

Original

ILLINOIS HEALTH FACILITIES AND SERVICES REVIEW BOARD

APPLICATION FOR PERMIT

13-063

SECTION I. IDENTIFICATION, GENERAL INFORMATION, AND CERTIFICATION

RECEIVED

This Section must be completed for all projects.

SEP 26 2013

Facility/Project Identification

Facility Name: McDonough County District Hospital	HEALTH FACILITIES & SERVICES REVIEW BOARD
Street Address: 525 E. Grant Street	
City and Zip Code: Macomb, Illinois 61455	
County: McDonough Health Service Area 2	Health Planning Area: C-04\$30,000

Applicant /Co-Applicant Identification

[Provide for each co-applicant [refer to Part 1130.220].

Exact Legal Name: McDonough County District Hospital
Address: 525 E. Grant Street, Macomb, Illinois 61455
Name of Registered Agent: N/A
Name of Chief Executive Officer: Kenneth D. Boyd
CEO Address: 525 E. Grant Street, Macomb, Illinois 61455
Telephone Number: 309-833-4101

Type of Ownership of Applicant/Co-Applicant

<input type="checkbox"/> Non-profit Corporation	<input type="checkbox"/> Partnership
<input type="checkbox"/> For-profit Corporation	<input checked="" type="checkbox"/> Governmental
<input type="checkbox"/> Limited Liability Company	<input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Other

- Corporations and limited liability companies must provide an Illinois certificate of good standing.
- Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner.

APPEND DOCUMENTATION AS ATTACHMENT-1 IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Primary Contact

[Person to receive all correspondence or inquiries during the review period]

Name: John Jessen
Title: Administrative Leader Support Service
Company Name: McDonough County District Hospital
Address: 525 E. Grant Street, Macomb, Illinois 61455
Telephone Number: 309-836-1555
E-mail Address: jcjessen@mdh.org
Fax Number: 309-836-1506

Additional Contact

[Person who is also authorized to discuss the application for permit]

Name: Michael I. Copelin
Title: President
Company Name: Copelin Healthcare Consulting
Address: 42 Birch Lake Drive, Sherman, Illinois 62684
Telephone Number: 217-496-3712

Post Permit Contact

[Person to receive all correspondence subsequent to permit issuance-**THIS PERSON MUST BE EMPLOYED BY THE LICENSED HEALTH CARE FACILITY AS DEFINED AT 20 ILCS 3960**

Name: John Jessen
Title: : Administrative Leader Support Service
Company Name: McDonough County District Hospital
Address: : 525 E. Grant Street, Macomb, Illinois 61455
Telephone Number: 309-836-1555
E-mail Address: jciessen@mdh.org
Fax Number: : 309-836-1506

Site Ownership

[Provide this information for each applicable site]

Exact Legal Name of Site Owner:
Address of Site Owner:
Street Address or Legal Description of Site: Proof of ownership or control of the site is to be provided as Attachment 2. Examples of proof of ownership are property tax statement, tax assessor's documentation, deed, notarized statement of the corporation attesting to ownership, an option to lease, a letter of intent to lease or a lease.
APPEND DOCUMENTATION AS <u>ATTACHMENT-2</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Operating Identity/Licensee

[Provide this information for each applicable facility, and insert after this page.]

Exact Legal Name: : McDonough County District Hospital
Address: : 525 E. Grant Street, Macomb, Illinois 61455
<input type="checkbox"/> Non-profit Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> For-profit Corporation <input checked="" type="checkbox"/> Governmental <input type="checkbox"/> Limited Liability Company <input type="checkbox"/> Sole Proprietorship <input type="checkbox"/> Other <ul style="list-style-type: none"> o Corporations and limited liability companies must provide an Illinois Certificate of Good Standing. o Partnerships must provide the name of the state in which organized and the name and address of each partner specifying whether each is a general or limited partner. o Persons with 5 percent or greater interest in the licensee must be identified with the % of ownership.
APPEND DOCUMENTATION AS <u>ATTACHMENT-3</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Organizational Relationships

Provide (for each co-applicant) an organizational chart containing the name and relationship of any person or entity who is related (as defined in Part 1130.140). If the related person or entity is participating in the development or funding of the project, describe the interest and the amount and type of any financial contribution.

APPEND DOCUMENTATION AS <u>ATTACHMENT-4</u> , IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.
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Flood Plain Requirements

[Refer to application instructions.]

Provide documentation that the project complies with the requirements of Illinois Executive Order #2005-5 pertaining to construction activities in special flood hazard areas. As part of the flood plain requirements please provide a map of the proposed project location showing any identified floodplain areas. Floodplain maps can be printed at www.FEMA.gov or www.illinoisfloodmaps.org. **This map must be in a readable format.** In addition please provide a statement attesting that the project complies with the requirements of Illinois Executive Order #2005-5 (<http://www.hfsrb.illinois.gov>).

APPEND DOCUMENTATION AS ATTACHMENT -5, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Historic Resources Preservation Act Requirements

[Refer to application instructions.]

Provide documentation regarding compliance with the requirements of the Historic Resources Preservation Act.

APPEND DOCUMENTATION AS ATTACHMENT-6, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

DESCRIPTION OF PROJECT**1. Project Classification**

[Check those applicable - refer to Part 1110.40 and Part 1120.20(b)]

<p>Part 1110 Classification:</p> <p><input checked="" type="checkbox"/> Substantive</p> <p><input type="checkbox"/> Non-substantive</p>	<p>Part 1120 Applicability or Classification: [Check one only.]</p> <p><input type="checkbox"/> Part 1120 Not Applicable</p> <p><input type="checkbox"/> Category A Project</p> <p><input type="checkbox"/> Category B Project</p> <p><input type="checkbox"/> DHS or DVA Project</p>
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2. Narrative Description

Provide in the space below, a brief narrative description of the project. Explain **WHAT** is to be done in **State Board defined terms**, **NOT WHY** it is being done. If the project site does NOT have a street address, include a legal description of the site. Include the rationale regarding the project's classification as substantive or non-substantive.

The applicant is proposing to construct a three-story addition to the hospital and to renovate existing space. The addition includes relocation and expansion of the Emergency Department, Physical Therapy and Wound Care. The renovation includes a portion of the Emergency Department, non-clinical support space, expansion of the Radiology Department, Medical Surgical Bed space, and expansion of Infusion services. Several areas of non-clinical space are also proposed for renovation. This includes offices, conference rooms, work areas and storage for Dietary & Nutritional Services, an Office for the Hospitalist, Social Workers and Utilization, Quality & Innovation, mechanical and electrical spaces, along with upgrades and space for data equipment. A new Ambulance Garage will also be constructed. The non-clinical portion of the project also includes the construction of a new parking lot and the construction of a new helipad.

The proposed addition will have a total of 43,268 GSF and the renovated space totals 40,471 GSF.

The project also includes the discontinuation of the facility's Long-Term Care unit and the Pediatric Category of Service. The number of Medical Surgical beds will also be reduced from 56 to 31. All of the Medical Surgical beds will all be located in private rooms upon completion of the proposed renovation.

The second floor of the proposed addition is designated as shell space and is proposed to be completed as a part of a future CON application.

This project is classified as non-substantive in that it does not include the establishment of a new category of service nor an increase in the number of beds

The total estimated project cost is \$39,772,251. Please note that this figure includes \$2,736,116 for a Debt Service Review Fund, which, while part of the bond issue, cannot be spent until the bonds are retired.

Complete the following table listing all costs (refer to Part 1120.110) associated with the project. When a project or any component of a project is to be accomplished by lease, donation, gift, or other means, the fair market or dollar value (refer to Part 1130.140) of the component must be included in the estimated project cost. If the project contains non-reviewable components that are not related to the provision of health care, complete the second column of the table below. Note, the use and sources of funds must equal.

Project Costs and Sources of Funds			
USE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Preplanning Costs	\$19,616	\$10,384	\$30,000
Site Survey and Soil Investigation	\$5,492	\$2,908	\$8,400
Site Preparation		\$1,268,227	\$1,268,227
Off Site Work			
New Construction Contracts	\$8,586,253	\$3,658,917	\$12,245,170
Modernization Contracts	\$6,912,482	\$4,546,046	\$11,458,528
Contingencies	\$1,632,797	\$864,395	\$2,497,192
Architectural/Engineering Fees	\$1,383,340	\$732,335	\$2,115,675
Consulting and Other Fees	\$851,042	\$450,538	\$1,301,580
Movable or Other Equipment (not in construction contracts)	\$735,585	\$389,415	\$1,125,000
Bond Issuance Expense (project related)	\$2,259,066*	\$1,195,940*	\$3,455,006
Net Interest Expense During Construction (project related)	\$2,790,300	\$1,477,173	\$4,267,473
Fair Market Value of Leased Space or Equipment			
Other Costs To Be Capitalized			
Acquisition of Building or Other Property (excluding land)			
TOTAL USES OF FUNDS	\$25,175,973	\$14,596,278	\$39,772,251
SOURCE OF FUNDS	CLINICAL	NONCLINICAL	TOTAL
Cash and Securities	\$2,790,927	\$1,476,546	\$4,267,473
Pledges			
Gifts and Bequests			
Bond Issues (project related)	\$22,385,046	\$13,119,732	\$35,504,778
Mortgages			
Leases (fair market value)			
Governmental Appropriations			
Grants			
Other Funds and Sources			
TOTAL SOURCES OF FUNDS	\$25,175,973	\$14,596,278	\$39,772,251
NOTE: ITEMIZATION OF EACH LINE ITEM MUST BE PROVIDED AT ATTACHMENT-7, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.			

- **Bond Issuance Expense includes \$2,736,116 which is designated for a Debt Service Reserve Fund which cannot be expended until the bond issue is retired.**

Related Project Costs

Provide the following information, as applicable, with respect to any land related to the project that will be or has been acquired during the last two calendar years:

<p>Land acquisition is related to project <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>Purchase Price: \$ _____</p> <p>Fair Market Value: \$ _____</p>
<p>The project involves the establishment of a new facility or a new category of service <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, provide the dollar amount of all non-capitalized operating start-up costs (including operating deficits) through the first full fiscal year when the project achieves or exceeds the target utilization specified in Part 1100.</p> <p>Estimated start-up costs and operating deficit cost is \$ _____.</p>

Project Status and Completion Schedules

<p>Indicate the stage of the project's architectural drawings:</p> <p><input type="checkbox"/> None or not applicable <input checked="" type="checkbox"/> Preliminary</p> <p><input type="checkbox"/> Schematics <input type="checkbox"/> Final Working</p>
<p>Anticipated project completion date (refer to Part 1130.140): _____</p>
<p>Indicate the following with respect to project expenditures or to obligation (refer to Part 1130.140):</p> <p><input type="checkbox"/> Purchase orders, leases or contracts pertaining to the project have been executed <input type="checkbox"/> Project obligation is contingent upon permit issuance. Provide a copy of the contingent "certification of obligation" document, highlighting any language related to CON Contingencies</p> <p><input checked="" type="checkbox"/> Project obligation will occur after permit issuance.</p>
<p>APPEND DOCUMENTATION AS ATTACHMENT-8, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>

State Agency Submittals

<p>Are the following submittals up to date as applicable:</p> <p><input checked="" type="checkbox"/> Cancer Registry</p> <p><input checked="" type="checkbox"/> APORS</p> <p><input checked="" type="checkbox"/> All formal document requests such as IDPH Questionnaires and Annual Bed Reports been submitted</p> <p><input checked="" type="checkbox"/> All reports regarding outstanding permits</p> <p>Failure to be up to date with these requirements will result in the application for permit being deemed incomplete.</p>
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Cost Space Requirements

Provide in the following format, the department/area **DGSF** or the building/area **BGSF** and cost. The type of gross square footage either **DGSF** or **BGSF** must be identified. The sum of the department costs **MUST** equal the total estimated project costs. Indicate if any space is being reallocated for a different purpose. Include outside wall measurements plus the department's or area's portion of the surrounding circulation space. **Explain the use of any vacated space.**

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space
REVIEWABLE							
Medical Surgical							
Intensive Care							
Diagnostic Radiology							
MRI							
Total Clinical							
NON REVIEWABLE							
Administrative							
Parking							
Gift Shop							
Total Non-clinical							
TOTAL							

APPEND DOCUMENTATION AS ATTACHMENT-9, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Complete the following chart, as applicable. Complete a separate chart for each facility that is a part of the project and insert following this page. Provide the existing bed capacity and utilization data for the latest **Calendar Year for which the data are available**. Include **observation days in the patient day totals for each bed service**. Any bed capacity discrepancy from the Inventory will result in the application being deemed **incomplete**.

FACILITY NAME: McDonough County District Hospital		CITY: Macomb			
REPORTING PERIOD DATES: From: July 1, 2012 to: June 30, 2013					
Category of Service	Authorized Beds	Admissions	Patient Days	Bed Changes	Proposed Beds
Medical/Surgical	56	1476	5,424	-25	31
Obstetrics	10	330	919	0	10
Pediatrics	6	31	65	-6	0
Intensive Care	7	136	938	0	7
Comprehensive Physical Rehabilitation					
Acute/Chronic Mental Illness					
Neonatal Intensive Care					
General Long Term Care	16	293	2730	-16	0
Specialized Long Term Care					
Long Term Acute Care					
Other ((identify))					
TOTALS:	95	2,266	10,076	-47	48

CERTIFICATION

The application must be signed by the authorized representative(s) of the applicant entity. The authorized representative(s) are:

- o In the case of a corporation, any two of its officers or members of its Board of Directors;
- o in the case of a limited liability company, any two of its managers or members (or the sole manger or member when two or more managers or members do not exist);
- o In the case of a partnership, two of its general partners (or the sole general partner, when two or more general partners do not exist);
- o in the case of estates and trusts; two of its beneficiaries (or the sole beneficiary when two or more beneficiaries do not exist); and
- o in the case of a sole proprietor, the individual that is the proprietor.

This Application for Permit is filed on the behalf of McDonough County District Hospital in accordance with the requirements and procedures of the Illinois Health Facilities Planning Act. The undersigned certifies that he or she has the authority to execute and file this application for permit on behalf of the applicant entity. The undersigned further certifies that the data and information provided herein, and appended hereto, are complete and correct to the best of his or her knowledge and belief. The undersigned also certifies that the permit application fee required for this application is sent herewith or will be paid upon request.

Kent Scater
 SIGNATURE
KENT SCATER
 PRINTED NAME
CHAIRMAN
 PRINTED TITLE

Jack Baily
 SIGNATURE
JACK BAILY
 PRINTED NAME
SECTY / TRAS
 PRINTED TITLE

Notarization:
Subscribed and sworn to before me
this 7th day of August 2013

Notarization:
Subscribed and sworn to before me
this 8th day of August

Ronda Baker
 Signature of Notary
 OFFICIAL SEAL
 RONDA BAKER
 Notary Public - State of Illinois
 My Commission Expires Sep 19, 2013

Ronda Baker
 Signature of Notary
 OFFICIAL SEAL
 RONDA BAKER
 Notary Public - State of Illinois
 My Commission Expires Sep 19, 2013

*Insert EXACT legal name of the applicant

This Section is applicable to any project that involves discontinuation of a health care facility or a category of service.
NOTE: If the project is solely for discontinuation and if there is no project cost, the remaining Sections of the application are not applicable.

Criterion 1110.130 - Discontinuation

READ THE REVIEW CRITERION and provide the following information:

<p>GENERAL INFORMATION REQUIREMENTS</p> <ol style="list-style-type: none">1. Identify the categories of service and the number of beds, if any that is to be discontinued.2. Identify all of the other clinical services that are to be discontinued.3. Provide the anticipated date of discontinuation for each identified service or for the entire facility.4. Provide the anticipated use of the physical plant and equipment after the discontinuation occurs.5. Provide the anticipated disposition and location of all medical records pertaining to the services being discontinued, and the length of time the records will be maintained.6. For applications involving the discontinuation of an entire facility, certification by an authorized representative that all questionnaires and data required by HFSRB or DPH (e.g., annual questionnaires, capital expenditures surveys, etc.) will be provided through the date of discontinuation, and that the required information will be submitted no later than 60 days following the date of discontinuation.
<p>REASONS FOR DISCONTINUATION</p> <p>The applicant shall state the reasons for discontinuation and provide data that verifies the need for the proposed action. See criterion 1110.130(b) for examples.</p>
<p>IMPACT ON ACCESS</p> <ol style="list-style-type: none">1. Document that the discontinuation of each service or of the entire facility will not have an adverse effect upon access to care for residents of the facility's market area.2. Document that a written request for an impact statement was received by all existing or approved health care facilities (that provide the same services as those being discontinued) located within 45 minutes travel time of the applicant facility.3. Provide copies of impact statements received from other resources or health care facilities located within 45 minutes travel time, that indicate the extent to which the applicant's workload will be absorbed without conditions, limitations or discrimination.
<p>APPEND DOCUMENTATION AS ATTACHMENT-10, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>

SECTION III – BACKGROUND, PURPOSE OF THE PROJECT, AND ALTERNATIVES - INFORMATION REQUIREMENTS

This Section is applicable to all projects except those that are solely for discontinuation with no project costs.

Criterion 1110.230 – Background, Purpose of the Project, and Alternatives

READ THE REVIEW CRITERION and provide the following required information:

<p>BACKGROUND OF APPLICANT</p> <ol style="list-style-type: none"> 1. A listing of all health care facilities owned or operated by the applicant, including licensing, and certification if applicable. 2. A certified listing of any adverse action taken against any facility owned and/or operated by the applicant during the three years prior to the filing of the application. 3. Authorization permitting HFSRB and DPH access to any documents necessary to verify the information submitted, including, but not limited to: official records of DPH or other State agencies; the licensing or certification records of other states, when applicable; and the records of nationally recognized accreditation organizations. Failure to provide such authorization shall constitute an abandonment or withdrawal of the application without any further action by HFSRB. 4. If, during a given calendar year, an applicant submits more than one application for permit, the documentation provided with the prior applications may be utilized to fulfill the information requirements of this criterion. In such instances, the applicant shall attest the information has been previously provided, cite the project number of the prior application, and certify that no changes have occurred regarding the information that has been previously provided. The applicant is able to submit amendments to previously submitted information, as needed, to update and/or clarify data.
<p>APPEND DOCUMENTATION AS <u>ATTACHMENT-11</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-4) MUST BE IDENTIFIED IN ATTACHMENT 11.</p>

<p>PURPOSE OF PROJECT</p> <ol style="list-style-type: none"> 1. Document that the project will provide health services that improve the health care or well-being of the market area population to be served. 2. Define the planning area or market area, or other, per the applicant's definition. 3. Identify the existing problems or issues that need to be addressed, as applicable and appropriate for the project. [See 1110.230(b) for examples of documentation.] 4. Cite the sources of the information provided as documentation. 5. Detail how the project will address or improve the previously referenced issues, as well as the population's health status and well-being. 6. Provide goals with quantified and measurable objectives, with specific timeframes that relate to achieving the stated goals as appropriate. <p>For projects involving modernization, describe the conditions being upgraded if any. For facility projects, include statements of age and condition and regulatory citations if any. For equipment being replaced, include repair and maintenance records.</p>
<p>NOTE: Information regarding the "Purpose of the Project" will be included in the State Agency Report.</p> <p>APPEND DOCUMENTATION AS <u>ATTACHMENT-12</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. EACH ITEM (1-6) MUST BE IDENTIFIED IN ATTACHMENT 12.</p>

ALTERNATIVES

- 1) Identify **ALL** of the alternatives to the proposed project:

Alternative options **must** include:

- A) Proposing a project of greater or lesser scope and cost;
 - B) Pursuing a joint venture or similar arrangement with one or more providers or entities to meet all or a portion of the project's intended purposes; developing alternative settings to meet all or a portion of the project's intended purposes;
 - C) Utilizing other health care resources that are available to serve all or a portion of the population proposed to be served by the project; and
 - D) Provide the reasons why the chosen alternative was selected.
- 2) Documentation shall consist of a comparison of the project to alternative options. The comparison shall address issues of total costs, patient access, quality and financial benefits in both the short term (within one to three years after project completion) and long term. This may vary by project or situation. **FOR EVERY ALTERNATIVE IDENTIFIED THE TOTAL PROJECT COST AND THE REASONS WHY THE ALTERNATIVE WAS REJECTED MUST BE PROVIDED.**
 - 3) The applicant shall provide empirical evidence, including quantified outcome data that verifies improved quality of care, as available.

APPEND DOCUMENTATION AS ATTACHMENT-13, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Criterion 1110.234 - Project Scope, Utilization, and Unfinished/Shell Space

READ THE REVIEW CRITERION and provide the following information:

SIZE OF PROJECT:

1. Document that the amount of physical space proposed for the proposed project is necessary and not excessive. **This must be a narrative.**
2. If the gross square footage exceeds the BGSF/DGSF standards in Appendix B, justify the discrepancy by documenting one of the following::
 - a. Additional space is needed due to the scope of services provided, justified by clinical or operational needs, as supported by published data or studies;
 - b. The existing facility's physical configuration has constraints or impediments and requires an architectural design that results in a size exceeding the standards of Appendix B;
 - c. The project involves the conversion of existing space that results in excess square footage.

