,870</u>
Administrative Services						
Public relations/Marketing	156,110	45,916	110,194	146,570	38,588	107,982
Medical records	357,952	312,827	45,125	382,083	329,163	52,920
Patient accounts	144,184	138,194	5,990	143,837	139,975	3,862
Admitting	556,625	391,517	165,108	517,615	405,116	112,499
Administration	862,676	420,509	442,167	777,897	358,319	419,578
Data processing	600,925	148,142	452,783	550,898	148,843	402,055
Human resources	211,211	124,301	86,910	244,434	103,942	140,492
Quality management	192,964	177,772	15,192	194,414	177,258	17,156
	<u>3,082,647</u>	<u>1,759,178</u>	<u>1,323,469</u>	<u>2,957,748</u>	<u>1,701,204</u>	<u>1,256,544</u>
Insurance	<u>376,179</u>		<u>376,179</u>	<u>314,179</u>		<u>314,179</u>
Employee Benefits	<u>2,734,494</u>		<u>2,734,494</u>	<u>2,630,716</u>		<u>2,630,716</u>
Depreciation	<u>3,533,485</u>		<u>3,533,485</u>	<u>3,537,829</u>		<u>3,537,829</u>
	<u>\$ 22,573,634</u>	<u>\$ 8,397,067</u>	<u>\$ 14,176,567</u>	<u>\$ 23,833,136</u>	<u>\$ 8,289,822</u>	<u>\$ 15,543,314</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, 2013 and 2012**

Schedule of Patient Receivables

Days Since Discharge	2013		2012	
	Amounts	Percent to Total	Amounts	Percent to Total
0-30 days	\$ 2,401,250	58%	\$ 2,868,142	49%
31-60 days	541,470	13%	1,096,520	19%
61-90 days	295,951	7%	385,095	7%
91-120 days	189,121	5%	250,148	4%
Over 4 months	710,435	17%	1,254,769	21%
Total	4,138,227	100%	5,854,674	100%
Home care	39,938		57,036	
Bad debt accounts, net of allowance	596,346		809,129	
Less contractual allowances	1,003,853		1,250,666	
Less allowance for uncollectible accounts	1,106,000		1,393,000	
Net patient receivables	\$ 2,664,658		\$ 4,077,173	

Allowance for Uncollectible Accounts

	2013	2012
Balance, beginning of year	\$ 1,393,000	\$ 1,211,557
Provision for year	1,655,778	1,667,468
Recoveries of accounts previously written off	169,944	153,291
	<u>3,218,722</u>	<u>3,032,316</u>
Accounts written off	2,112,722	1,639,316
	<u>2,112,722</u>	<u>1,639,316</u>
Balance, end of year	\$ 1,106,000	\$ 1,393,000

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2013 and 2012**

Supplies

	<u>2013</u>	<u>2012</u>
General	\$ 53,969	\$ 54,955
Pharmacy	313,976	268,102
Central supply	638,111	652,190
Dietary	15,341	11,394
Laboratory	77,935	73,279
Radiology	11,501	16,099
Jewell Clinic	11,175	7,969
	<u>\$ 1,122,008</u>	<u>\$ 1,083,988</u>

Prepaid Expenses

	<u>2013</u>	<u>2012</u>
Insurance	\$ 66,084	\$ 78,961
Consulting	5,000	-
Health Insurance/other	214,366	133,092
	<u>\$ 285,450</u>	<u>\$ 212,053</u>

Other Supplementary Information

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedule of Officials
June 30, 2013**

Name	Title	Term Expires
Board of Trustees		
Carroll Ose	Chairperson	2018
Myra Maxon	Vice Chairman	2018
Nancy Dermand	Treasurer	2016
Henry Witt	Secretary	2014
David Taylor	Member	2016
Justin Deppe	Member	2014
Roberta Knutson	Member	2014
Hospital Officials		
Bob Mason	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, 2013**

Employers Mutual

Policy No. 1B6-16-17-14, expiring January 1, 2014

Property blanket building and contents	\$	20,800,000
Loss of income and extra expense		6,000,000
Spoilage		50,000
Personal Property blanket		901,415
Personal Property blanket, Stratford		11,177,806
Equipment breakdown		Replacement Cost
Data processing equipment		Replacement Cost

National Indemnity Company

Policy No. 75 APS 036307 of Mid-America, expiring July 1, 2013

Comprehensive automobile liability

Liability - CSL		1,000,000
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MHA Insurance Company

Policy No. 01-IA10029, expiring February 1, 2014

Hospital professional liability, Policy No. IA-2100		1,000,000/3,000,000
General liability, Policy No. IA-2100		1,000,000/3,000,000

MHA Insurance Company

Policy No. 01-IA55029, expiring February 1, 2014

Umbrella liability		10,000,000/10,000,000
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Chubb Group of Insurance Companies

Policy No. 6801-9588, expiring January 1, 2014

Directors' and officers' liability		3,000,000/3,000,000
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**Independent Auditor's 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, 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, the financial statement of Hamilton County Public Hospital d/b/a Van Diest Medical Center, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 14, 2013.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Hospital's internal control to determine the audit procedures that are appropriate in the circumstances 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.