Provide a narrative for any discrepancies from the State Standard. A table must be provided in the following format with Attachment 14.

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?

APPEND DOCUMENTATION AS ATTACHMENT-14, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

PROJECT SERVICES UTILIZATION:

This criterion is applicable only to projects or portions of projects that involve services, functions or equipment for which HFSRB has established utilization standards or occupancy targets in 77 Ill. Adm. Code 1100.

Document that in the second year of operation, the annual utilization of the service or equipment shall meet or exceed the utilization standards specified in 1110.Appendix B. **A narrative of the rationale that supports the projections must be provided.**

A table must be provided in the following format with Attachment 15.

UTILIZATION					
	DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION	STATE STANDARD	MET STANDARD?
YEAR 1					
YEAR 2					

APPEND DOCUMENTATION AS ATTACHMENT-15, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

UNFINISHED OR SHELL SPACE:

Provide the following information:

1. Total gross square footage of the proposed shell space;
2. The anticipated use of the shell space, specifying the proposed GSF to be allocated to each department, area or function;
3. Evidence that the shell space is being constructed due to
 - a. Requirements of governmental or certification agencies; or
 - b. Experienced increases in the historical occupancy or utilization of those areas proposed to occupy the shell space.
4. Provide:
 - a. Historical utilization for the area for the latest five-year period for which data are available; and
 - b. Based upon the average annual percentage increase for that period, projections of future utilization of the area through the anticipated date when the shell space will be placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-16, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

ASSURANCES:

Submit the following:

1. Verification that the applicant will submit to HFSRB a CON application to develop and utilize the shell space, regardless of the capital thresholds in effect at the time or the categories of service involved.
2. The estimated date by which the subsequent CON application (to develop and utilize the subject shell space) will be submitted; and
3. The anticipated date when the shell space will be completed and placed into operation.

APPEND DOCUMENTATION AS ATTACHMENT-17, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

This Section is applicable to all projects proposing establishment, expansion or modernization of categories of service that are subject to CON review, as provided in the Illinois Health Facilities Planning Act [20 ILCS 3960]. It is comprised of information requirements for each category of service, as well as charts for each service, indicating the review criteria that must be addressed for each action (establishment, expansion and modernization). After identifying the applicable review criteria for each category of service involved, read the criteria and provide the required information, AS APPLICABLE TO THE CRITERIA THAT MUST BE ADDRESSED:

A. Criterion 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care

1. Applicants proposing to establish, expand and/or modernize Medical/Surgical, Obstetric, Pediatric and/or Intensive Care categories of service must submit the following information:
2. Indicate bed capacity changes by Service: Indicate # of beds changed by action(s):

Category of Service	# Existing Beds	# Proposed Beds
<input checked="" type="checkbox"/> Medical/Surgical	56	31
<input type="checkbox"/> Obstetric		
<input checked="" type="checkbox"/> Pediatric	6	0
<input type="checkbox"/> Intensive Care		

3. READ the applicable review criteria outlined below and submit the required documentation for the criteria:

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(b)(1) - Planning Area Need - 77 Ill. Adm. Code 1100 (formula calculation)	X		
1110.530(b)(2) - Planning Area Need - Service to Planning Area Residents	X	X	
1110.530(b)(3) - Planning Area Need - Service Demand - Establishment of Category of Service	X		
1110.530(b)(4) - Planning Area Need - Service Demand - Expansion of Existing Category of Service		X	
1110.530(b)(5) - Planning Area Need - Service Accessibility	X		
1110.530(c)(1) - Unnecessary Duplication of Services	X		
1110.530(c)(2) - Maldistribution	X	X	
1110.530(c)(3) - Impact of Project on Other Area Providers	X		
1110.530(d)(1) - Deteriorated Facilities			X
1110.530(d)(2) - Documentation			X
1110.530(d)(3) - Documentation Related to Cited Problems			X

APPLICABLE REVIEW CRITERIA	Establish	Expand	Modernize
1110.530(d)(4) - Occupancy			X
110.530(e) - Staffing Availability	X	X	
1110.530(f) - Performance Requirements	X	X	X
1110.530(g) - Assurances	X	X	X

APPEND DOCUMENTATION AS ATTACHMENT-20, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

R. Criterion 1110.3030 - Clinical Service Areas Other than Categories of Service

1. Applicants proposing to establish, expand and/or modernize Clinical Service Areas Other than Categories of Service must submit the following information:
2. Indicate changes by Service: Indicate # of key room changes by action(s):

Service	# Existing Key Rooms	# Proposed Key Rooms
<input type="checkbox"/>		
<input type="checkbox"/>		
<input type="checkbox"/>		

3. **READ** the applicable review criteria outlined below and **submit the required documentation** **for the criteria:**

PROJECT TYPE	REQUIRED REVIEW CRITERIA	
New Services or Facility or Equipment	(b) -	Need Determination - Establishment
Service Modernization	(c)(1) -	Deteriorated Facilities
		and/or
	(c)(2) -	Necessary Expansion
		PLUS
	(c)(3)(A) -	Utilization - Major Medical Equipment
		Or
	(c)(3)(B) -	Utilization - Service or Facility
<p>APPEND DOCUMENTATION AS <u>ATTACHMENT-37</u>, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.</p>		

The following Sections **DO NOT** need to be addressed by the applicants or co-applicants responsible for funding or guaranteeing the funding of the project if the applicant has a bond rating of A- or better from Fitch's or Standard and Poor's rating agencies, or A3 or better from Moody's (the rating shall be affirmed within the latest 18 month period prior to the submittal of the application):

- Section 1120.120 Availability of Funds – Review Criteria
- Section 1120.130 Financial Viability – Review Criteria
- Section 1120.140 Economic Feasibility – Review Criteria, subsection (a)

VIII. - 1120.120 - Availability of Funds

The applicant shall document that financial resources shall be available and be equal to or exceed the estimated total project cost plus any related project costs by providing evidence of sufficient financial resources from the following sources, as applicable: **Indicate the dollar amount to be provided from the following sources:**

\$4,317,251		a)	Cash and Securities – statements (e.g., audited financial statements, letters from financial institutions, board resolutions) as to:
		1)	the amount of cash and securities available for the project, including the identification of any security, its value and availability of such funds; and
		2)	interest to be earned on depreciation account funds or to be earned on any asset from the date of applicant's submission through project completion;
		b)	Pledges – for anticipated pledges, a summary of the anticipated pledges showing anticipated receipts and discounted value, estimated time table of gross receipts and related fundraising expenses, and a discussion of past fundraising experience.
		c)	Gifts and Bequests – verification of the dollar amount, identification of any conditions of use, and the estimated time table of receipts;
\$35,455,000		d)	Debt – a statement of the estimated terms and conditions (including the debt time period, variable or permanent interest rates over the debt time period, and the anticipated repayment schedule) for any interim and for the permanent financing proposed to fund the project, including:
		1)	For general obligation bonds, proof of passage of the required referendum or evidence that the governmental unit has the authority to issue the bonds and evidence of the dollar amount of the issue, including any discounting anticipated;
		2)	For revenue bonds, proof of the feasibility of securing the specified amount and interest rate;
		3)	For mortgages, a letter from the prospective lender attesting to the expectation of making the loan in the amount and time indicated, including the anticipated interest rate and any conditions associated with the mortgage, such as, but not limited to, adjustable interest rates, balloon payments, etc.;
		4)	For any lease, a copy of the lease, including all the terms and conditions, including any purchase options, any capital improvements to the property and provision of capital equipment;
		5)	For any option to lease, a copy of the option, including all terms and conditions.
		e)	Governmental Appropriations – a copy of the appropriation Act or ordinance accompanied by a statement of funding availability from an official of the governmental unit. If funds are to be made available from subsequent fiscal years, a copy of a resolution or other action of the governmental unit attesting to this intent;
		f)	Grants – a letter from the granting agency as to the availability of funds in terms of the amount and time of receipt;
		g)	All Other Funds and Sources – verification of the amount and type of any other funds that will be used for the project.
\$39,772,351		TOTAL FUNDS AVAILABLE	

APPEND DOCUMENTATION AS ATTACHMENT-39, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

See Section 1120.130 Financial Waiver for information to be provided

APPEND DOCUMENTATION AS ATTACHMENT-40, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM. *NOT APPLICABLE*

The applicant or co-applicant that is responsible for funding or guaranteeing funding of the project shall provide viability ratios for the latest three years for which **audited financial statements are available and for the first full fiscal year at target utilization, but no more than two years following project completion.** When the applicant's facility does not have facility specific financial statements and the facility is a member of a health care system that has combined or consolidated financial statements, the system's viability ratios shall be provided. If the health care system includes one or more hospitals, the system's viability ratios shall be evaluated for conformance with the applicable hospital standards.

Provide Data for Projects Classified as:	Category A or Category B (last three years)			Category B (Projected)
	FY10	FY11	FY12	FY17
Enter Historical and/or Projected Years:				
Current Ratio	1.7	1.8	1.6	2.4
Net Margin Percentage	7.8	11.0	7.0	1.2
Percent Debt to Total Capitalization	5.2	4.8	3.4	29.1
Projected Debt Service Coverage	8.4	12.2	9.4	3.5
Days Cash on Hand	243.0	235.6	225.5	199.2
Cushion Ratio	36.6	42.1	44.1	17.0

Provide the methodology and worksheets utilized in determining the ratios detailing the calculation and applicable line item amounts from the financial statements. Complete a separate table for each co-applicant and provide worksheets for each.

2. Variance

Applicants not in compliance with any of the viability ratios shall document that another organization, public or private, shall assume the legal responsibility to meet the debt obligations should the applicant default.

APPEND DOCUMENTATION AS ATTACHMENT 41, IN NUMERICAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

This section is applicable to all projects subject to Part 1120.

A. Reasonableness of Financing Arrangements

The applicant shall document the reasonableness of financing arrangements by submitting a notarized statement signed by an authorized representative that attests to one of the following:

- 1) That the total estimated project costs and related costs will be funded in total with cash and equivalents, including investment securities, unrestricted funds, received pledge receipts and funded depreciation; or
- 2) That the total estimated project costs and related costs will be funded in total or in part by borrowing because:
 - A) A portion or all of the cash and equivalents must be retained in the balance sheet asset accounts in order to maintain a current ratio of at least 2.0 times for hospitals and 1.5 times for all other facilities; or
 - B) Borrowing is less costly than the liquidation of existing investments, and the existing investments being retained may be converted to cash or used to retire debt within a 60-day period.

B. Conditions of Debt Financing

This criterion is applicable only to projects that involve debt financing. The applicant shall document that the conditions of debt financing are reasonable by submitting a notarized statement signed by an authorized representative that attests to the following, as applicable:

- 1) That the selected form of debt financing for the project will be at the lowest net cost available;
- 2) That the selected form of debt financing will not be at the lowest net cost available, but is more advantageous due to such terms as prepayment privileges, no required mortgage, access to additional indebtedness, term (years), financing costs and other factors;
- 3) That the project involves (in total or in part) the leasing of equipment or facilities and that the expenses incurred with leasing a facility or equipment are less costly than constructing a new facility or purchasing new equipment.

C. Reasonableness of Project and Related Costs

Read the criterion and provide the following:

1. Identify each department or area impacted by the proposed project and provide a cost and square footage allocation for new construction and/or modernization using the following format (insert after this page).

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New	Mod.	Gross Sq. Ft. New	Circ.*	Gross Sq. Ft. Mod.	Circ.*	Const. \$ (A x C)	Mod. \$ (B x E)	
Contingency									
TOTALS									

* Include the percentage (%) of space for circulation

D. Projected Operating Costs

The applicant shall provide the projected direct annual operating costs (in current dollars per equivalent patient day or unit of service) for the first full fiscal year at target utilization but no more than two years following project completion. Direct cost means the fully allocated costs of salaries, benefits and supplies for the service.

E. Total Effect of the Project on Capital Costs

The applicant shall provide the total projected annual capital costs (in current dollars per equivalent patient day) for the first full fiscal year at target utilization but no more than two years following project completion.

APPEND DOCUMENTATION AS ATTACHMENT -42, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XI. Safety Net Impact Statement

SAFETY NET IMPACT STATEMENT that describes all of the following must be submitted for ALL SUBSTANTIVE AND DISCONTINUATION PROJECTS:

1. The project's material impact, if any, on essential safety net services in the community, to the extent that it is feasible for an applicant to have such knowledge.
2. The project's impact on the ability of another provider or health care system to cross-subsidize safety net services, if reasonably known to the applicant.
3. How the discontinuation of a facility or service might impact the remaining safety net providers in a given community, if reasonably known by the applicant.

Safety Net Impact Statements shall also include all of the following:

1. For the 3 fiscal years prior to the application, a certification describing the amount of charity care provided by the applicant. The amount calculated by hospital applicants shall be in accordance with the reporting requirements for charity care reporting in the Illinois Community Benefits Act. Non-hospital applicants shall report charity care, at cost, in accordance with an appropriate methodology specified by the Board.
2. For the 3 fiscal years prior to the application, a certification of the amount of care provided to Medicaid patients. Hospital and non-hospital applicants shall provide Medicaid information in a manner consistent with the information reported each year to the Illinois Department of Public Health regarding "Inpatients and Outpatients Served by Payor Source" and "Inpatient and Outpatient Net Revenue by Payor Source" as required by the Board under Section 13 of this Act and published in the Annual Hospital Profile.
3. Any information the applicant believes is directly relevant to safety net services, including information regarding teaching, research, and any other service.

A table in the following format must be provided as part of Attachment 43.

Safety Net Information per PA 96-0031			
CHARITY CARE			
Charity (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			
Charity (cost In dollars)	Year	Year	Year
Inpatient			
Outpatient			
Total			
MEDICAID			
Medicaid (# of patients)	Year	Year	Year
Inpatient			
Outpatient			
Total			
Medicaid (revenue)	Year	Year	Year
Inpatient			

	Outpatient			
	Total			

APPEND DOCUMENTATION AS ATTACHMENT-43, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

XII. Charity Care Information

Charity Care information **MUST** be furnished for **ALL** projects.

1. All applicants and co-applicants shall indicate the amount of charity care for the latest three **audited** fiscal years, the cost of charity care and the ratio of that charity care cost to net patient revenue.
2. If the applicant owns or operates one or more facilities, the reporting shall be for each individual facility located in Illinois. If charity care costs are reported on a consolidated basis, the applicant shall provide documentation as to the cost of charity care; the ratio of that charity care to the net patient revenue for the consolidated financial statement; the allocation of charity care costs; and the ratio of charity care cost to net patient revenue for the facility under review.
3. If the applicant is not an existing facility, it shall submit the facility's projected patient mix by payer source, anticipated charity care expense and projected ratio of charity care to net patient revenue by the end of its second year of operation.

Charity care" means care provided by a health care facility for which the provider does not expect to receive payment from the patient or a third-party payer. (20 ILCS 3960/3) Charity Care **must** be provided at cost.

A table in the following format must be provided for all facilities as part of Attachment 44.

CHARITY CARE			
	Year	Year	Year
Net Patient Revenue			
Amount of Charity Care (charges)			
Cost of Charity Care			

APPEND DOCUMENTATION AS ATTACHMENT-44, IN NUMERIC SEQUENTIAL ORDER AFTER THE LAST PAGE OF THE APPLICATION FORM.

Certificate of Good Standing

Since the applicant is a district hospital, which is governmentally owned no Certificate of Good Standing is available or required.

Proof of Ownership

The applicant is a governmental entity which was opened at its present location in 1958 and has operated continuously since that time. The applicant is not for profit and as such does not receive tax bills. The proposed project does not call for relocation of the facility, therefore, the fact that the facility is currently licensed at its present location should meet this requirement.

Certificate of Good Standing

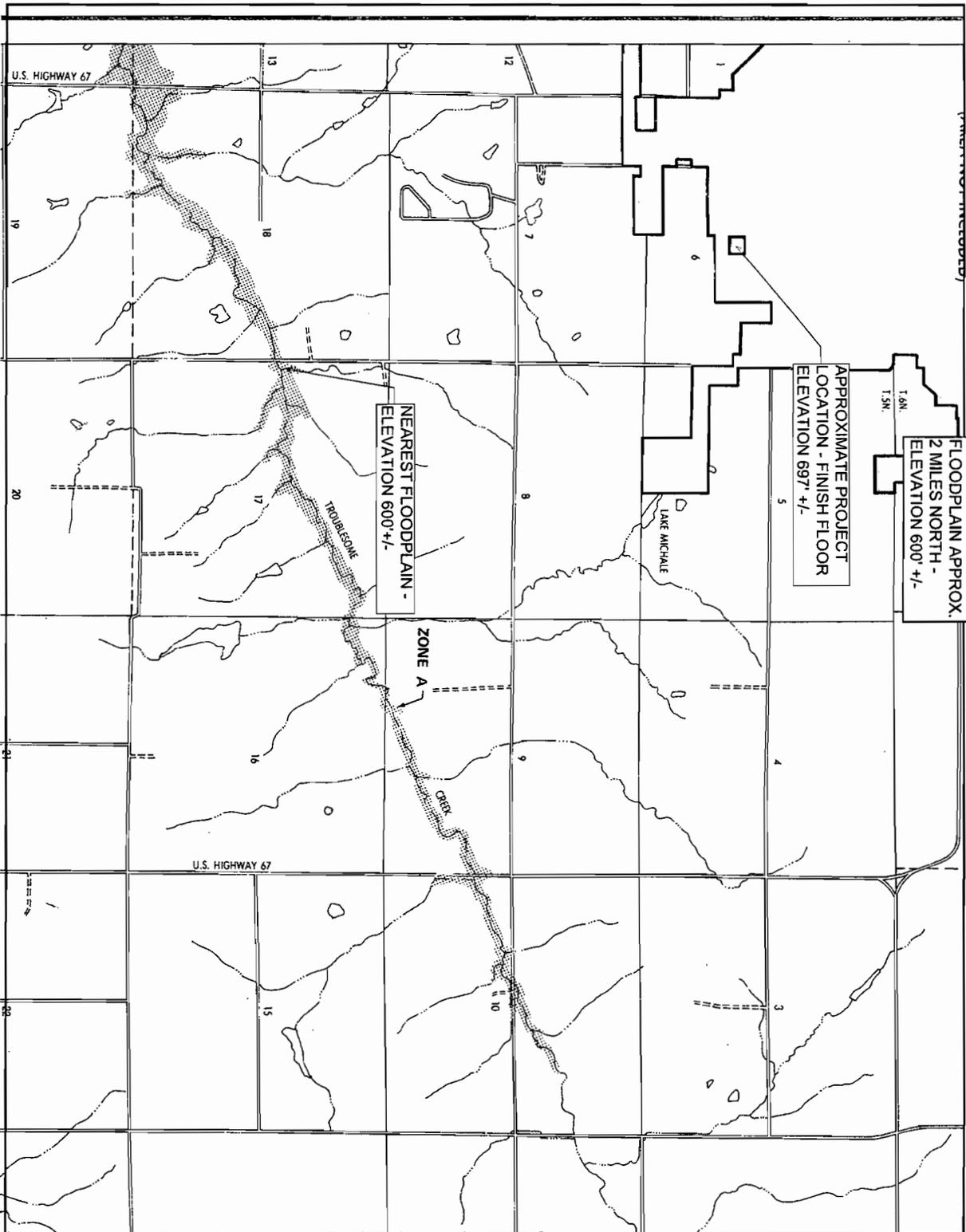
Since the applicant is a district hospital, which is governmentally owned no Certificate of Good Standing is available or required.

Organizational Relationships

The applicant does not own or operate any other licensed health care facility, and no other health care facilities are involved in the proposed project

Flood Plain Requirements

Fema lists McDonough County as an unmapped area under their system. The only Flood Map available is the Flood Hazard Boundry Map from 1981 which shows the closest Flood Hazard are to be 2 miles North of the proposed project, and the present site is well outside that hazard area. A copy of that map is appended to this application

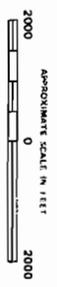


LaMOINE RIVER
FLOODPLAIN APPROX.
2 MILES NORTH -
ELEVATION 600' +/-

APPROXIMATE PROJECT
LOCATION - FINISH FLOOR
ELEVATION 697' +/-

NEAREST FLOODPLAIN -
ELEVATION 600' +/-

ZONE A



NATIONAL FLOOD INSURANCE PROGRAM

FHBM

FLOOD HAZARD BOUNDARY MAP

**MCDONOUGH
COUNTY,
ILLINOIS**

UNINCORPORATED AREA

PANEL 4 OF 8

SEE MAP INDEX FOR PANELS NOT PRINTED

COMMUNITY PANEL NUMBER
170988 0004 A

EFFECTIVE DATE:
JANUARY 2, 1981

Federal emergency management agency
Federal insurance administration

This is an official copy of a portion of the above referenced flood map. It is not to be used for any other purpose. Any reproduction, distribution, or amendment which may have been made subsequent to the date on the title block. For the latest product information about National Flood Insurance Program flood maps check the FEMA Flood Map Store at www.fema.gov



**Illinois Historic
Preservation Agency**

FAX (217) 782-8161

1 Old State Capitol Plaza • Springfield, Illinois 62701-1512 • www.illinois-history.gov

McDonough County

Macomb

CON - New Addition, McDonough County District Hospital
525 E. Grant St.
IHPA Log #012081513

August 29, 2013

Michael Copelin
Copelin Healthcare Consulting
42 Birch Lake Dr.
Sherman, IL 62684

Dear Mr. Copelin:

This letter is to inform you that we have reviewed the information provided concerning the referenced project.

Our review of the records indicates that no historic, architectural or archaeological sites exist within the project area.

Please retain this letter in your files as evidence of compliance with Section 4 of the Illinois State Agency Historic Resources Preservation Act (20 ILCS 3420/1 et. seq.). This clearance remains in effect for two years from date of issuance. It does not pertain to any discovery during construction, nor is it a clearance for purposes of the Illinois Human Skeletal Remains Protection Act (20 ILCS 3440).

If you have any further questions, please contact me at 217/785-5027.

Sincerely,

Anne E. Haaker
Deputy State Historic
Preservation Officer

Project Cost Breakdown

Items included in the "Preplanning Costs":

Master Planning Costs (Christner)	\$30,000
-----------------------------------	----------

Items included in the "Site Survey/Soil Borings":

Geotechnical Engineering	\$ 8,400
--------------------------	----------

Items included in the "Site Preparation Costs":

Selective Site Demolition	\$ 144,680.79
Electrical	\$ 45,363.53
Earth Moving	\$ 159,318.79
Flexible Paving	\$ 364,919.60
Concrete Paving	\$ 68,227.00
Curbs and Gutters	\$ 90,656.21
Sidewalks	\$ 36,428.93
Driveways	\$ 14,057.26
Pavement Markings	\$ 8,735.24
Planting	\$ 80,707.30
Utilities	\$ 90,392.18
Storm Drainage Utilities	<u>\$ 64,740.17</u>

Total	\$1,268,227.00
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Items included in the "Consulting and Other Fees":

Design Builder Overhead and Profit	\$1,116,249.93
Design-Builder Errors & Omissions Ins.	\$ 46,999.89
Design-Builder Precon Fee	\$ 98,330.21
CON Submission/Review Fees	<u>\$ 40,000.00</u>

Total	\$1,301,580.03
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Items included in Bond Issuance Expense

Bond Issuance Expense	\$ 718,890
Debt Service Reserve Fund	<u>\$2,736,116</u>

Total	\$3,455,006
-------	-------------

Equipment

ER Patient Monitoring Equipment	\$250,000
Clinical Furniture/Furnishings	\$500,000
Office furniture	\$150,000
IT equipment/software	\$150,000
MISC Equipment	<u>\$ 75,000</u>
Total	\$1,125,000

Cost Space Requirements

Dept. / Area	Cost	Gross Square Feet		Amount of Proposed Total Gross Square Feet That Is:			
		Existing	Proposed	New Const.	Modernized	As Is	Vacated Space****
REVIEWABLE							
Medical Surgical	\$10,464,480	14,248	21,801	0	21,801	0	0
Emergency Department	5,382,180	3,892	9,967	9,967	0	0	3,892
Diagnostic Radiology	724,436	7,250	9,688	0	1,042	8,646	0
Physical Therapy	2,720,960	6,128	8,503	8,503	0	0	6,128
Infusion	504,640	809	1,577	0	1,577		809
Wound Care	501,760	991	1,568	1,568	0	0	991
Shell Space	3,088,500	0	10,295	10,295	0	0	0
Long-Term care	0	7,204	0	0	0	0	7,204
Total Clinical	\$23,386,956#			30,333	24,420		
NON REVIEWABLE							
Administrative **	\$360,000	n/a	1,200	0	1,200	0	0
Parking	1,068,000	n/a	n/a	n/a	n/a	n/a	n/a
Helipad	200,000	n/a	n/a	n/a	n/a	n/a	n/a
Storage*	652,460	n/a	9,385	599	2,658	6,128	0
Hospitalist	145,800	328	486	0	486	0	328
Social Services & Utilization	567,900	552	1,893	0	1,893	0	552
Quality and Innovation	445,800	1,918	1,486	0	1,486	0	1,918
Waiting ***	458,400	n/a	1,528	746	782	0	0
Staff Facilities***	423,900	n/a	614	614	799?	0	0
Ambulance Garage	1,195,600	1,989	3,416	3,416	0	0	1,989
Public Space***	1,458,100	n/a	3,549	3,529	637		0
EMS	98,400	130	458	328	0	130	0
MEP***	5,971,350	n/a	3,872	3,872	0	0	0
Security***	47,100	n/a	157	157	0	0	0
Clinical Nutrition & Diabetes Counseling & Education	330,770	1,771	948	0	948	0	1,771
Housekeeping***	68,400	n/a	228	228			
Conference Space ***	157,200	n/a	n/a	n/a	524	n/a	0
Total Non-clinical	\$13,649,180#			13,489	12,458	14,904	25,074
TOTAL	\$37,036,136						

*Storage space listed here is only the space involved in this project total includes space now occupied by the old Ambulance Garage which will be enclosed and insulated to use as storage and the old PT department on the lower level which will be used as is.

**Only the Administrative space which is included in the project is shown here. Space for ED administration and the ED doctor's office.

Attachment # 9

*** Only department spaces effected by the project are included.

**** All vacated space will be utilized as a part of this project and is accounted for in the proposed square footage by department.

Debt Service Reserve fund is included in the project cost as it is included in the Bond Issue, However, since it cannot be spent until the Bonds are retired it is not included in the cost figures by department. The total debt service reserve fund is

Criterion 1110.130 – Discontinuation

The applicant is proposing to discontinue the Long Term care Category of Service with its 16 beds and the 6-bed Pediatrics Category of Service.

There are several facilities within 45 minutes of the hospital which provide Long-Term Care Services and would be able to accommodate the facilities existing volume. A letter has been sent to each of the following Facilities requesting impact statements regarding the proposed discontinuation:

Roseville Rehab and HealthCare
145 S. Chamberlain
Roseville, Illinois 61473

Prairie City Rehab and Health Care
825 E. Main
Prairie City, Illinois 61470

Monmouth Nursing Home
117 south I Street
Monmouth, IL 61462

Henderson Co. Retirement Center
604 Oakwood Drive
Stronghurst, IL 61480

Clayberg-Fulton Co. Nursing
525 East Monroe Street
Cuba, Illinois 61427

Countryview Care center of Macomb
400 West Grant Street
Macomb, IL 61455

Heartland of Macomb
8 Doctors Lane
Macomb, IL 61455

The Elms
1212 Madelyn Ave.
Macomb, IL 61455

Wesley Village Health Care center
1200 East Grant Street
Macomb, IL. 61455

In addition to the request for an impact Statement all of the facilities in the McDonough County Planning Area were contact directly, and none of the facilities have indicated that the proposal would have a negative impact on their ability to deliver care as needed to the planning area residents.

The latest HFSRB Inventory of Health Care facilities shows that there is an excess of 25 beds in the Medical/Surgical Pediatrics Category of Service, in Planning Area C-04 and an excess of 20 LTC beds in the McDonough County Planning Area. Upon completion of the proposed project there would be a projected need for 6 Medical/Surgical Pediatric beds in Planning area C-04 and a continuing excess of 4 LTC beds in the McDonough County Planning Area.

The applicant's historical utilization for the Pediatrics unit total only 65 patient days for the period from July 1, 2012 to June 30, 2013 or an average daily census of .18 with an occupancy rate on the facility's 6-bed unit of 2.9%. It is not possible to staff a unit economically with a utilization rate this low. The applicant's proposed discontinuation does not mean that the facility would not continue to provide care for pediatric patients, but would provide this care in a monitored area of a Medical/Surgical Unit with nurses experienced in both pediatric and adult patient care.

The applicant's 26 bed LTC unit experienced an average daily census of 7.4 patients during the same time period discussed above. This volume equates to an occupancy rate of 47% which is well below the Board's target occupancy rate of 90%.

Based upon the annual Long=Term care Profiles published by the HFSRB the five other Long-term care service providers in McDonough County operated an occupancy rates between 49.4% and 89.9%, all of these facilities were operating below the Board's 90% occupancy target.. Even at peak census four of the five of the facilities had beds available.

Facility	Number of Beds	Occupancy %	Peak census
Countryview Care Center of Macomb	62	53.4%	43
Prarie City Rehab and Health care	47	49.4%	29
Heartland of Macomb	80	84.4%	75
The Elms	98	87.2%	98
Wesley Village	73	89.9%	72

Based upon the utilization of the categories of service to be discontinued there will be no adverse impact on the delivery of health care in the applicant's planning area.

The space vacated by the proposed discontinuations will be utilized to provide the space necessary to accommodate all of the Medical Surgical Beds in single patient rooms.

The plan calls for the applicant to discontinue the LTC category of Service on June 30, 2014, and to discontinue the pediatric service when the proposed project is approved.

Impact letters were sent to all facilities within 45 minutes of the hospital which provide the categories of service proposed for discontinuation. Copies of those letters are appended to this attachment and the responses received will be forwarded to the Board upon receipt. Based upon the applicant's discussions with the area providers it is believed that no negative impact will be experienced either by the area facilities or the patients needing care.

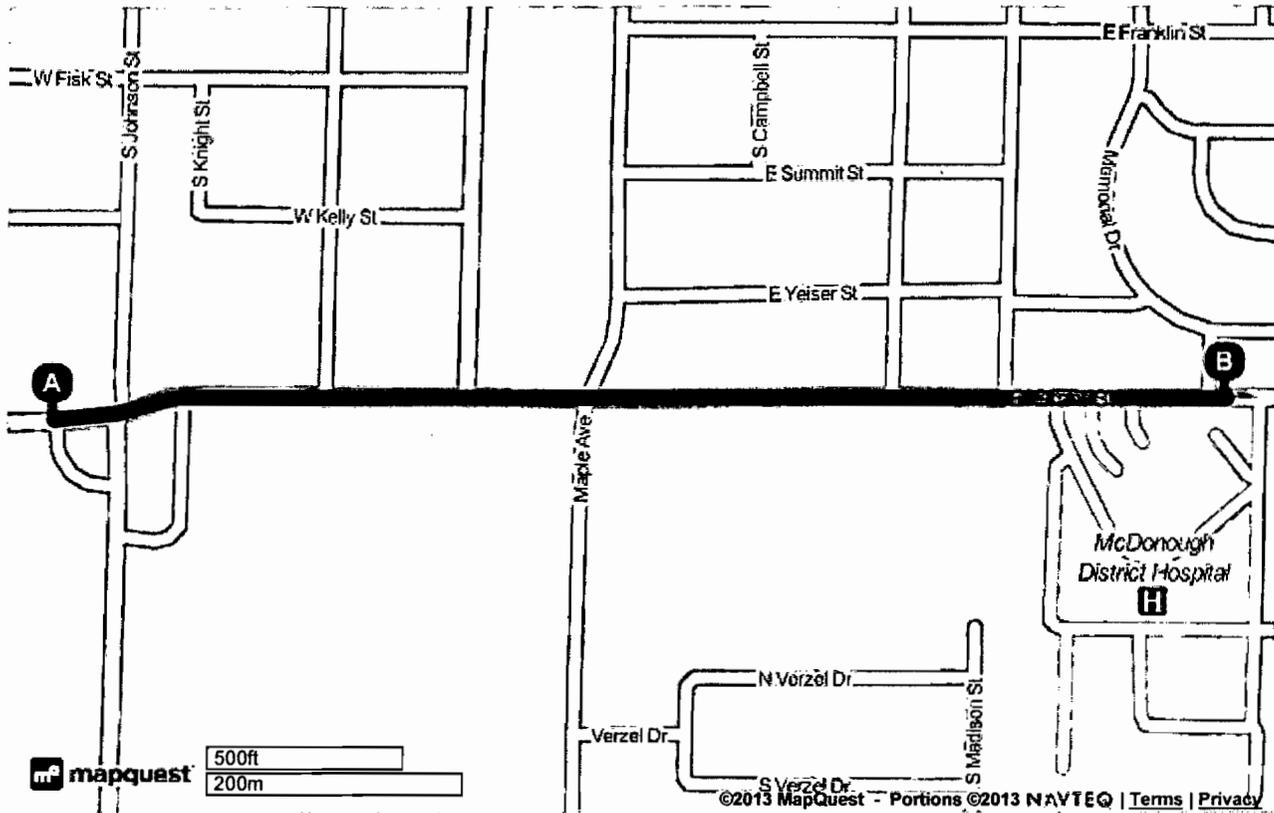


Trip to:
525 E Grant St
Macomb, IL 61455-3313
0.67 miles / 2 minutes

Notes

Countryview Care Center of
Macomb
400 West Grant Street
Macomb, IL 61455

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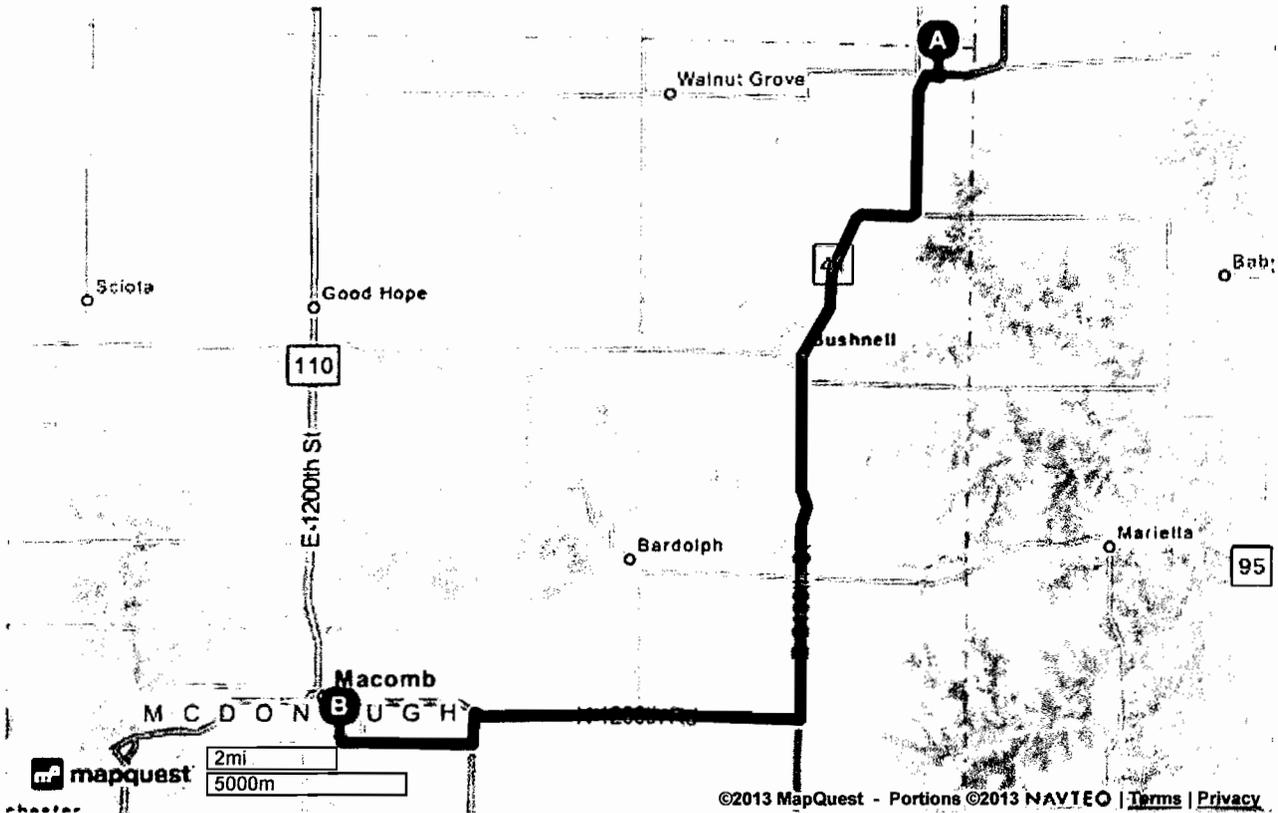


Trip to:
525 E Grant St
Macomb, IL 61455-3313
22.08 miles / 28 minutes

Notes

Prairie City Rehabilitation and Healthcare
825 E. Main
Prairie City, IL 61470

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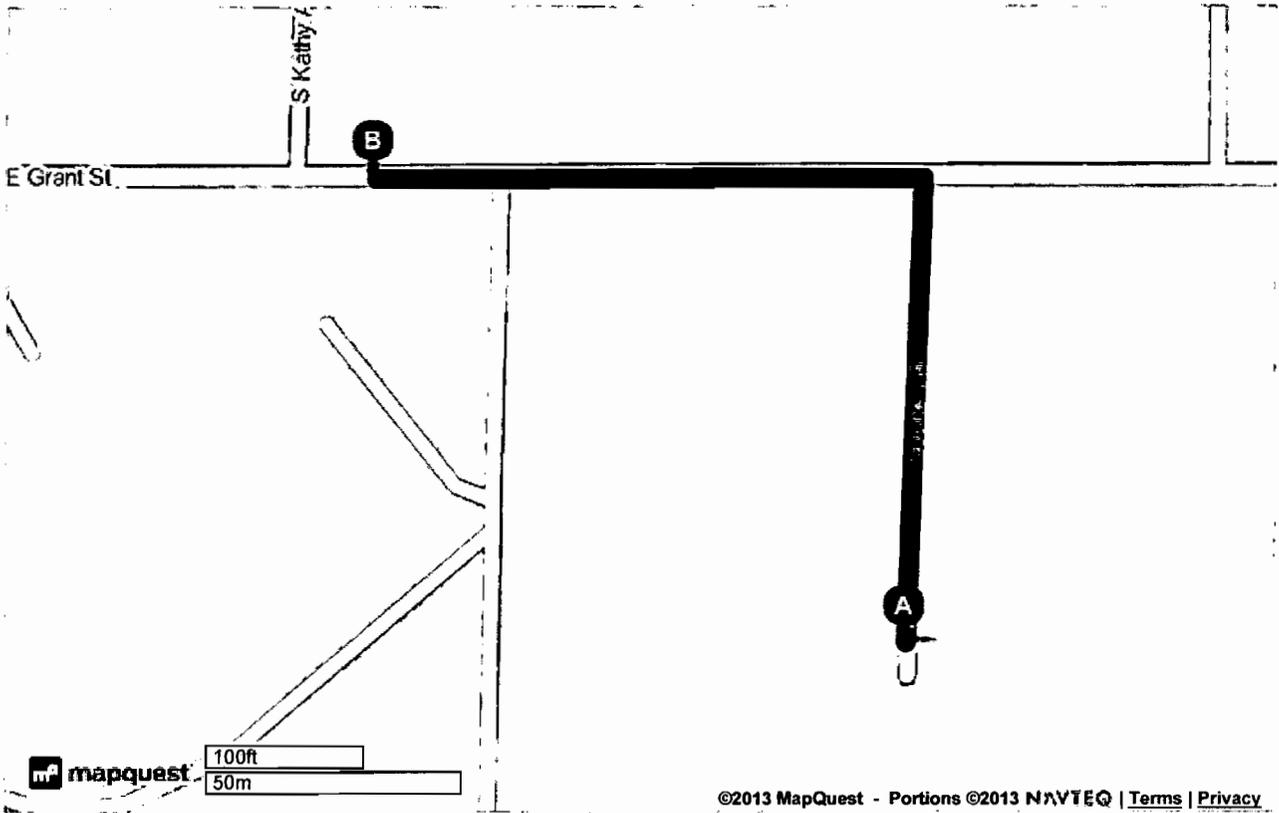