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. A significant deficiency is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

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, 2013.

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, 2013 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, 2013. 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, 2013.

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, 2013 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, 2013.

Publication of Bills Allowed and Salaries

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital was in compliance with these requirements during the year except as noted below.

Criteria or Specific Requirement – The Hospital is to publish annually the schedule of salaries paid by job classification and category.

Condition – The Hospital failed to publish fiscal year 2012 salaries within one year of the fiscal year-end. The salaries publication was not made until July 2013.

Context – The Hospital’s procedures were not sufficient such that the salaries publication was made in a timely manner.

Effect – Requirements were not met under Chapter 347.13(14) of the Code of Iowa in a timely manner.

Cause – Procedures are not sufficient such that timely publication of salaries is not completed.

Recommendation – Management to publish salaries within a reasonable time after each fiscal year-end.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform an evaluation and make changes within the next year.

We did not audit the Hospital’s response and, accordingly, we express no opinion on it.

The purpose of this communication is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Kansas City, Missouri
October 14, 2013

**Hamilton County Public Hospital
d/b/a Van Diest Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2013**

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 (Hospital) as of and for the year ended June 30, 2013, 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 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 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 Disbursement 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 and accrued liabilities.

Long-term Debt Adjustment

During the year Hamilton County, Iowa completed a refunding transaction for bonds that are related to the loan with the Hospital. The transaction resulted in an adjustment that needed to be made by the Hospital. This non-routine transaction had been identified by management, however, it was not recorded within a timely manner.

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 Reimbursement

Certain provisions of the Federal Government's Budget Control Act of 2011 went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The American Taxpayer Relief Act of 2012 postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. The estimated annual impact of a 2% Medicare adjustment is approximately \$209,000. Under current law, sequestration is scheduled to last through 2021. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Affordable Care Act

The effects of the Affordable Care Act (the Act) are far-reaching and complex and will have an impact on substantially all employers. The bulk of the provisions will phase in by January 2015, with the remaining major provisions phased in by 2018. Beginning in 2015, a large employer that does not offer qualifying health insurance coverage as required under the Act, will be required to pay a penalty if any full-time employee certifies to the employer as having purchased health insurance through a state exchange and a tax credit or cost-sharing reduction is allowed or paid to the employee. To make sure you are in compliance with the Act, we suggest you work with your insurance advisor, attorney, and BKD to:

- Determine what your health insurance compliance requirements are under the Act
 - Review the regulations of the Act and compare the requirements to provide minimum essential coverage to your current health insurance plan
 - Consider new benchmarks for health insurance in your industry
 - Determine what the acceptable level of health insurance coverage is for your employees
 - Determine what the required employer contributions will be
- Determine what options are available under the Act and which is best for your business model
 - Analyze financial implications of the Act to your financial statements
 - Perform cost projections to evaluate costs and benefits of current insurance coverage, state sponsored plans or other alternatives
 - Develop a multiyear strategy for plan design and employer and employee contributions
 - Develop an implementation plan and monitoring procedures

While many of these provisions do not take effect until 2015, the evaluation should start now to determine the best options for the Hospital and what the reporting requirements to comply with the Act will be.

Electronic Health Records Meaningful Use Audits

The *American Recovery and Reinvestment Act of 2009* included significant potential funding for hospitals starting in 2011 once they demonstrated they are meaningful users of certified electronic health record (EHR) technology. Beginning in 2012, the Centers for Medicare and Medicaid Services (CMS) contracted with an accounting firm to begin conducting meaningful use audits of certified Electronic Health Record (EHR) technology as required in the Health Information Technology for Economic and Clinical Health Act (HITECH Act). The HITECH Act provides for the right to audit and inspect any books and records of any organization receiving an incentive payment. The Hospital should evaluate documentation in the event the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

Critical Access Hospital Status

The Office of Inspector General (OIG) recently released a study regarding original regulatory requirements for obtaining critical access hospital (CAH) status primarily related to distance and location requirements. The study found that nearly two-thirds of CAHs would not meet the distance requirement if they were required to re-enroll. The study also noted that if CMS had decertified CAHs that were 15 miles or fewer from the nearest hospitals in 2011, the Medicare program would have saved \$449 million.

The OIG also has on its workplan to review swing bed reimbursement in CAHs compared to amounts reimbursed to traditional skilled nursing facilities. CAHs are paid on a cost reimbursement methodology while skilled nursing facilities are paid on a prospective payment methodology that generally is less reimbursement than what would be received by a CAH for similar services.

If the Centers for Medicare and Medicaid Services were to act on the OIG study to re-enroll CAHs or make adjustments to CAH swingbed reimbursement, there would be significant financial implications for the CAH program and the Hospital.

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.

- Government Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities* – Effective for the Hospital’s fiscal year end June 30, 2014
- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* – Effective for the Hospital’s fiscal year end June 30, 2015

* * * * *

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 14, 2013