Trip to:
525 E Grant St
Macomb, IL 61455-3313
0.14 miles /

Notes

Heartland of Macomb
8 Doctor's Lane
Macomb, IL 61455

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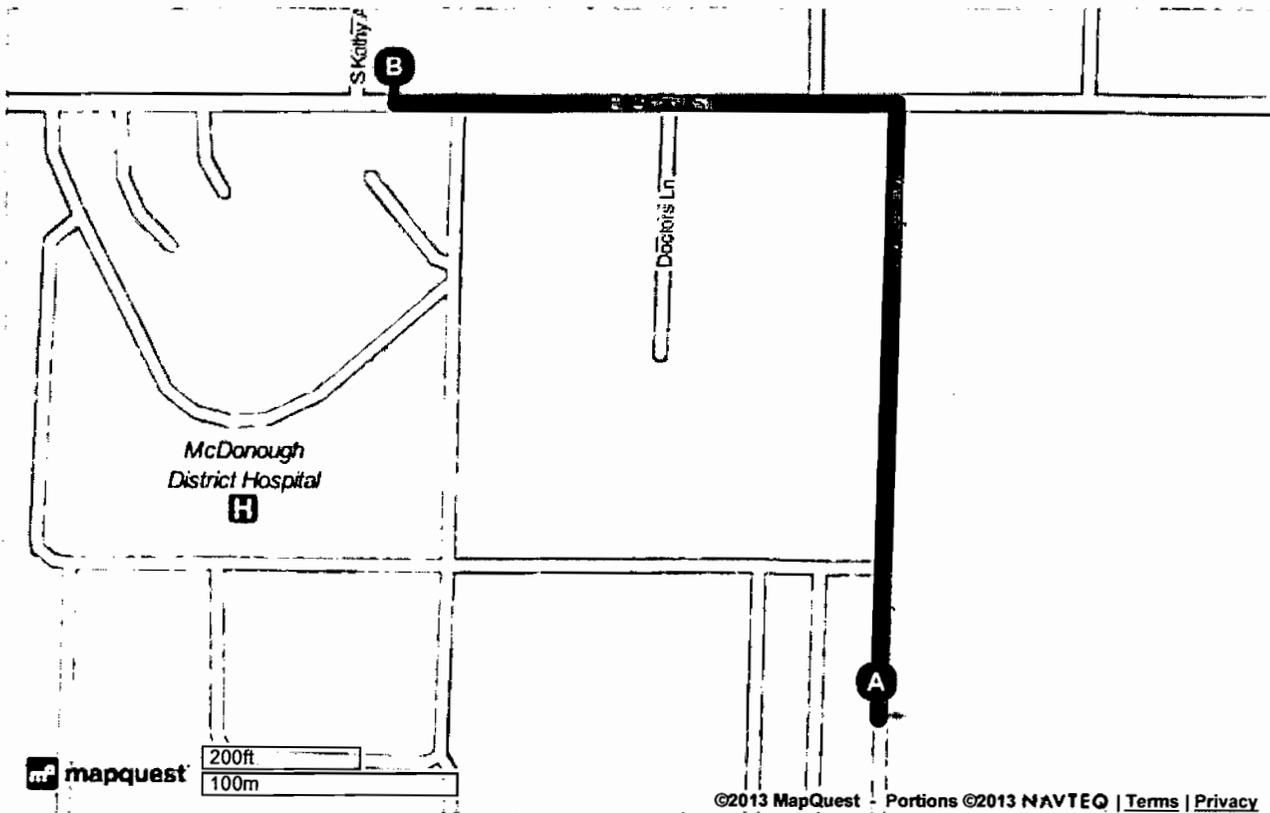


Trip to:
525 E Grant St
Macomb, IL 61455-3313
0.32 miles / 1 minute

Notes

The Elms (McDonough)
1212 Madelyn Avenue
Macomb, IL
61455

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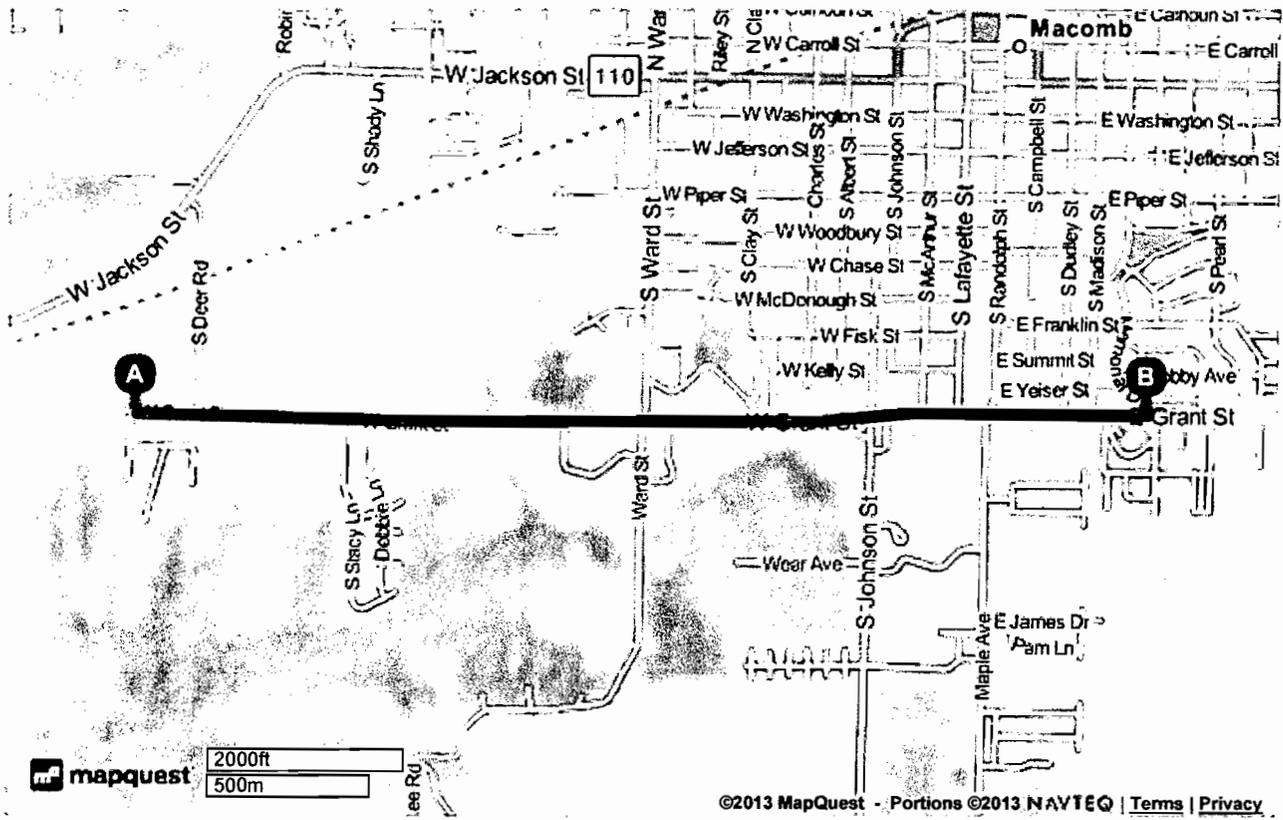
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Trip to:
525 E Grant St
Macomb, IL 61455-3313
2.30 miles / 6 minutes

Notes
Wesley Village Health Care Center
1200 East Grant St.
Macomb, IL 61455

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August 20, 2013

To: Administrator
Roseville Rehab and HealthCare
145 S. Chamberlain
Roseville, Illinois 61473

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely

Kenneth D. Boyd Jr.
CEO

August 20, 2013

To: Administrator
Wesley Village Health Care Center
1200 East Grant Street
Macomb, Illinois 61455

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

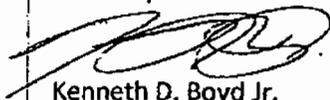
We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely



Kenneth D. Boyd Jr.
CEO



August 20, 2013

To: Administrator
The Elms
1212 Madelyn Ave.
Macomb, Illinois 61455

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

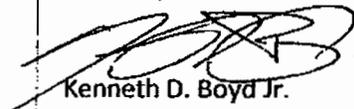
We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely



Kenneth D. Boyd Jr.
CEO



McDonough District Hospital

525 East Grant Street Macomb, IL 61455

(309) 833-4101 www.mdh.org

August 20, 2013

To: Administrator
Heartland of Macomb
#8 Doctors Lane
Macomb, Illinois 61455

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

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Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely

Kenneth D. Boyd Jr.
CEO

August 20, 2013

To: Administrator
Henderson Co. Retirement Center
604 Oakwood Drive
Stronghurst, Illinois 61480

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

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525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely



Kenneth D. Boyd Jr.
CEO



McDonough District Hospital

525 East Grant Street Macomb, IL 61455

(309) 833-4101 www.mdh.org

August 20, 2013

To: Administrator
Clayberg-Fulton Co. Nursing
525 East Monroe Street
Cuba, Illinois 61427

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely

A handwritten signature in black ink, appearing to read "K. Boyd Jr.", written over a horizontal line.

Kenneth D. Boyd Jr.
CEO

46

More Than Hospital Care... A Hospital Caring.



McDonough District Hospital

525 East Grant Street Macomb, IL 61455

(309) 833-4101 www.mcdh.org

August 20, 2013

To: Administrator
Countryview Care Center of Macomb
400 West Grant Street
Macomb, Illinois 61455

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely

Kenneth D. Boyd Jr.
CEO



August 20, 2013

To: Administrator
Monmouth Nursing Home
117 South I Street
Monmouth, Illinois 61462

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely


Kenneth D. Boyd Jr.
CEO



August 20, 2013

To: Administrator
Prairie City Rehab and Health Care
825 E. Main
Prairie City, Illinois 61470

Re: Revised Notice - Proposed Discontinuation of Long-Term Care Services at McDonough County Hospital District

To whom it may concern:

We are filing an application with the Illinois Health facilities and Services Review Board to discontinue Long-term Care Services at the hospital, and per their requirements, we are notifying you of this proposed discontinuation. We are required to determine if there will be a negative impact on any of the health care facilities in our area, and as such are asking you to comment on whether or not this closure would negatively impact your facility.

You may address your response to me or to the following address:

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Illinois 62711

Thank you for your cooperation.

Sincerely



Kenneth D. Boyd Jr.
CEO

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to: Attn: Administrator
Jesley Village Health Care
1200 East Grant ST.
Macomb, IL 61455

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
 Addressee
Mary Jane Soyack
B. Received by (Printed Name) Mary Jane Soyack C. Date of Delivery 10-2-13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.
4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7009 2250 0002 8319 3755

SENDER: COMPLETE THIS SECTION

1. Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:
Roseville Rehab & Healthcare
Attn: Administrator
145 S. Chamberlain
Roseville, IL 61473

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
 Addressee
Adriene E Wickline
B. Received by (Printed Name) Adriene E Wickline C. Date of Delivery 8-22-13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.
4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7009 2250 0002 8319 1317

SENDER: COMPLETE THIS SECTION

1. Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:
The Elms
Attn: Administrator
1212 Madelyn Ave.
Macomb, IL 61455

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
 Addressee
Kathy Kasper
B. Received by (Printed Name) Kathy Kasper C. Date of Delivery 5/22/13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.
4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7008 1140 0000 2985 9011

ENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:
Heartland of Macomb
Attn: Administrator
#8 Doctors Lane
Macomb, IL 61455

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent Addressee
Janine Stepanik

B. Received by (Printed Name) C. Date of Delivery
Janine Stepanik 2/22/13

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7008 1140 0000 2985 9004
S Form 3811, February 2004 Domestic Return Receipt 102585-02-M-1540

ENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:
Attn: Administrator
Henderson Co. Retirement Center
604 Oakwood Drive
Stronghurst, IL 61480

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent Addressee
John Avery

B. Received by (Printed Name) C. Date of Delivery
John Avery 2/22/13

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7009 2250 0002 8319 2987
S Form 3811, February 2004 Domestic Return Receipt 102585-02-M-1540

ENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:
Attn: Administrator
Clayberg - Fulton Co. Nursing
525 East Monroe St.
Cuba, IL 61427

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent Addressee
LoAnn Bruman

B. Received by (Printed Name) C. Date of Delivery
LoAnn Bruman

D. Is delivery address different from item 1? Yes
 If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number (Transfer from service label) 7009 2250 0002 8319 3762
S Form 3811, February 2004 Domestic Return Receipt 102585-02-M-1540

SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Attn: Administrator
Country View Care Center of Macomb
400 West Grant St,
Macomb, IL 61455

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
 Addressee
B. Received by (Printed Name) C. Date of Delivery
Ann Tech 8/22/13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number

(Transfer from service label)

7009 2250 0002 8319 1294

S Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

SENDER: COMPLETE THIS SECTION

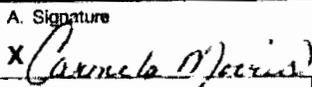
Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Attn: Administrator
Prairie City Rehab & Health
Care

325 E. Main
Prairie City, IL 61470

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
X  Addressee
B. Received by (Printed Name) C. Date of Delivery
Pamela Morris 22 AUG 13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number

(Transfer from service label)

7009 2250 0002 8319 1300

S Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540

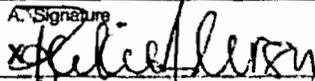
SENDER: COMPLETE THIS SECTION

Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired. Print your name and address on the reverse so that we can return the card to you. Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:

Attn: Administrator
Monmouth Nursing Home
117 South I Street
Monmouth, IL 61462

COMPLETE THIS SECTION ON DELIVERY

A. Signature Agent
 Addressee
B. Received by (Printed Name) C. Date of Delivery
Beckie Anderson 8/23/13
D. Is delivery address different from item 1? Yes
If YES, enter delivery address below: No

3. Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

Article Number

(Transfer from service label)

7009 2250 0002 8319 1249

S Form 3811, February 2004

Domestic Return Receipt

102595-02-M-1540



145 S. Chamberlain Street
Roseville, IL 61473
Phone: 309.426.2134
Fax: 309.426.2445
www.petersenhealthcare.net

"Caring With a Hometown Touch"

August 22, 2013

To: Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson
2nd Floor
Springfield, Il 62711

Re: Discontinuation of Long-Term Care at McDonough District Hospital

We respectfully feel there would not be a negative impact on the closure of the long-term care at the hospital. We appreciate the work of McDonough District in providing this service during this time, knowing it served very well to the community. Roseville Rehab would appreciate the opportunity to serve those in need with the services we do provide. It is with good wishes that we extend the opportunity to help in placement but do not feel that the impact would be a negative one. Thank-you for considering the impact this would have on Roseville Rehab.

Respectfully,

Ethel Logue
Administrator
Roseville Rehab and Health Care
145 South Chamberlain
Roseville, IL 61473

BACKGROUND OF APPLICANT

The applicant does not own nor operate any other licensed healthcare facility.

The applicant facility has not had any adverse reaction taken against it in the last three years. The letter from the CEO attesting to that fact and allowing the Board and staff access to the licensure and accreditation information is appended to this attachment.

The facility is fully licensed and accredited, as shown in the appended information.

August 8, 2013

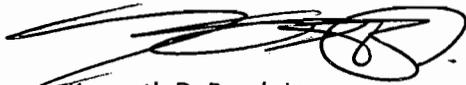
Re: Certificate of Need Application for McDonough County District Hospital dba McDonough District Hospital (MDH)

To Whom It May Concern,

I am writing to certify that as of today, August 8, 2013, there have been no adverse actions taken against MDH or any of its owned or operated facilities in the last three years

Additionally, I authorize the State Agency to have access to any information the State Agency finds pertinent to this application.

Sincerely,



Kenneth D. Boyd, Jr.

President/CEO

McDonough District Hospital



State of Illinois 2132842
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

The person, firm or corporation whose name appears on this certificate has complied with the provisions of the Illinois Statutes and/or rules and regulations and is hereby authorized to engage in the activity as indicated below.

Issued under the authority of
LA HAR HASBROUCK, MD, MPH
 Director, Department of Public Health

EXPIRATION DATE	CATEGORY	ID NUMBER
06/30/14	BGBD	0001438
FULL LICENSE GENERAL HOSPITAL EFFECTIVE: 07/01/13		

BUSINESS ADDRESS

MCDONOUGH DISTRICT HOSPITAL
525 EAST GRANT STREET

The face of this license has a colored background. Printed by **MACOMB** IL 61455
 Authority of the State of Illinois • 4/97 •

→ DISPLAY THIS PART IN A
 CONSPICUOUS PLACE

REMOVE THIS CARD TO CARRY AS AN
 IDENTIFICATION ←

State of Illinois 2132842
Department of Public Health

LICENSE, PERMIT, CERTIFICATION, REGISTRATION

EXPIRATION DATE	CATEGORY	ID NUMBER
06/30/14	BGBD	0001438

FULL LICENSE
GENERAL HOSPITAL
EFFECTIVE: 07/01/13

05/04/13
MCDONOUGH DISTRICT HOSPITAL
525 EAST GRANT STREET
MACOMB IL 61455

FEE RECEIPT NO.

McDonough District Hospital

Macomb, IL

has been Accredited by



The Joint Commission

Which has surveyed this organization and found it to meet the requirements for the

Home Care Accreditation Program

December 18, 2010

Accreditation is customarily valid for up to 39 months.

A handwritten signature in cursive script, appearing to read "I. Hoverman".

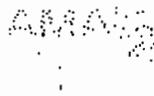
Isabel V. Hoverman, MD, MACP
Chair, Board of Commissioners

Organization ID #: 7376
Print/Reprint Date: 03/25/11

A handwritten signature in cursive script, appearing to read "Mark Chassin".

Mark R. Chassin, MD, FACP, MPP, MPH
President

The Joint Commission is an independent, not-for-profit, national body that oversees the safety and quality of health care and other services provided in accredited organizations. Information about accredited organizations may be provided directly to The Joint Commission at 1-800-994-6610. Information regarding accreditation and the accreditation performance of individual organizations can be obtained through The Joint Commission's web site at www.jointcommission.org.



This reproduction of the original accreditation certificate has been issued for use in regulatory/payer agency verification of accreditation by The Joint Commission. Please consult Quality Check on The Joint Commission's website to confirm the organization's current accreditation status and for a listing of the organization's locations of care.

PURPOSE OF PROJECT

McDonough County District hospital was opened in 1958 with the existing Emergency Department Addition completed in 1980. Modernization of the hospital, especially the Medical Surgical bed areas, the Physical Therapy Department and the Emergency Department, has been a strategic goal of the hospital for a number of years.

The majority of the existing patient rooms are semi-private rooms. The private rooms that do exist are very small, and none of the rooms have ADA accessible bath rooms. This project would convert all of the Medical Surgical rooms to private rooms. ADA accessible restrooms and showers will be constructed to meet current requirements. The AIA guidelines recommend private patient rooms for all new or renovated patient bed rooms. Converting the patient rooms to private beds will also provide better patient privacy, improve infection control and increase patient satisfaction with their hospital experience.

This project will result in the reduction of 25 medical surgical beds from the hospitals existing 56 bed capacity. This reduction in beds when combined with the discontinuation of the LTC unit and the pediatric category of service (6) beds allows the applicant to accommodate the 31 Medical Surgical beds, which will remain, in existing space within the hospital.

Over the past few years the applicant's Emergency Department (ED) has seen a steady increase in patient volumes. In addition to the steady increase in patient volumes, the complexity of the patient's health needs has become increasingly higher and creates more lengthy evaluations in the ED.

Earlier this year, it was learned that the Eagle View Clinic in Macomb was to close on July 1, 2013. The Eagle View Clinic is a health clinic that provided access to health care for individuals and families with no health insurance or with low income. With the closure of this clinic and the implementation of the Affordable Health Care Delivery Act, it is anticipated that the ED patient volume will again increase.

The hospital's ED also has seen a growth in the number of patients with behavioral health needs. Currently the ED lacks the ability to properly place a behavioral health patient that is suicidal into a safe environment. In addition to having a safe environment, a new ED with a decontamination shower would provide a means to adequately decontaminate patients before coming into the department which would allow the hospital to safely treat patients with exposure to dangerous chemical or biological contaminants.

The delivery of ED services has significantly changed in the past 33 years and a new ED would allow the hospital to meet today's standards of care in a safer and more efficient manner.

The second floor of the new addition will be built as shell space with the applicant applying to the Board to develop that space within the next 12 months once plans for its use can be finalized.

The third floor of the new addition will house the Physical Therapy Department and a Wound Care Clinic. The Physical Therapy Department also includes: occupational therapy, and speech therapy. The Physical Therapy Department is now located in the basement of the hospital, which

is not ideal for ceiling heights, expansion of modalities, nor patient satisfaction. The proposed location will allow for increased use of different modalities for patient treatment, for occupational therapy, and for the placement of windows to allow more light and a better patient experience which will increase overall patient satisfaction which in turn provides better treatment results.

The relocation of the Wound Care Clinic adjacent to the PT department will allow for better patient throughput, and economic gains by the sharing of support staff. The treatment of wound care often coincides with the rehabilitation of the patient in order for the patient to return to normal function as expeditiously as possible. The location of these two departments adjacent to one another will allow the patient ease of access to all of the services required for their treatment.

The renovation of the Diagnostic Radiology department is proposed for two reasons: to place an X-ray machine adjacent to the Emergency Department for its primary use and to achieve better patient flow for patients coming into the department on an outpatient basis. No additional equipment will be added to the Diagnostic Radiology department, but, one general X-ray unit will be relocated. The space vacated by this move will be utilized to provide additional support space for the department with a very low cost.

The infusion department is being consolidated into one area at the end of a medical surgical unit which will allow for the sharing of nursing staff when needed and the improvement of patient flow for the patients receiving the infusion services. The infusion services will be provided in space previously occupied by patient beds.

In summary the primary purposes of the proposed project is to provide additional space for services which over the past few years have outgrown their existing space, to allow for the provision of private beds for the medical surgical beds, and to improve the functionality and flow for the other hospital departments.

ALTERNATIVES

The applicant considered three basic alternatives to the proposed project: Do nothing, modernize the building without an addition, and construct an addition to the hospital along with modernizing existing space..

It quickly became apparent that the first two alternatives were not feasible in that the first alternative did not address the need for the Emergency Department to be expanded nor did it address the need to go to an all private bed model; and the second alternative did not have sufficient space for the needed expansion of the ED and PT services, nor did it provide the shell space for a future expansion of the hospital's services which are now being planned for the proposed shell space.

Neither of the first two alternatives proceeded to the point of calculating their cost as they were not workable. The third alternative was the alternative that was chosen and several options for space utilization were considered. The consideration of options always started with the development of the new ED and utilized that space as the base for the new construction, which in turn dictated the space on the floors located above the new ED. The height of the new addition was developed with three factors in mind. First the floor heights of the existing building, second the flight pattern for a future relocation of the helipad for the hospital and third the services which would be located in the new addition. The second floor was originally planned to house a new area for the relocation of administrative offices, but it was determined that the space would be better used for future clinical services. The planning for the development of these services is currently underway and a CON application for the development of the shell space will be presented to the IHFSRB within the next 6 months when the planning is completed.

The alternative chosen represents the best use of the existing hospital space while minimizing the amount of new construction needed to develop the new ED and Physical Therapy Departments. It provides the applicant with the flexibility to fully develop the hospital to serve the needs of the planning area population.

None of the alternatives considered to the proposed project were developed to the point of calculating a project cost since they would not meet the need to expand the hospital to meet its identified needs. It was determined that the proposed project with its combination of new construction and remodeling of existing space represents the best alternative available to meet the facility's needs.

SIZE OF PROJECT

The following chart compares the applicant's proposed square footage with the applicable State Norms

SIZE OF PROJECT				
DEPARTMENT/SERVICE	PROPOSED BGSF/DGSF	STATE STANDARD	DIFFERENCE	MET STANDARD?
Medical/Surgical and Pediatrics Beds	21,801	15,500 – 20,460	+1,341	No
Emergency	9767	9,000	+767	No
Diagnostic Radiology	9,688	10,100	-412	Yes
Physical Therapy	8,470	N/A	N/A	N/A
Infusion Services	1,537	N/A	N/A	N/A
Wound Care	1,568	N/A	N/A	N/A

The need for the proposed space will be discussed for each of the departments separately below.

1. Medical Surgical and Pediatric Beds

The applicant is proposing to renovate existing bed space to provide all private beds for the Medical surgical category of Service. This space will include the space now occupied by the Long-Term Care Unit and the Pediatric Unit. Both the Pediatric Unit and the Long-Term Care units will be discontinued as a part of this project with the pediatric patients continuing to be treated in medical surgical beds in a monitored area of one of the new medical surgical units.

Because the applicant is proposing to use existing bed space, the space proposed exceeds the State Norm by approximately 43 GSF per bed. The existing space previously housed primarily 2-bed rooms, these rooms are larger than what would normally be built in a new all private bed hospital. Despite the fact that the floors will be gutted and redesigned this spacing causes the rooms themselves to be larger due to the fact that the exterior of the building will not be changed and the window requirements for a Medical Surgical unit must be met. The column spacing in the building also requires designing patient toilets between rooms rather than along the corridor which also increases the overall space of the unit.

The support spaces are being enlarged in order to meet today's code requirements, and the HVAC system is being changed in order to provide a better and more efficient system.

The use of existing space with the constraints of the building, cause the space per bed, in a facility with a relatively small number of beds, to exceed the State Norm.

2. Emergency

The proposed Emergency Department (ED) will be expanded from 9 exam rooms to 10 exam rooms. These exam rooms will be designated as three trauma rooms, 6 general exam rooms, and one Behavioral Psych Exam Room.

Due to the remote location of the hospital, i.e., more than 30 minutes from any other hospital and more than 45 minutes from any other hospital which provides psychiatric services on an inpatient basis. The lack of other referral sources makes it necessary that the hospital have the capacity to avoid going on By-pass, and it requires Psychiatric patients to be held in the emergency room until such time as they can be transported to another facility if inpatient treatment is required.

In addition to the previously described rooms, the applicant also proposes to have two areas which are not routinely provided in Emergency Departments. The applicant proposes to have a secondary waiting room for patients who are going to be discharged home, but are waiting for test results or medication orders to be processed. A quiet room is also planned to allow the physicians to meet with families of critically ill patients, or when a patient dies the families can be informed in a more private setting rather than in the middle of the waiting room, or crowded around the patient in the exam room. The quiet room also allows the family a quiet, private room where they can grieve or discuss treatment options.

These two areas along with the circulation space associated with them total 559 gross square feet which, along with the decontamination shower area near the ambulance entry into the ED accounts for the difference between the proposed departmental gross square footage and the State Norm.

3. Diagnostic Radiology

The applicant is proposing to expand the Diagnostic Radiology Department into space vacated by the ED when it is expanded into new construction. The expansion will not result in the increase in the number of pieces of diagnostic equipment located in the department, but it will include moving two pieces of that equipment into new space adjacent to the new Emergency Department. The ultrasound unit will be relocated along with one of the general X-ray units.

The applicant currently has 1 ultrasound unit, 1 mammography unit, 1 CT scanner, 1 stereotactic biopsy unit, 1 bone density unit, 2 general X-ray Units and 1 Fluoroscopy unit. Based upon the State Standards, the applicant's proposed square footage is within the State Norms.

All of these units are needed in a modern Diagnostic Radiology Unit. In addition to these pieces of equipment the applicant also provides through contractual agreement MRI and PET services. These two modalities are not located in the hospital and are provided by mobile providers.

4. Physical Therapy

The applicant is proposing to combine all Physical Therapy, Occupational Therapy, Cardiac Rehabilitation, and Speech Therapy into one centralized area. The proposed unit will contain three separate gym type areas to accommodate the different types of equipment required for these mixed services. There will be an area for Cardiac Rehabilitation, one for adult physical therapy and a separate smaller area for pediatric physical therapy.

In addition there will be an occupational therapy kitchen area, smaller private rooms for speech therapy, and one treatment space for hand therapy.

The sizes of these various areas was determined through discussions with the staff to assess the needs of the various types of patients to be treated, by visiting other comparable hospital based facilities and by working with experts in the field of therapy department design.

There are no standards are available to compare one department with another as each facilities needs are different based upon their location, the industrial facilities surrounding the hospital and the access to other services in the community. The size of the department was developed based upon all of these factors, plus need to provide all of the services proposed. The square footage amounts to .41 GSF per visit (20,546 total visits in FY 2013).

It is important to note here that there are no other hospitals within 30 minutes travel time of the applicant facility. This is particularly important due to the fact that most rehabilitation services involve coming to the facility several times per week over an extended period of time.

5. Infusion services.

The applicant is proposing to utilize 1,537 GSF of existing space at the end of an inpatient bed unit to house this department. The space proposed combines multiple areas which are now used for this service. The department will serve patients receiving blood transfusion, chemotherapy, IV antibiotics, and other infusion services.

The volume for this department in FY 2013 total 1,345 visits. The department will have three rooms where infusions will take place. Based upon 260 workdays per year (5 days per week, 52 weeks per year) the department will treat, on average, 5.2 patients per day. The infusion time for these patients varies greatly with some patients requiring 6-8 hour for their treatment and others requiring only 1-2 hours. The treatment times do not include the time necessary to clean-up and set-up the rooms between patients, nor the time for the physician and staff to discuss the patient treatment with the patient and/or the patients care giver. When all of these factors are taken into account the three rooms proposed is the minimum amount needed.

The overall department space is dictated by the need for the three treatment rooms, the need for support space and the use of existing space. Again the space proposed is needed to meet the patients' needs within the constraints of an existing structure.

6. Wound Care

The applicant is proposing to have 1,568 GSF to house this department. The space will be immediately adjacent to the new physical therapy department which will make transitioning to that course of treatment easier when the healing process for the wound has reached the point that rehabilitation can begin.

The applicant's volume has grown from 953 visits in 2011 to 1,391 visits in 2013. The new wound care department will house 4 treatment rooms and 5 staff offices with the attendant support and circulation space. Approximately 50% of the patients are wheel chair bound and nearly 100% of the patients are accompanied by an aide or family member.

No standards are available to determine the appropriate size of a wound care department so the applicant developed the size of this department by assessing the needs of its individual patients and by conducting planning sessions with the staff who treat those patients.

Based upon the 1,391 patients seen in FY 2013, the proposed department's square footage is only 1.1 GSF per visit. The volume of this department is expected to increase as the rate of diabetes continues to grow and the population ages.

Based upon all of the above information, the departmental square footage is necessary to meet the current and projected patient needs.

PROJECT SERVICES UTILIZATION

The table below shows the departments for which the State Board has developed utilization standards.

DEPT./ SERVICE	HISTORICAL UTILIZATION (PATIENT DAYS) (TREATMENTS) ETC.	PROJECTED UTILIZATION		STATE STANDARD	MET STANDARD?
		2013	2016		
Emergency Department	14,971	15,500	16,500	2000 visits/ room	No
Medical Surgical Beds	5,491	5,780	5,738	8,486*	No
Diagnostic Radiology**	See Table 2 below				Yes

*Based upon a 75 % occupancy target for 31 beds.

** See table 2 below for the Diagnostic Radiology equipment. Note no new equipment will be added as a result of this project.

Table 2

Equipment	Pieces of Equipment	FY 2013 Utilization	FY 2016	FY 2017	State Standard	Met
General X-ray	3*	18,878	19,500	20,200	8,000/machine	Yes
Mammography	1	5,392	5,400	5,400	5000/unit	Yes
Ultrasound	1	1,920	2,100	2150	3100/unit	Yes
CT	1	5,920	6,000	6,000	7000/unit	Yes
Bone Density	1	418	418	418	N/A	Yes
Stereotactic	1	48	48	48	N/A	Yes

*includes 1 fluoroscopic unit

Diagnostic Radiology

The applicant is not proposing to add any new units or modalities to the existing department but rather to relocate two existing units, (1 ultrasound and 1 general X-ray.) The utilization of the various modalities are consistent with the State Norms. No second piece of equipment in any of the above modalities will be added until the first unit meets or exceeds the State Standard.

The projected utilization for the various pieces of equipment are based upon historical trends in utilization, the closure of an active outpatient clinic in the area and the general aging of the population, excluding the college age students who are a part of the community, but change every year. These projections are very conservative especially in light of the unknown impact of the Affordable Healthcare Delivery Act.

Medical Surgical Beds

The historical occupancy for the medical surgical category of service for FY 2013 at 48% does not meet the State Board's occupancy standard of 75%. While the utilization of the Medical Surgical and pediatric beds will increase due to the closure of the Long-term care and the closure of the Pediatrics unit with those patients also being treated in Medical/Surgical beds, the unit will still not meet the Board's occupancy standards. The projected patient days for FY2017 including the pediatric and observation days total 5,738 days which equates to an occupancy rate of 51%.

However, the hospital is in a unique position when it comes to meeting the needs of the community it serves. There are several factors which require the applicant to maintain beds in excess of the State Standards. First the season nature of the community. The hospital is located in a community with a large State University which dramatically changes the population of the area for approximately 8 of the 12 months each year; second the applicant is in a rural area with limited availability of alternative resources, i.e., there is no other hospital within 25 miles of the hospital; and third the hospital serves as the headquarters for the area EMS and ambulance services.

The hospital simply put cannot afford to go one bypass as there is no other facility available to serve the patients of the area.

The hospital has experienced peak usage for Medical Surgical and Pediatric beds between 29 and 35 between 2010 and 2013 with the average being 31.25. This figure does not include any patients which are now being treated in the Long-term Care Unit or observation days.

Based upon the above data, and making the assumption that the pediatric and medical surgical peaks may not happen on the same days, it appears that the 31 beds proposed could accommodate the peak census days for the hospital. It also supports the position that the applicant cannot further reduce the number of beds proposed without running the risk of not having any available beds in case of an emergency.

The lack of other available resources in the geographic area does not support any further reduction in bed capacity.

In summary, while the applicant cannot in good conscience sign a letter which indicates that the facility will achieve the State's target occupancy, the further reduction of bed capacity is also not warranted

Emergency Department

The proposed Emergency Department (ED) will be expanded from 9 exam rooms to 10 exam rooms. These exam rooms will be designated as three trauma rooms, 6 general exam rooms, and one Behavioral Psych Exam Room.

The State Norm calls for a volume of 2,000 visits per exam/treatment room in an Emergency Department. The applicant's volume at this standard justifies 8 rooms currently and would justify 9 rooms based upon 2017 projections. The 9 rooms justified in 2017 do not include the single room proposed psychiatric services. When that room is considered separately and the volume associated with it is removed, the applicant's projected volume 16,250 patient visits still justifies 8.1 or 9 rooms.

The projected volume is projected utilizing historical trends which have seen the volume for each of the last 5 years with the single exception of 2012 when the volume dropped by 125 visits, and then rebounded to increase by 704 patient visits in FY 2013. This increase was before Eagle View clinic closed in July of 2013.

The volume is projected to continue to rise slowly due to the agency of the population of the area and the anticipated impact of the AFFORDABLE Health Care Delivery Act, which will provide insurance to more people which in turn will allow them access to health care with lower out of pocket costs.

Due to the remote location of the hospital, i.e., more than 30 minutes from any other hospital and more than 45 minutes from any other hospital which provides psychiatric services on an inpatient basis. The lack of other referral sources makes it necessary for the hospital to have the capacity to avoid going on By-pass, and it requires Psychiatric patients to be held in the emergency room until such time as they can be transported to another facility if inpatient treatment is required.

UNFINISHED OR SHELL SPACE:

The applicant is proposing to construct 10,295 GSF of shell space on the second floor of the proposed new addition.

The applicant will file an application to establish a Geriatric Psychiatric unit of 12 beds, when all of the feasibility and planning work is completed. The applicant is currently working with a consultant in this field to project the utilization for this service, and to complete the drawings and cost estimates for the service.

The closest psychiatric unit, in HAS 2, of any type is located at Galesburg Cottage Hospital in Galesburg which, according to Map quest is 48.24 miles and 62 minutes travel time from the applicant facility which supports the need for this service in the planning area. The closest hospital is more than 25 miles and 35 minutes travel time from the applicant facility and that facility is in another planning area and does not offer psychiatric services.

Since this is a new category of service, the applicant cannot provide historical utilization and the projected utilization is still being determined.

The applicant has provided a letter from the CEO that a CON will be filled for the completion of the shell space regardless of the cost of the project. (See Attachment #17.)



McDonough District Hospital

525 East Grant Street Macomb, IL 61455

(309) 833-4101 www.mcdh.org

August 30, 2012

Ms. Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 W. Jefferson Street, 2nd Floor
Springfield, Illinois 62761

Dear Ms. Avery:

McDonough County Hospital District will comply with the Health Facilities and Services Review Board's rules regarding the addition of shell space and verifies that we will submit a Certificate of Need (CON) application to develop and utilize the shell space, Regardless of the capital threshold in effect at that time or the categories of service involved.

We anticipate that the application for the shell space will be filed within the next 6 months. The anticipated shell space will be completed and placed into operation within one year of CON approval for that shell space.

Sincerely,

Kenneth R. Boyd
Chief Executive Officer

More Than Hospital Care... A Hospital Caring

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Attachment # 17

SERVICE SPECIFIC REVIEW CRITERIA

Criterion 1110.530 - Medical/Surgical, Obstetric, Pediatric and Intensive Care

The applicant is proposing to modernize the Medical Surgical Category of Service and to discontinue the Pediatric Category of Service, while continuing to care for Pediatric patients in medical surgical beds. The following table shows the number of beds proposed as a result of the proposed project.

Category of Service	# Existing Beds	# Proposed Beds
<input type="checkbox"/> Medical/Surgical	56	31
<input type="checkbox"/> Obstetric		
<input type="checkbox"/> Pediatric	6	0
<input type="checkbox"/> Intensive Care		

Each of the applicable Review criteria will be discussed separately as a part of this attachment.

A. 1110.530(d)(1) - Deteriorated Facilities

The existing facility has several problems which will be addressed by the proposed project.

The hospital which was opened in 1958 currently has very few private rooms and those private rooms are too small to efficiently accommodate today's modern equipment. The proposed project would result in all of the medical surgical beds being located in larger private rooms. In addition to accommodating modern equipment it allows for better infection control, flexibility in the utilization of the rooms, and better patient privacy.

The medical surgical bed areas do not currently have any ADA accessible bathrooms and none have private showers. This situation does not meet modern standards of care and leads to lower patient satisfaction scores, which in turn result in lower reimbursement from Medicare and Medicaid.

The current mechanical/HVAC system is also in need of replacement and will be replaced with a more efficient and user friendly system.

The proposed project also allows for updating the headwalls in the patient rooms in order to accommodate the higher use of electronic equipment in the rooms.

The project calls for the existing space to be gutted and reconfigured to meet modern hospital standards. This is being accomplished within the existing walls of the building which reduces the cost of the project, but as was discussed earlier in this application increases the amount of space per bed needed to work around the constraints of the building.

B. Criterion 1110.530(d)(2), Documentation

The applicant has not been cited by Medicare or Medicaid for violations of any safety code violations and the facility is fully accredited by the Joint Commission. The reasons for the modernization of the medical surgical beds is based upon the facility's age, the change in industry standards to all private rooms, and the need to accommodate modern technology. A copy of the facilities present plans are appended to this attachment to show the current design and the problems with the existing facility.

C. Criterion 1110.530(d)(4), Occupancy Standards

D. Criterion 1110.530.(g) Assurances

The historical occupancy for the medical surgical category of service for FY 2013 at 48% does not meet the State Board's occupancy standard of 75%. While the utilization of the Medical Surgical and pediatric beds will increase due to the closure of the Long-term care and the closure of the Pediatrics unit with those patients also being treated in Medical/Surgical beds, the unit will still not meet the Board's occupancy standards. The projected patient days for FY2017 including the pediatric and observation days total 5,738 days which equates to an occupancy rate of 51%.

However, the hospital is in a unique position when it comes to meeting the needs of the community it serves. There are several factors which require the applicant to maintain beds in excess of the State Standards. First the season nature of the community. The hospital is located in a community with a large State University which dramatically changes the population of the area for approximately 8 of the 12 months each year; second the applicant is in a rural area with limited availability of alternative resources, i.e., there is no other hospital within 25 miles of the hospital; and third the hospital serves as the headquarters for the area EMS and ambulance services.

The hospital simply put cannot afford to go one bypass as there is no other facility available to serve the patients of the area.

The hospital has experienced peak usage for Medical Surgical and Pediatric beds between 29 and 35 between 2010 and 2013 with the average being 31.25. This figure does not include any patients which are now being treated in the Long-term Care Unit or observation days.

Based upon the above data, and making the assumption that the pediatric and medical surgical peaks may not happen on the same days, it appears that the 31 beds proposed could accommodate the peak census days for the hospital. It also supports the position that the applicant cannot further reduce the number of beds proposed without running the risk of not having any available beds in case of an emergency.

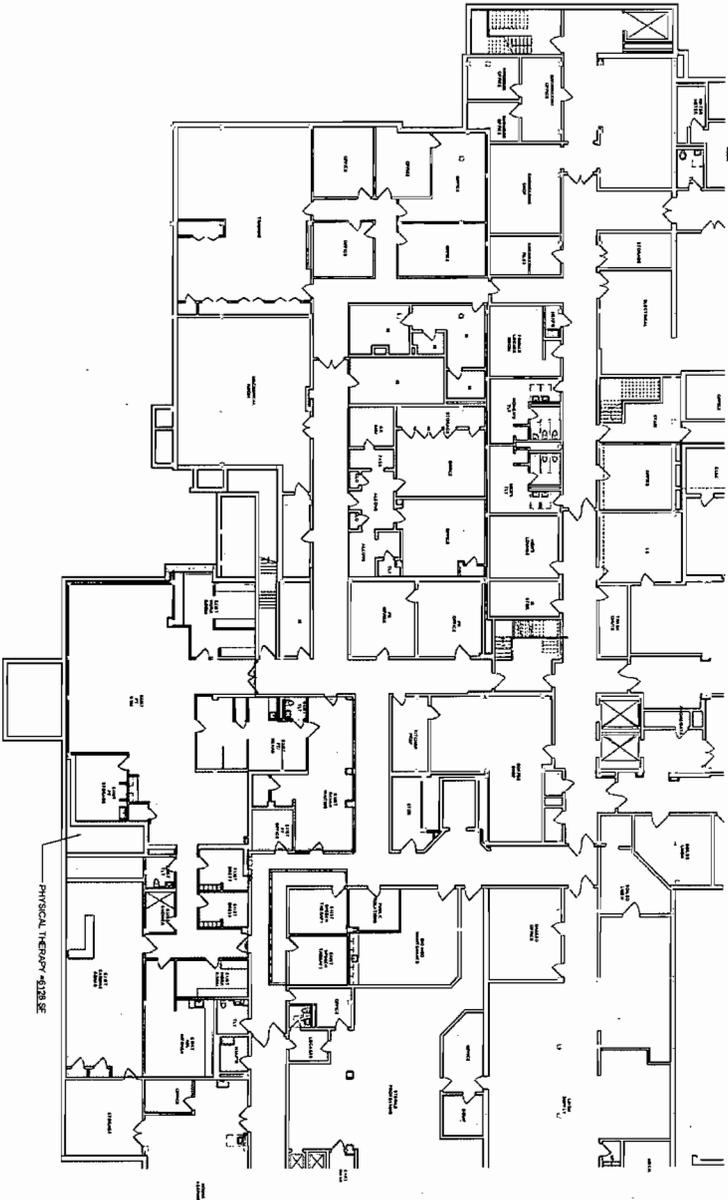
The lack of other available resources in the geographic area does not support any further reduction in bed capacity.

In summary, while the applicant cannot in good conscience sign a letter which indicates that the facility will achieve the State's target occupancy, the further reduction of bed capacity is also not warranted.

E. Criterion 11110.530.f., Performance Requirements

Since the applicant is not within an MSA the 100 bed minimum size for the medical surgical category of service does not apply, and since the applicant is not proposing to have a dedicated pediatric service the minimum size also does not apply..

EXISTING - LOWER LEVEL FLOOR



- | | |
|--------------------------|---|
| <input type="checkbox"/> | EXISTING ACUTE CARE - 10,544 SF |
| <input type="checkbox"/> | EXISTING PHYSICAL THERAPY - 6,896 SF |
| <input type="checkbox"/> | EXISTING EMERGENCY - 7,680 SF |
| <input type="checkbox"/> | EXISTING RADIOLOGY - 7,760 SF |
| <input type="checkbox"/> | EXISTING WOUND CARE - 291 SF |
| <input type="checkbox"/> | EXISTING INFUSION - 609 SF |
| <input type="checkbox"/> | EXISTING ICU - 320 SF |
| <input type="checkbox"/> | EXISTING SOC / OUTPATIENT - 529 SF |
| <input type="checkbox"/> | EXISTING HOSPITALITY - 329 SF |
| <input type="checkbox"/> | EXISTING QUALITY & INFORMATICS - 1,918 SF |
| <input type="checkbox"/> | CLINICAL NUTRITION & DIETETICS - 1,771 SF |
| <input type="checkbox"/> | MEP - NOT APPLICABLE |
| <input type="checkbox"/> | SUPPORT SPACES - NOT APPLICABLE |

OWNER
McDonough District Hospital

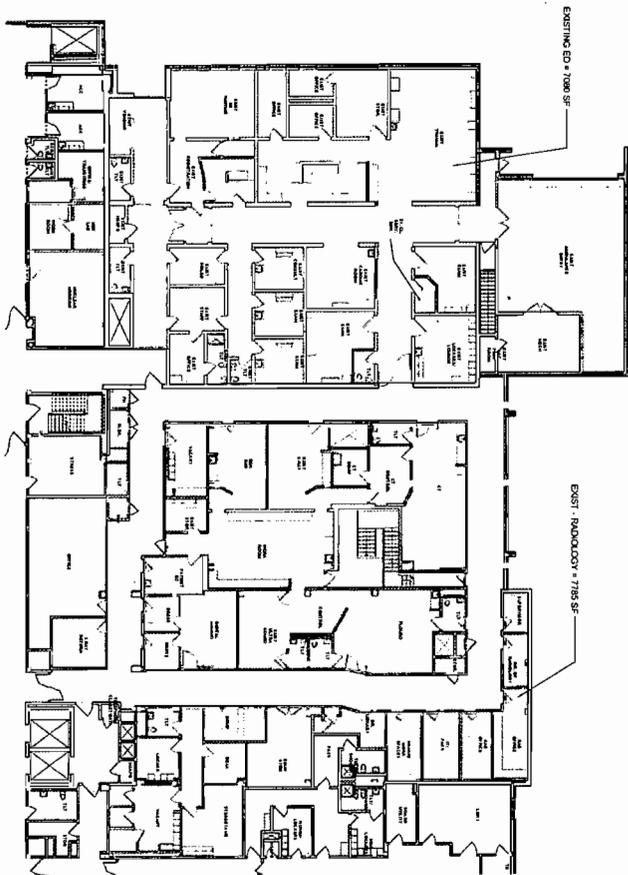
PROJECT
McDonough District Hospital Facilities Improvement

SHEET NO
D1.00

DATE
07/25/13

ARCHITECTURAL FIRM

EXISTING - 1ST FLOOR



- | | |
|--------------------------|--|
| <input type="checkbox"/> | EXISTING ACUTE CARE - 10,554 SF |
| <input type="checkbox"/> | EXISTING PHYSICAL THERAPY - 8,650 SF |
| <input type="checkbox"/> | EXISTING EMERGENCY - 7,000 SF |
| <input type="checkbox"/> | EXISTING RADIOLOGY - 1,786 SF |
| <input type="checkbox"/> | EXISTING WOUND CARE - 591 SF |
| <input type="checkbox"/> | EXISTING WERBSON - 800 SF |
| <input type="checkbox"/> | EXISTING TOL - 3,207 SF |
| <input type="checkbox"/> | EXISTING SOC UTILIZATION - 523 SF |
| <input type="checkbox"/> | EXISTING HOSPITALIST - 328 SF |
| <input type="checkbox"/> | EXISTING QUALITY & IMPROVEMENT - 1,318 SF |
| <input type="checkbox"/> | CLINICAL NUTRITION & DIABETES - 1,171 SF |
| <input type="checkbox"/> | MEP - FLOOR APPLICATIONS |
| <input type="checkbox"/> | SEPARATION SWATCHES - 1401 AREA/CALCULATED |

OWNER
McDonough District Hospital

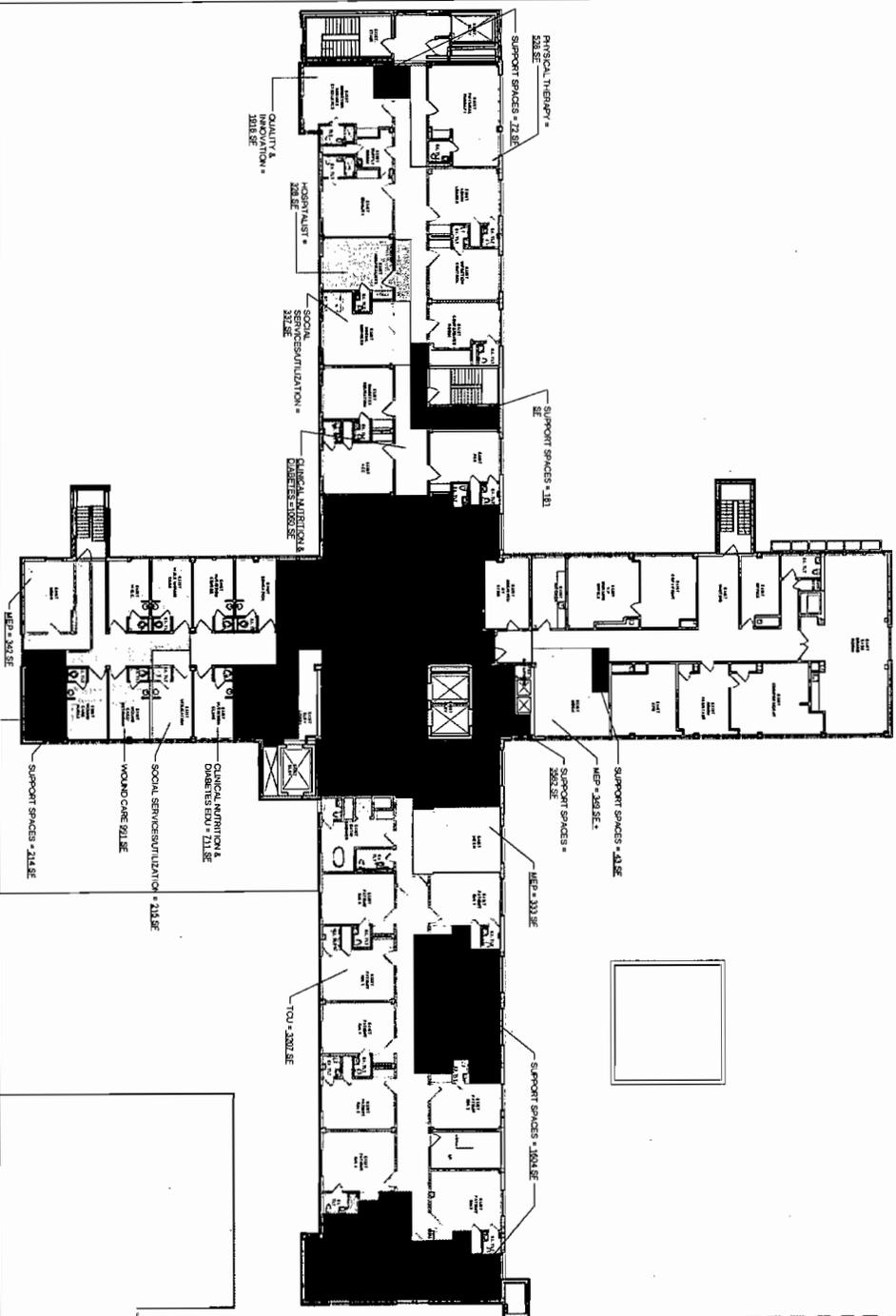
PROJECT
McDonough District Hospital Facilities Improvement

SHEET NO
D1.01

DATE
07/25/13

CHECKED BY

EXISTING - 3RD FLOOR



- CLINICAL**
- EXISTING ACUTE CARE - 1,034 SF
 - EXISTING PHYSICAL REHABIL - 652 SF
 - EXISTING EMERGENCY - 7,000 SF
 - EXISTING RADIOLOGY - 7,785 SF
 - EXISTING RADIOLOGY - 901 SF
 - EXISTING INFUSION - 859 SF
 - EXISTING TCU - 300 SF
- NON CLINICAL**
- EXISTING SOC/UTILIZATION - 522 SF
 - EXISTING HOSPITALIST - 328 SF
 - EXISTING QUALITY & INNOVATION - 1,178 SF
 - CLINICAL NUTRITION & DIAGNOSTICS - 1,178 SF
 - MEP - 1,024 SF
 - SUPPORT SPACES - 5,088 SF

OWNER: McDonough District Hospital
 PROJECT: McDonough District Hospital Facilities Improvement
 DRAWING NO: D1.03
 DATE: 07/25/13
 CONTRACTOR: CH2M HILL

Criterion 1110.3030, Clinical Service Areas Other than Categories of Service

Service	# Existing Key Rooms	# Proposed Key Rooms
Emergency Department	9	10
Physical Therapy	6	13
Diagnostic Radiology	8	8
Wound Care	4	4
Infusion Services	2	2

The number of key rooms shown above for infusion, and physical therapy are difficult to count in that the majority of the treatments for these areas in the existing facility are performed in space previously occupied by either medical surgical beds or offices and do not accommodate the larger open work spaces usually needed for these services.

Infusion services are normally performed in cubicles within a larger space in order to maximize the staff's ability to observe the patients progress and condition during the treatment. Thus is similar to an ESRD facility in that many infusions take more than an hour to administer and the patient is not required to be in a bed but rather in a recliner or similar chair for comfort.

Physical Therapy in the existing building has two locations. One in a lower level basement area which serves the outpatients and one at the end of a medical surgical bed wing to serve inpatients. The space for the proposed department is on the third floor of the new addition and will house Physical Therapy, Speech Therapy, Occupational Therapy and Cardiac Rehabilitation. The new space will have three gymnasium one occupational Therapy Kitchen and 9 treatment rooms; 3 for speech therapy, one for hand therapy, and 5 for physical and occupational therapy treatment.

The Wound Care department will move from former bed space to new construction immediately adjacent to the Physical and Occupational Therapy Department. The new wound care department will have four treatment rooms which are specifically designed for wound care to replace the 4 bed rooms it currently occupies.

The applicant is proposing to expand the Diagnostic Radiology Department into space vacated by the ED when it is expanded into new construction. The expansion will not result in the increase in the number of pieces of diagnostic equipment located in the department, but it will include moving two pieces of that equipment into new space adjacent to the new Emergency Department. The ultrasound unit will be relocated along with one of the general X-ray units.

The applicant currently has 1 ultrasound unit, 1 mammography unit, 1 CT scanner, 1 stereotactic biopsy unit, 1 bone density unit, 2 general X-ray Units and 1 Fluoroscopy unit. Based upon the State Standards, the applicant's proposed square footage is within the State Norms.

All of these units are needed in a modern Diagnostic Radiology Unit. In addition to these pieces of equipment the applicant also provides through contractual agreement MRI and PET services. These two modalities are not located in the hospital and are provided by mobile providers.

The Emergency Department currently has 9 treatment bays and is proposing to have 10 treatment bays in the new addition.

Each of the departments to be modernized will be discussed separately below under Criterion 1110.3030.(c).(2), Necessary Expansion.

A. Emergency Department

The existing Emergency Department addition was completed in 1980, more than 30 years ago. Over the past few years the applicant's Emergency Department (ED) has seen a steady increase in patient volumes. In addition to the steady increase in patient volumes, the complexity of the patient's health needs has also increased, which requires more testing and causes patients to be in the ED for longer periods of time. These longer stays also cause longer waits for patients to be seen in the ED which reduces patient satisfaction, and in several cases each year have caused patients to leave the ED without being seen, which jeopardizes their health.

Earlier this year, it was learned that the Eagle View Clinic in Macomb was to close on July 1, 2013. The Eagle View Clinic is a health clinic that provided access to health care for individuals and families with no health insurance or with low income. With the closure of this clinic and the implementation of the Affordable Health Care Delivery Act, it is anticipated that the ED patient volume will again increase.

The hospital's ED also has seen a growth in the number of patients with behavioral health needs. Currently the ED lacks the ability to properly place a behavioral health patient with severe emotional problems into an environment that is safe for both the patient and the staff treating that patient.

In addition to providing a safe environment for its patients, a new ED with a decontamination shower provides a means to adequately decontaminate patients before coming into the department which would allow the hospital to safely treat patients with exposure to dangerous chemical or biological contaminants.

The proposed facility is also being designed with a quiet room which allows the physician and the family to meet in a private more comfortable setting to discuss prognosis and treatment options for the patient or in a case where the patient has died gives the family an opportunity to grieve in private. The new department is also designed to have a waiting area within the treatment area where the patient can wait for test results or medications before being discharged which will allow for a faster throughput of patients.

The delivery of ED services has significantly changed in the past 33 years and a new, expanded ED would allow the hospital to meet today's standards of care in a safer and more efficient manner.

B. Physical Therapy Department

The applicant is proposing to combine all Physical Therapy, Occupational Therapy, Cardiac Rehabilitation, and Speech Therapy into one centralized area. The proposed unit will contain three separate gym type areas to accommodate the different types of equipment required for these mixed services. There will be an area for Cardiac Rehabilitation, one for adult physical therapy and a separate smaller area for pediatric physical therapy.

In addition there will be an occupational therapy kitchen area, smaller private rooms for speech therapy, and one treatment space for hand therapy.

The therapy areas in the existing department are cramped and do not allow for the space necessary to provide the most up-to-date therapies available. The Industry standards call for large open areas for exercise therapy in order to accommodate the various machines used in assisting with the therapy. Smaller individual treatment and exam rooms are also needed to treat some patients and allow for physicians and therapists to meet with and examine the patient in privacy.

The combination of all types of therapy and rehabilitation of patients allows for the sharing of equipment and staff in a more cost effective and efficient manner. It also allows the staff and physicians to better share their areas of expertise across the entire spectrum of rehabilitation care. For instance in stroke cases many times speech therapy, physical therapy and occupational therapy are need by a single patient, this combined department allows the patient to receive all of the necessary therapies in one location rather than moving throughout the hospital for care.

The combination of the in-patient and outpatient care in one location allows the same staff to continue to work with the patient throughout the patient's treatment plan.

It is important to note here that there are no other hospitals within 30 minutes travel time (25+ miles) of the applicant facility. This is particularly important due to the fact that most rehabilitation services involve coming to the facility several times per week over an extended period of time.

The proposed expansion and consolidation of the rehabilitation/therapy department improves patient care while reducing cost and inefficiencies in the current system.

C. Diagnostic Radiology

The applicant is proposing to expand the Diagnostic Radiology Department into space vacated by the ED when it is expanded into new construction. The expansion will not result in the increase in the number of pieces of diagnostic equipment located in the department, but it will include moving two pieces of that equipment into new space adjacent to the new Emergency Department. The ultrasound unit will be relocated along with one of the general X-ray units.

The applicant currently has 1 ultrasound unit, 1 mammography unit, 1 CT scanner, 1 stereotactic biopsy unit, 1 bone density unit, 2 general X-ray Units and 1 Fluoroscopy unit. Based upon the State Standards, the applicant's proposed square footage is within the State Norms.

All of these units are needed in a modern Diagnostic Radiology Unit. In addition to these pieces of equipment the applicant also provides through contractual agreement MRI and PET services. These two modalities are not located in the hospital and are provided by mobile providers.

The relocation of the two units discussed above will improve the access to these modalities for the Emergency Department and reduce the time that patients need to spend in the ED. The space vacated by the moving of the two rooms will allow the Diagnostic Radiology department to increase the support space which serves the department. The space will be used as is for storage of equipment and records.

D. Wound Care

The applicant is proposing to have 1,568 GSF to house this department. The space will be immediately adjacent to the new physical therapy department which will make transitioning to that course of treatment easier when the healing process for the wound has reached the point that rehabilitation can begin.

The applicant's volume has grown from 953 visits in 2011 to 1,391 visits in 2013. The volume is projected to continue to increase to 1,489 visits in 2017. The new wound care department will house 4 treatment rooms and 5 staff offices with the attendant support and circulation space. Approximately 50% of the patients are wheel chair bound and nearly 100% of the patients are accompanied by an aide or family member.

The existing wound care department is located in space formerly occupied by Medical/Surgical beds, and is not well set up for this type of care. The space is cramped and lacks sufficient space for supply storage, staff offices, examination space, and patient treatment space.

The new space will have treatment rooms, which will accommodate both the patient and the in-home care giver, as well as the staff necessary to provide the care needed. The space will also include office space for the staff and physicians to allow them to meet with the patient or patient's family in privacy while the treatment rooms are in use. The increased storage will also allow the storage of supplies directly in the department which will make the entire process more efficient.

The relocation of the department off of an inpatient floor will also allow the hospital to better control infection rates for the patients

E. Infusion Therapy

The applicant is proposing to utilize 1,537 GSF of existing space at the end of an inpatient bed unit to house this department. The space proposed combines multiple areas which are now used for this service. The department will serve patients receiving blood transfusion, chemotherapy, IV antibiotics, and other infusion services.

The volume for this department in FY 2013 total 1,345 visits. The department will have three rooms where infusions will take place. Based upon 260 workdays per year (5 days per week, 52 weeks per year) the department will treat, on average, 5.2 patients per day. The infusion time for these patients varies greatly with some patients requiring 6-8 hour for their treatment and others requiring only 1-2 hours. The treatment times do not include the time necessary to clean-up and set-up the rooms between patients, nor the time for the physician and staff to discuss the patient treatment with the patient and/or the patients care giver. When all of these factors are taken into account the three rooms proposed is the minimum amount needed.

The overall department space is dictated by the need for the three treatment rooms, the need for support space and the use of existing space. Again the space proposed is needed to meet the patients' needs within the constraints of an existing structure.

The consolidation of infusion services has become more important as the complexity of infusion services has grown over the past few years, more and more hospitals have developed a dedicated area for the provision of this service.

The types of infusions performed also supports the need to expand this department from its existing space to the space proposed more supplies need to be maintained on the unit and in many case temperature control is also necessary. The treatment times for infusions have also increase and patient comfort during the procedure is important to patient satisfaction. This has become even more of an issue now that some forms of reimbursement are based upon patient satisfaction surveys.

The relocation of this department into remodeled space within the hospital is an effective and efficient use of space.

Criterion 1110.3030©(3)(A), Major Medical Equipment

The applicant is not proposing the purchase of any single piece of Major Medical Equipment.

Criterion 1110.3030©(3)(B) Utilization of Services or Facility.

The table below shows the historical and projected utilization for the non-category of service departments to be modernized as a part of the proposed project.

Table 1

Department	Utilization per year				
	2011	2012	2013	2016	2017
Emergency	14,392	14,267	14,971	15,500	16,500
Infusion	1,213	1,360	1,345	1,383	1,393
Diagnostic Radiology*	See Table 2				
Physical Therapy			20,546	20,565	20,291
Wound Care	953	1,458	1,391	1,460	1,489

- Volume for individual modalities shown on Table 2 below.

Table 2

Piece of equipment	2011	2012	2013	2016	2017
Ultrasound	2,025	2,098	1,920	2,100	2,150
Mammography	6,260	5,878	5,392	5,400	5,400
Stereotactic Biopsy	*	*	48	48	48
CT. Scanner	5,610	5,832	5,920	6,000	6,000
General X-ray	16,620	17,320	18,878	19,500	20,200
Bone Density	**	**	418	418	418

*Included in Mammography

** Included in General Radiology Volume

Of the 5 departments discussed above only two have utilization standards in Appendix B of Part 1110: The Emergency Department and the Diagnostic Radiology Department. The other three departments do not have volume standards in Appendix B.

A. Emergency Department

The proposed Emergency Department (ED) will be expanded from 9 exam rooms to 10 exam rooms. These exam rooms will be designated as three trauma rooms, 6 general exam rooms, and one Behavioral Psych Exam Room.

The State Norm calls for a volume of 2,000 visits per exam/treatment room in an Emergency Department. The applicant's volume at this standard justifies 8 rooms currently and would justify 9 rooms based upon 2017 projections. The 9 rooms justified in 2017 do not include the single room proposed psychiatric services. When that room is considered separately and the volume associated with it is removed, the applicant's projected volume 16,250 patient visits still justifies 8.1 or 9 rooms.

The projected volume is projected utilizing historical trends which have seen the volume for each of the last 5 years with the single exception of 2012 when the volume dropped by 125 visits, and then rebounded to increase by 704 patient visits in FY 2013. This increase was before Eagle View clinic closed in July of 2013.

The volume is projected to continue to rise slowly due to the agency of the population of the area and the anticipated impact of the AFFORDABLE Health Care Delivery Act, which will provide insurance to more people which in turn will allow them access to health care with lower out of pocket costs.

Due to the remote location of the hospital, i.e., more than 30 minutes from any other hospital and more than 45 minutes from any other hospital which provides psychiatric services on an inpatient basis. The lack of other referral sources makes it necessary for the hospital to have the capacity to avoid going on By-pass, and it requires Psychiatric patients to be held in the emergency room until such time as they can be transported to another facility if inpatient treatment is required.

B. Diagnostic Radiology

For purposes of comparison to the State Norms for Diagnostic Radiology Equipment Table 3 shows the applicant's historical utilization as it relates to the State Norm.

Table 3

Equipment	Pieces of Equipment	FY 2013 Utilization	State Standard	Met
General X-ray	3*	18,878	8,000/machine	Yes
Mammography	1	5,392	5000/unit	Yes
Ultrasound	1	1,920	3100/unit	Yes
CT	1	5,920	7000/unit	Yes
Bone Density	1	418	N/A	Yes
Stereotactic	1	48	N/A	Yes

*includes 1 fluoroscopic unit

The applicant is not proposing to add any new units or modalities to the existing department but rather to relocate two existing units, (1 ultrasound and 1 general X-ray.) The utilization of the various modalities are consistent with the State Norms. No second piece of equipment in any of the above modalities will be added until the first unit meets or exceeds the State Standard.

The projected utilization for the various pieces of equipment are based upon historical trends in utilization, the closure of an active outpatient clinic in the area and the general aging of the population, excluding the college age students who are a part of the community, but change every year. These projections are very conservative especially in light of the unknown impact of the Affordable Healthcare Delivery Act.

C. Physical Therapy

The projections here are based upon historical trends in the service and show basically a flat rate of growth with a very slight declines in utilization in the 2nd year of operation.

D. Infusion Services and Wound Care

Both of these departments are projected to grow slightly based upon their historical trends, but with a basically flat population growth the projections show very modest growth in these two departments. The department's designs will be able to accommodate some further growth in these programs, but are designed to meet the needs of the departments as they exist today.

September 20, 2013

Courtney Avery
Administrator
Illinois Health Facilities and Services Review Board
525 West Jefferson, 2nd Floor
Springfield, Illinois 62761

Dear Ms. Avery,

This letter is to inform you that McDonough District Hospital plans to fund the proposed capital expansion project through both available cash and debt. To assist in this endeavor, MDH has retained the services of Kaufman, Hall & Associates, Inc., an Illinois-based, healthcare financial advisory firm with 28 years of experience. Their engagement is two phased – the development of financial projections with sensitivity analysis followed by determination of viable financing options through an RFP process.

In the first phase, a multiyear financial plan was developed to assist MDH in setting benchmarks for achieving improved financial results to fund planned capital expenditures while supporting the targeted financial credit profile and allowing future flexibility to issue additional debt. The financial plan has taken into consideration key strategic initiatives on which MDH will carry out over the next several years.

As we are now moving into the second phase, Kaufman, Hall & Associates, Inc. will serve as our advocate with the capital markets and/or direct lenders in seeking appropriate financing solutions that best meet our capital objectives.

The financial plan assumes MDH has the capacity to obtain funding for a \$39,772,251 million dollar project of which we anticipate borrowing \$35,455,000 with an all-in cost of 7% and an average loan life of 20 years. The financing assumptions contained in the plan could differ, and possibly significantly, from actual financing results. Numerous factors could influence ultimate financing terms, notably including market conditions present when MDH is in a position to obtain financing. However, we expect the RFP process to be complete and proposals to be in place prior to the time of the application being considered for approval by the Illinois Health Facilities and Services Review Board.

Sincerely,



Kenneth D. Boyd
Chief Executive Officer
McDonough District Hospital
525 E. Grant
Macomb, IL 61455

Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

Income Statement

	2016	2017
--	------	------

Patient Revenue		
Inpatient Services	\$39,961	\$41,506
Outpatient Services	<u>122,631</u>	<u>127,843</u>
Gross Patient Revenue	162,592	169,349

Deductions from Patient Revenue		
Contractual Discounts	77,638	82,682
Bad Debt	5,241	5,448
Provision for Charity	<u>3,985</u>	<u>4,145</u>
Total Deductions from Revenue	<u>86,864</u>	<u>92,275</u>

Net Patient Revenue	75,728	77,074
---------------------	--------	--------

Other Operating Revenue	<u>3,074</u>	<u>2,563</u>
-------------------------	--------------	--------------

Total Operating Revenue	78,802	79,637
--------------------------------	---------------	---------------

Operating Expenses		
Salaries and Wages	37,067	37,692
Employee Benefits	10,332	10,584
Contract Labor	0	0
Professional fees	2,500	2,551
Supplies	5,696	5,870
Drugs and Pharmaceuticals	1,831	1,887
Purchased Services	5,355	5,463
Depreciation & Amortization	4,344	4,919
Interest	0	2,364

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ATTACHMENT # 41

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

2016

2017

Other	6,999	7,200
Bad Debt	<u>0</u>	<u>0</u>

Total Operating Expenses	<u>74,124</u>	<u>78,530</u>
--------------------------	---------------	---------------

Excess of Revenue over Expenses from Operations	4,678	1,107
--	--------------	--------------

Nonoperating Revenue		
Investment Income	357	385
Interest Expense	0	0
Unrestricted Contributions	0	0
Other	<u>(573)</u>	<u>(573)</u>

Net Nonoperating Revenue	<u>(216)</u>	<u>(188)</u>
--------------------------	--------------	--------------

Excess of Revenue over Expenses Before Extraordinary Items	<u>4,462</u>	<u>919</u>
---	--------------	------------

Extraordinary Items	<u>0</u>	<u>0</u>
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Excess of Revenue over Expenses	<u>\$4,462</u>	<u>\$919</u>
--	-----------------------	---------------------

88

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

2016

2017

Balance Sheet

Assets

Current Assets

Cash	\$1,949	\$1,991
Current Portion Limited as to Use	0	0
Accounts Receivable Net of Reserves	19,220	19,561
Third Party Settlements	0	0
Supply Inventories, at cost	1,602	1,651
Prepaid Expenses and Other	<u>4,652</u>	<u>4,751</u>
Total Current Assets	27,423	27,954

Assets Limited as to Use

Trusted Assets	9,368	9,292
Temporary Restricted Cash	0	0
Permanent Restricted Cash	0	0
Board Designated Investments	<u>35,569</u>	<u>38,183</u>
Total Assets Limited as to Use	44,937	47,475

Property, Plant and Equipment

Cost	113,917	121,798
Accumulated Depreciation	63,658	68,552
Construction in Progress	<u>9,714</u>	<u>4,833</u>
Net PP&E	59,973	58,079

Other Assets

Investment in Subsidiaries	0	0
----------------------------	---	---

80

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

	2016	2017
Unamortized Financing Fees	668	644
Start-up Costs	0	0
Other Long-Term Assets	318	318
Total Other Assets	986	962

Total Assets

	\$133,319	\$134,470
Balance Check>>	0	0

Balance Sheet - Liabilities and Net Assets

Current Liabilities

Notes Payable - Line of Credit	\$0	\$0
Current Maturities of Debt	0	550
A/P and Accrued Expenses	10,990	11,222
Third Party Settlements	0	0
Other Accrued Liabilities	0	0
Total Current Liabilities	<u>10,990</u>	<u>11,772</u>

Other Liabilities

Other LT Liabilities-1	0	0
Other LT Liabilities -2	0	0
Total Other Liabilities	0	0

Long-Term Debt

	35,620	35,070
--	--------	--------

Net Assets

Fund Balance (Unrestricted)	85,727	86,646
Temporarily Restricted Fund Balance	0	0
Permanently Restricted Net Assets	<u>982</u>	<u>982</u>

90

ATTACHMENT #41

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

Total Fund

2016
86,709

2017
87,628

Total Liabilities & Net Assets

\$133,319

\$134,470

91

ATTACHMENT # 41

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

2016

2017

Statement of Changes in Net Assets

Unrestricted Net Assets:

Beginning Unrestricted Net Assets	\$81,265	\$85,727
Net Income (Loss)	4,462	919
Change in Net Unrealized Gain/Loss	0	0
Transfers (to) from Affiliates	0	0
Restricted Contributions Used for Property A	0	0
Extraordinary Gain (Loss)	0	0
Cumulative Effect of a Change in Accounting	0	0
Additional Minimum Pension Liability	0	0
Other Unrestricted Activity	<u>0</u>	<u>0</u>
Increase (Decrease) in Unrestricted Net Ass	<u>4,462</u>	<u>919</u>
Total Unrestricted Net Assets	85,727	86,646

Temporarily Restricted Net Assets:

Beginning Temporarily Restricted Net Assets	0	0
Contributions	0	0
Change in Net Unrealized Gain/Loss	0	0
Restricted Investment Income	0	0
Net Assets Released from Restrictions	0	0
Cumulative Effect of a Change in Accounting	0	0
Other Restricted Activity	<u>0</u>	<u>0</u>
Incr. (Decr.) in Temporarily Restricted Net A	<u>0</u>	<u>0</u>

Ending Balance Temporarily Restricted N

0	0
---	---

92

ATTACHMENT # 41

0-Original Scenario

Last Calc: N/A

User Filter: Consolidated

General Filter: Model - Baseline_Final_v2

2016

2017

Permanently Restricted Net Assets:

Beginning Permanently Restricted Net Asset	982	982
Contributions	0	0
Change in Net Unrealized Gain/Loss	0	0
Restricted Investment Income	0	0
Other Restricted Activity	0	0
Incr. (Decr.) in Permanently Restricted Net ,	0	0

Ending Balance Permanently Restricted n

982

982

Total Net Assets

\$86,709

\$87,628

93

ATTACHMENT # 41

Reasonableness of Project and Related Costs

COST AND GROSS SQUARE FEET BY DEPARTMENT OR SERVICE									
Department (list below)	A	B	C	D	E	F	G	H	Total Cost (G + H)
	Cost/Square Foot New Mod.		Gross Sq. Ft. New Circ.*		Gross Sq. Ft. Mod. Circ.*		Const. \$ (A x C)	Mod. \$ (B x E)	
Med/Surg		\$283.81			21,801	50%		\$6,187,327	\$6,187,327
ED	\$420.71		9,967	50%			\$4,143,311		\$4,143,311
Radiology		\$410.19			1,042	30%		\$427,417	\$427,417
PT	\$224		8,503	40%			\$1,904,672		\$1,904,672
Infusion		\$188.80			1,577	35%		\$297,738	\$297,738
Wound Care	\$237.28		1,586	35%			\$376,320		\$376,320
Shell	\$210		10,295	NA			\$2,161,950		\$2,161,950
Contingency	\$858,625	\$774,172							\$1,632,797
TOTALS							\$8,586,253	\$6,912,482	\$17,131,532

* Include the percentage (%) of space for circulation

8/30/13
Certified



McDonough District Hospital

525 East Grant Street Macomb, IL 61455

(309) 833-4101 www.mcdh.org

August 26, 2013

Courtney Avery
Executive Secretary
Illinois Health Facilities and Services Review Board
525 West Jefferson, 2nd floor
Springfield, Illinois 62761

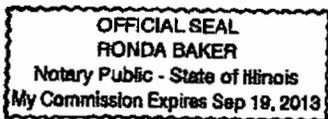
Dear Ms. Avery:

The proposed project will be funded in part by borrowing because a portion of the cash and equivalents must be retained in the balance sheet assets accounts in order to maintain a current ratio of at least 2.0 times.

I further attest that the method of financing will be at the lowest net cost available.

Sincerely,

Kenneth D. Boyd
Chief Executive Officer



Ronda Baker

More Than Hospital Care... A Hospital Caring.

**Projected Operating Costs and
Total Effect of the Project on Capital Costs**

The projected operating cost per equivalent patient day for FY 2017 is \$2,909

The projected capital cost per equivalent patient day is \$86.20

Charity Care information

CHARITY CARE			
	Year 2010	Year 2011	Year 2012
Net Patient Revenue	\$55,367,870	\$60,503,816	\$63,066,317
Amount of Charity Care (charges)	\$1,932,571	\$2,114,806	\$2,861,878
Cost of Charity Care	\$772,835	\$835,348	\$1,104,133

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Accountants' Report and Financial Statements

June 30, 2010 and 2009

McDonough County Hospital District
d/b/a McDonough District Hospital
June 30, 2010 and 2009

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Independent Accountants' Report

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
Macomb, Illinois

We have audited the accompanying balance sheets of McDonough County Hospital District d/b/a McDonough District Hospital (the "Hospital") as of June 30, 2010 and 2009, 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. Those standards require that we plan and perform the audits 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 McDonough County Hospital District d/b/a McDonough District Hospital as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

BKD, LLP

September 16, 2010

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009**

Introduction

This management's discussion and analysis of the financial performance of McDonough County Hospital District d/b/a McDonough District Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash decreased in 2010 by \$397,278 or 24.7% compared to an increase of \$974,667 or 154.6% in 2009.
- Noncurrent cash and investments increased in 2010 by \$7,758,646 or 27.1% and in 2009 by \$3,164,844 or 12.4%.
- Net patient accounts receivable increased in 2010 by \$1,219,688 or 11.3% following an increase in 2009 by \$681,083 or 6.7%. In 2008, patient accounts receivable increased \$812,588 or 8.7%.
- The Hospital's total assets net of total liabilities (net assets) increased in each of the past three years with a \$4,980,681 or 9.2% increase in 2010, a \$6,163,749 or 12.9% increase in 2009 and a \$4,682,866 or 10.9% increase in 2008.
- The Hospital reported operating income in 2010 of \$4,167,325 representing a decrease of \$833,678 from the operating income reported in 2009 of \$5,001,003. Operating income in 2009 increased by \$1,376,902 from the 2008 operating income of \$3,624,101.

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, contributors, grantors or enabling legislation. The Hospital is accounted for as a government entity operating an acute care hospital (a business-type activity) and presents its financial statements using the economic resources measurement focus method and the accrual basis of accounting.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009**

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; Operating Activities, Noncapital Financing Activities, Capital and Related Financing Activities and Investing 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 increased by \$4,980,681 (9.2%) in 2010 over 2009 as shown in Table 1 and increased by \$6,163,749 (12.9%) in 2009 over 2008.

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009

Table 1: Assets, Liabilities and Net Assets

	2010	2009	2008
Assets			
Cash	\$ 1,207,923	\$ 1,605,201	\$ 630,534
Noncurrent cash and investments	36,347,439	28,588,793	25,423,949
Patient accounts receivable, net of allowances	12,046,853	10,827,165	10,146,082
Supply inventory	1,391,287	1,369,290	1,345,805
Prepaid expenses and other	993,548	986,204	677,407
Capital assets, net of accumulated depreciation	17,839,357	16,538,559	14,809,371
Unamortized debt issue costs	15,000	-	-
Other assets	1,430,185	1,076,057	1,781,589
Total assets	\$ 71,271,592	\$ 60,991,269	\$ 54,814,737
Liabilities			
Current maturities of long-term debt	\$ 752,792	\$ -	\$ 1,116,660
Accounts payable and accrued expenses	6,626,837	6,134,457	5,103,464
Bond interest payable	-	-	19,200
Estimated third-party settlements	1,658,989	851,727	734,077
Long-term debt	3,247,208	-	-
Total liabilities	12,285,826	6,986,184	6,973,401
Net Assets			
Invested in capital assets, net of related debt	13,886,901	16,585,480	13,626,025
Restricted by donor, non-expendable	283,336	283,188	281,415
Restricted by donor, expendable for specific operating activities	672,652	653,368	551,321
Restricted for debt service	-	-	979,475
Unrestricted	44,142,877	36,483,049	32,403,100
Total net assets	58,985,766	54,005,085	47,841,336
Total liabilities and net assets	\$ 71,271,592	\$ 60,991,269	\$ 54,814,737

Net patient service revenues increased in 2010 by \$1,577,664 (2.9%) as compared to 2009. Net patient accounts receivable increased by \$1,219,688 (11.3%) which is five more days of net revenue at June 30, 2010 versus June 30, 2009. Patient accounts receivable increased by \$681,083 (6.7%) or one day less at June 30, 2009 versus June 30, 2008.

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009

Cash and noncurrent cash and investments collectively increased \$7,361,368 or 24.3% in 2010. The increase is due to the continued receipts from the state of Illinois Hospital Assessment Program for approximately \$1,789,000, a \$4 million debt issuance and to the excess of revenues over expenses of \$4,768,465. In 2009, cash and noncurrent cash and investments increased \$4,139,511 or 15.9%.

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by \$4,980,681 or 9.2%, as shown in Table 2. This increase is made up of:

- An excess of revenues over expenses of \$4,813,698
- Contributions to purchase capital assets of \$166,983

In 2009, the Hospital's net assets increased by \$6,163,749 or 12.9%. This increase is made up of:

- An excess of revenues over expenses of \$5,923,706
- Contributions to purchase capital assets of \$240,043

Table 2: Operating Results and Changes in Net Assets

	2010	2009	2008
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2010 - \$3,194,488; 2009 - \$3,358,562	\$ 55,364,220	\$ 53,786,556	\$ 49,570,308
Other operating revenues	1,079,505	1,123,151	974,017
Total operating revenues	56,443,725	54,909,707	50,544,325
Operating Expenses			
Salaries and wages	25,749,006	24,611,987	22,843,654
Employee benefits	8,299,590	7,505,224	6,863,009
Supplies and drugs	6,388,203	6,464,080	6,641,511
Purchased services	3,617,344	3,575,443	3,216,443
Professional fees	1,169,511	973,303	783,251
Utilities	880,324	902,825	912,349
Insurance	1,075,398	633,117	815,815
Other operating expenses	1,493,577	1,772,833	1,618,812
Depreciation and amortization	2,685,492	2,560,050	2,365,359
Leased equipment	917,058	909,497	860,021
Total operating expenses	52,275,503	49,908,359	46,920,224

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009

2009

The operating income for 2009 increased by \$1,376,902 as compared to 2008. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$4,216,248 or 8.5%
- An increase in other operating revenues of \$149,134 or 15.3%
- An increase in total operating expenses of \$2,988,480 or 6.4%

While overall gross patient charges increased by \$9,505,517 or 9.3%, price increases accounted for 5% of this total increase. Increases in charges to patients are offset by increases in the write-offs associated with government payment programs and contracts with certain payers. These write-offs increased by \$5,333,607 or 10.1% in 2009 as compared with 2008. These changes increased the overall increase in net patient service revenue to \$4,171,910 or 8.4%. In addition, net patient service revenue increased due to amounts received from the Illinois Hospital Assessment Program in 2009 by \$680,000 from 2008.

Total operating expenses increased \$2,988,480 or 6.4% between 2009 and 2008. Most expense category changes between the two years were within expected increases associated with inflation. Exceptions to this included:

- Insurance expense decreased \$182,698 or 22.4% in 2009 due to a positive claims experience in 2009
- Salaries and wages increased \$1,768,333 or 7.7% in 2009 due mainly to salary increases in 2009
- Purchased services increased \$359,000 or 11.2% in 2009 due mainly to additional purchased laboratory expenses and expenses of operating a surgical clinic
- Professional fees increased \$190,052 or 24.3% in 2009 primarily due to increased utilization of locum ER physicians

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest income from its investments, net income from its wholly-owned subsidiary, McDonough Service Organization, Inc. ("MSO"), investment income from its share of ownership in the Physician Hospital Organization, Inc., leasing office space to members of its medical staff and unrestricted contributions.

Investment income decreased in 2010 as compared to 2009 primarily because of declining market interest rates.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009**

Contributions

Contributions decreased by \$61,706 in 2010 due primarily to a decrease in restricted donor contributions.

Capital Asset and Debt Administration

Capital Assets

At the end of 2010, the Hospital had \$17,839,357 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets costing \$4,445,628. Significant purchases include initial cost of the laboratory expansion, continued remodeling of the surgical support area, expansion of endoscopic services and sleep study rooms and purchase of a nurse call system and radiology equipment.

At the end of 2009, the Hospital had \$16,538,559 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets costing \$4,779,118. Significant purchases include remodeling of the surgical support area, expansion of endoscopic services and sleep study rooms, and purchase of new radiology equipment, computers and software.

Debt

At June 30, 2010, the Hospital had \$4,000,000 in debt certificates outstanding. At June 30, 2009, the Hospital had no debt outstanding.

Other Economic Factors

The largest employer in the Hospital's geographic area, Western Illinois University (WIU), has an employee base of 2,600 people. While total enrollment for the University declined less than 1.0% due to large graduating classes in the last two years, the Fall 2010 new freshman enrollment increased 7.0% while new graduate student enrollments have increased 4.5%. Included in the July 2009, Illinois Jobs Now legislation was \$67.8 million for construction of a Performing Arts Center on the WIU Macomb campus. Initial plans were to break ground in the summer of 2010. However, the state's current cash flow has temporarily delayed these plans. The two major manufacturers in town, NTN Bower and Pella Corporation are slowing seeing some resurgence in production after last year's downturn which forced some layoffs. There continues to be interest in retail commercial development with the recent expansion of a local bank and the addition of a new retail store.

Report of Management's Responsibility

The management of the Hospital is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management.

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2010 and 2009

The 2010 and 2009 financial statements have been audited by the independent accounting firm of **BKD, LLP**, who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the Board of Directors. The Board of Directors provides oversight to the financial reporting process. Integral to this process is the review and discussion with management of the monthly financial statements and the external auditors for the annual financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers 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 Hospital Administration by telephoning 309.836.1675.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

**Balance Sheets
June 30, 2010 and 2009**

Assets

	2010	2009
Current Assets		
Cash	\$ 1,207,923	\$ 1,605,201
Patient accounts receivable, net of allowance; 2010 - \$2,563,000; 2009 - \$2,203,000	12,046,853	10,827,165
Supply inventory	1,391,287	1,369,290
Prepaid expenses and other	993,548	986,204
Total current assets	15,639,611	14,787,860
Noncurrent Cash and Investments		
By Board for funded depreciation	16,507,961	14,147,995
By Board for self-insurance trust fund	4,945,320	4,459,611
By Board for loan/grant scholarship fund	220,134	261,709
Under bond indenture agreement - held by trustee	4,000,000	-
Development fund	1,577,621	1,544,340
Externally restricted by donors	827,848	758,706
Certificates of deposit and government agency notes	8,268,555	7,416,432
	36,347,439	28,588,793
	36,347,439	28,588,793
Capital Assets, Net	17,839,357	16,538,559
Other Assets		
Unamortized debt issue costs	15,000	-
Other	1,430,185	1,076,057
	1,445,185	1,076,057
Total assets	\$ 71,271,592	\$ 60,991,269

See Notes to Financial Statements

Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>
Current Liabilities		
Current maturities of long-term debt	\$ 752,792	\$ -
Accounts payable and accrued expenses	6,626,837	6,134,457
Estimated third-party settlements	<u>1,658,989</u>	<u>851,727</u>
Total current liabilities	<u>9,038,618</u>	<u>6,986,184</u>
Long-Term Debt	<u>3,247,208</u>	<u>-</u>
Total liabilities	<u>12,285,826</u>	<u>6,986,184</u>
Net Assets		
Invested in capital assets, net of related debt	13,886,901	16,585,480
Restricted by donor, non-expendable	283,336	283,188
Restricted by donor, expendable for specific operating activities	672,652	653,368
Unrestricted	<u>44,142,877</u>	<u>36,483,049</u>
Total net assets	<u>58,985,766</u>	<u>54,005,085</u>
Total liabilities and net assets	<u>\$ 71,271,592</u>	<u>\$ 60,991,269</u>

McDonough County Hospital District
d/b/a McDonough District Hospital
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2010 - \$3,194,488; 2009 - \$3,358,562	\$ 55,364,220	\$ 53,786,556
Other operating revenues	1,079,505	1,123,151
Total operating revenues	56,443,725	54,909,707
Operating Expenses		
Salaries and wages	25,749,006	24,611,987
Employee benefits	8,299,590	7,505,224
Supplies and drugs	6,388,203	6,464,080
Purchased services	3,617,344	3,575,443
Professional fees	1,169,511	973,303
Utilities	880,324	902,825
Insurance	1,075,398	633,117
Other operating expenses	1,493,577	1,772,833
Depreciation	2,685,492	2,560,050
Leased equipment	917,058	909,497
Total operating expenses	52,275,503	49,908,359
Operating Income	4,168,222	5,001,348
Nonoperating Revenues (Expenses)		
Investment income	733,772	1,000,625
Other, net	(230,401)	(278,660)
Contributions	142,105	203,811
Interest - capital asset related debt	-	(3,418)
Total nonoperating revenues	645,476	922,358
Excess of Revenues Over Expenses Before Capital Grants and Gifts	4,813,698	5,923,706
Capital Grants and Gifts	166,983	240,043
Increase in Net Assets	4,980,681	6,163,749
Net Assets, Beginning of Year	54,005,085	47,841,336
Net Assets, End of Year	\$ 58,985,766	\$ 54,005,085

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Statements of Cash Flows

June 30, 2010 and 2009

	2010	2009
Operating Activities		
Receipts from and on behalf of patients	\$ 54,951,794	\$ 53,223,129
Payments to suppliers and contractors	(14,090,877)	(14,650,941)
Payments to employees	(34,048,596)	(32,117,211)
Other receipts, net	1,079,505	1,123,151
Net cash provided by operating activities	7,891,826	7,578,128
Noncapital Financing Activities		
Contributions	142,105	203,811
Other	(230,401)	(261,689)
Net cash used in noncapital financing activities	(88,296)	(57,878)
Capital and Related Financing Activities		
Capital grants and gifts	166,983	240,043
Principal paid on long-term debt	-	(1,116,660)
Proceeds from the issuance of long-term debt	4,000,000	-
Interest paid on notes payable to banks and long-term debt	-	(3,418)
Purchase of capital assets	(5,005,127)	(4,233,025)
Proceeds from sale of capital assets	16,338	26,164
Net cash used in capital and related financing activities	(821,806)	(5,086,896)
Investing Activities		
Purchase of investments	(8,151,087)	(2,483,560)
Investment income	733,772	1,000,625
Net cash used in investing activities	(7,417,315)	(1,482,935)
Increase (Decrease) in Cash and Cash Equivalents	(435,591)	950,419
Cash and Cash Equivalents, Beginning of Year	1,666,139	715,720
Cash and Cash Equivalents, End of Year	\$ 1,230,548	\$ 1,666,139
Supplemental Cash Flows Information		
Property and equipment included in accounts payable	\$ 218,889	\$ 778,388

McDonough County Hospital District
d/b/a McDonough District Hospital
Statements of Cash Flows (Continued)
June 30, 2010 and 2009

	2010	2009
Reconciliation of Cash to the Balance Sheet		
Cash	\$ 1,207,923	\$ 1,605,201
Cash in noncurrent cash and investments		
Board designated	22,625	60,938
Total cash	1,230,548	1,666,139
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating income	4,168,222	4,984,377
Depreciation	3,118,319	3,029,707
(Gain) loss on sale and disposal of capital assets	10,173	(5,941)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,219,688)	(681,083)
Supply inventory	(21,997)	(23,485)
Prepaid expense and other assets	(22,344)	(308,797)
Estimated third-party settlements	807,262	117,650
Accounts payable and accrued expenses	1,051,879	465,700
Net cash provided by operating activities	\$ 7,891,826	\$ 7,578,128

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2010 and 2009

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. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 10 years
Buildings and leasehold improvements	10 – 40 years
Equipment	3 – 10 years

Net Assets

Net assets of the Hospital are classified in four 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, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted non-expendable net assets have been restricted by donors to be maintained by the Hospital in perpetuity. 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 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 \$1,933,000 and \$1,580,000 for 2010 and 2009, respectively.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by the sick time buy back policy and the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

Income Taxes

The Hospital is exempt from income taxes under provisions of the Internal Revenue Code as a political subdivision of the state of Illinois. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. 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 fiscal intermediary.

The Medicare program has designated the Hospital as a sole community hospital for Medicare reimbursement purposes. This designation increases the payments the Hospital receives for inpatient services provided to Medicare beneficiaries.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements June 30, 2010 and 2009

Approximately 36% and 34% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2010 and 2009, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Approximately 56% of gross patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both the years ended June 30, 2010 and 2009.

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 discounts from established charges and fee schedules.

Illinois Hospital Medicaid Assessment Program

On July 17, 2005, the state of Illinois enacted legislation that provides for a three-year hospital assessment program intended to qualify for federal matching funds under the Illinois Medicaid program. The program covered the state of Illinois' fiscal years ended June 30, 2006, 2007 and 2008. Under the hospital assessment program, each hospital is assessed tax based on that hospital's adjusted gross hospital revenue. The assessments in part fund additional Medicaid payments.

In December 2008, the Centers for Medicare and Medicaid Services approved a new five-year hospital assessment program. Payments related to the new program began in March 2009. Under the provisions of the new program, the Hospital receives annual net patient service revenue of approximately \$1,789,000. The effect of this program is additional Medicaid payments included in net patient service revenue in the statements of operations and changes in net assets of \$1,789,000 for both the years ended June 30, 2010 and 2009.

The hospital assessment program contains a sunset provision effective June 30, 2013, and there is no assurance the program will not be discontinued or materially modified.

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 credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Illinois; bonds of any city, county, school district or special road district of the state of Illinois; bonds of any state or a surety bond having an aggregate value at least equal to the amount of the deposits.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

At June 30, 2010 and 2009, respectively, \$31,279,573 and \$20,598,720 of the Hospital's bank balances of \$32,126,182 and \$20,726,398 were exposed to custodial credit risk as follows:

	2010	2009
Uninsured and collateral held by pledging financial institution	\$ 22,494,756	\$ 19,023,839
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	9,631,426	1,702,559
Total	\$ 32,126,182	\$ 20,726,398

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

At June 30, 2010 and 2009, the Hospital had the following investments and maturities:

Type	June 30, 2010		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,810,332	\$ 1,740,862	\$ 3,069,470
U.S. agencies and instrumentalities obligations	1,047,300	-	1,047,300
	\$ 5,857,632	\$ 1,740,862	\$ 4,116,770
Type	June 30, 2009		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,316,243	\$ 1,214,183	\$ 3,102,060
U.S. agencies and instrumentalities obligations	4,887,612	-	4,887,612
	\$ 9,203,855	\$ 1,214,183	\$ 7,989,672

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2010</u>	<u>2009</u>
Carrying value		
Deposits	\$ 31,279,573	\$ 20,598,720
Investments	<u>5,857,632</u>	<u>9,203,855</u>
	<u>\$ 37,137,205</u>	<u>\$ 29,802,575</u>
 Included in the following balance sheet captions		
Cash	\$ 1,207,923	\$ 1,605,201
Noncurrent cash and investments less \$197,509 and \$200,771 notes receivable for 2010 and 2009, respectively, and \$220,648 and \$190,648, donations receivable for 2010 and 2009, respectively	<u>35,929,282</u>	<u>28,197,374</u>
	<u>\$ 37,137,205</u>	<u>\$ 29,802,575</u>

Investment Income

	<u>2010</u>	<u>2009</u>
Interest	\$ 854,022	\$ 939,214
Net increase in fair value of investments	<u>(120,250)</u>	<u>61,411</u>
	<u>\$ 733,772</u>	<u>\$ 1,000,625</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable, net of contractual allowances at June 30, 2010 and 2009, consisted of:

	2010	2009
Medicare	\$ 2,196,322	\$ 2,082,898
Medicaid	258,258	288,354
Other third-party payers	7,646,870	6,277,359
Patients	4,508,403	4,381,554
	14,609,853	13,030,165
Less allowance for uncollectible accounts	2,563,000	2,203,000
	\$ 12,046,853	\$ 10,827,165

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2010 and 2009, were:

	2010			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 111,602	\$ -	\$ -	\$ 111,602
Land improvements	1,191,163	101,091	545	1,291,709
Buildings	16,813,286	1,280,383	234,403	17,859,266
Equipment	41,196,442	4,541,820	2,024,222	43,714,040
Construction in progress	2,371,389	(1,477,666)	-	893,723
	61,683,882	4,445,628	2,259,170	63,870,340
Less accumulated depreciation				
Land improvements	995,375	36,656	762	1,031,269
Buildings	12,728,298	659,178	292,372	13,095,104
Equipment	31,421,650	2,422,485	1,939,525	31,904,610
	45,145,323	3,118,319	2,232,659	46,030,983
Capital assets, net	\$ 16,538,559	\$ 1,327,309	\$ 26,511	\$ 17,839,357

**McDonough County Hospital District
d/b/a McDonough District Hospital**

**Notes to Financial Statements
June 30, 2010 and 2009**

	2009			Ending Balance
	Beginning Balance	Additions/ Transfers	Disposals	
Land	\$ 111,602	\$ -	\$ -	\$ 111,602
Land improvements	1,136,866	57,366	3,069	1,191,163
Buildings	16,744,427	96,744	27,885	16,813,286
Equipment	39,395,210	2,647,870	846,638	41,196,442
Construction in progress	394,251	1,977,138	-	2,371,389
	57,782,356	4,779,118	877,592	61,683,882
Less accumulated depreciation				
Land improvements	965,072	33,372	3,069	995,375
Buildings	12,193,449	562,657	27,808	12,728,298
Equipment	29,814,464	2,433,678	826,492	31,421,650
	42,972,985	3,029,707	857,369	45,145,323
Capital assets, net	\$ 14,809,371	\$ 1,749,411	\$ 20,223	\$ 16,538,559

Construction in progress relates to the expansion of the Hospital's laboratory, improvements to the elevator and stairs and acquisition of equipment.

The \$2.8 million project will be completed during 2011. The Hospital has entered into construction contracts for approximately \$2,265,056 as of June 30, 2010, related to the project. A \$4 million debt certificate was issued for the purpose of financing a portion of this project as well as for the funding of other equipment and improvements.

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2010 and 2009, consisted of:

	2010	2009
Payable to suppliers and contractors	\$ 2,931,943	\$ 2,232,114
Payable to employees (including payroll taxes and benefits)	3,475,999	2,974,096
Other	218,895	928,247
	\$ 6,626,837	\$ 6,134,457

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an amount of \$200,000 per claim and \$4,100,000 in the aggregate. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimates will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2010 and 2009 is summarized as follows:

	2010	2009
Balance, beginning of year	\$ 668,902	\$ 622,895
Current year claims incurred and changes in estimates for claims incurred in prior years	5,314,512	4,588,084
Claims and expenses paid	(5,218,072)	(4,542,077)
Balance, end of year	\$ 765,342	\$ 668,902

Note 8: Long-Term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2010 and 2009:

	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Debt certificates, series 2010	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 752,792
Total long-term debt obligations	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 752,792

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements June 30, 2010 and 2009

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable	\$ 800,000	\$ -	\$ 800,000	\$ -	\$ -
Note payable to bank	316,660	-	316,660	-	-
	<u>1,116,660</u>	<u>-</u>	<u>1,116,660</u>	<u>-</u>	<u>-</u>
Total long-term debt obligations	\$ 1,116,660	\$ -	\$ 1,116,660	\$ -	\$ -

Revenue Bonds Payable

The revenue bonds payable consisted of Health Facilities Revenue Refunding Bonds (Bonds) in the original amount of \$7,100,000 dated February 19, 1998, which bear interest at 3.95% to 4.80%. The Bonds were payable in annual installments through July 1, 2008. The Hospital was required to make monthly deposits of approximately \$66,667 to the debt service fund held by the trustee. All of the Bonds outstanding could be redeemed at the Hospital's option at a redemption price of 1%. The Bonds were secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

The indenture agreement required that certain funds be established with the trustee. Accordingly, these funds were included as assets held by trustee under bond indenture agreement in the balance sheets. The indenture agreement also required the Hospital to comply with certain restrictive covenants including minimum insurance coverage and maintaining a historical debt-service coverage ratio of at least 1.2. The bonds were paid off during fiscal year 2009.

Debt Certificates

The Series 2010 debt certificates to bank is due June 15, 2015, with principal and interest at 3% payable monthly. The certificates are secured by certain capital assets. The debt service requirements as of June 30, 2010 are as follows:

	Total to be Paid	Principal	Interest
2011	\$ 862,497	\$ 752,792	\$ 109,705
2012	862,497	775,689	86,808
2013	862,497	799,282	63,215
2014	862,497	823,593	38,904
2015	862,498	848,644	13,854
	<u>\$ 4,312,486</u>	<u>\$ 4,000,000</u>	<u>\$ 312,486</u>

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2010 and 2009

Note 9: Restricted and Designated Net Assets

At June 30, 2010 and 2009, all restricted expendable net assets were available to be used for specific operating activities.

Restricted non-expendable net assets are restricted to investment in perpetuity. The income derived from non-expendable net assets is to be used for the support of unrestricted Hospital activities.

At June 30, 2010 and 2009, \$21,673,415 and \$18,869,315, respectively, of unrestricted net assets has been designated by the Hospital's Board of Directors for capital acquisitions, for use if and when an obligation should arise from the Hospital being self-insured for malpractice insurance and to provide loans and grants to Hospital employees. Designated net assets remain under the control of the Board of Directors, which may at its discretion later use these net assets for other purposes.

Note 10: Assets Held in Trust

The Hospital is a contingent income beneficiary of the Fellheimer Trust. Because the assets of the Trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. The fair value of the assets totaled approximately \$7,714,000 and \$7,200,000 at June 30, 2010 and 2009, respectively. Distributions of income are made at the discretion of the trustees. The terms of the Trust require that income from the Trust be distributed at least annually to the Hospital "... for the purpose of providing nursing home, medical and extended care for elderly persons residing in the vicinity of Macomb, Illinois and, to the extent feasible, giving preferential consideration to persons lacking financial means to otherwise provide for such care." The Trust further provides that, under certain restricted conditions, distributions may be made of Trust principal for construction of Hospital facilities or for the Hospital's general purposes. Income distributed to the Hospital by the Trust amounted to \$226,600 in 2010 and \$247,907 in 2009, respectively.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

Note 11: Medical Malpractice Claims

The Hospital is self-insured for medical malpractice risks. The Hospital has an excess coverage policy for professional liability. Losses from asserted and unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Activity in the Hospital's accrued medical malpractice claims liability during 2010 and 2009 is summarized as follows:

	2010	2009
Balance, beginning of year	\$ 1,145,000	\$ 1,068,000
Current year claims incurred and changes in estimates for claims incurred in prior years	656,400	133,400
Claims and expenses paid	(50,400)	(56,400)
Balance, end of year	\$ 1,751,000	\$ 1,145,000

Note 12: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all eligible employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the Plan. The Plan provides retirement and death benefits to Plan members and their beneficiaries. Benefit provisions are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for the Hospital expressed as a percentage of covered payroll were 4% for 2010 and 2009. Employees are required to contribute an amount equal to at least 2% of their compensation in order to be eligible for the Hospital contribution. Contributions actually made by Plan members and the Hospital aggregated \$1,430,634 and \$697,212 during 2010 and \$1,346,192 and \$704,456 during 2009, respectively.

Note 13: Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large 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.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2010 and 2009

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our 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 state funded programs.

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

Independent Accountants' Report on Supplementary Information

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
Macomb, Illinois

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The nature of our audit procedures is more fully described in our report on the basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

St. Louis, Missouri
September 16, 2010

Supplementary Information

**McDonough County Hospital District
d/b/a McDonough District Hospital
Combining Balance Sheet
Year Ended June 30, 2010**

Assets

	McDonough County Hospital District	McDonough Service Organization, Inc.	Eliminations	Combined
Current Assets				
Cash	\$ 1,207,923	\$ -	\$ -	\$ 1,207,923
Patient accounts receivable, net	12,046,853	-	-	12,046,853
Supply inventory	1,391,287	-	-	1,391,287
Prepays and other	993,548	-	-	993,548
	<u>15,639,611</u>	<u>-</u>	<u>-</u>	<u>15,639,611</u>
Noncurrent Cash and Investments				
By Board for funded depreciation	16,507,961	-	-	16,507,961
By Board for self-insurance trust	4,945,320	-	-	4,945,320
By Board for loan/grant scholarship fund	220,134	-	-	220,134
Under bond indenture agreement	4,000,000	-	-	4,000,000
Development fund	1,577,621	-	-	1,577,621
Externally restricted donors	827,848	-	-	827,848
Certificates of deposit and government agency notes	8,268,555	-	-	8,268,555
	<u>36,347,439</u>	<u>-</u>	<u>-</u>	<u>36,347,439</u>
Capital Assets, Net	<u>17,839,357</u>	<u>-</u>	<u>-</u>	<u>17,839,357</u>
Other Assets				
Unamortized debt issue costs	15,000	-	-	15,000
Other	1,430,185	-	-	1,430,185
	<u>1,445,185</u>	<u>-</u>	<u>-</u>	<u>1,445,185</u>
Total assets	<u>\$ 71,271,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 71,271,592</u>

Liabilities and Net Assets

	McDonough County Hospital District	McDonough Service Organization, Inc.	Eliminations	Combined
Current Liabilities				
Current maturities of long-term debt	\$ 752,792	\$ -	\$ -	\$ 752,792
Accounts payable and accrued expenses	6,626,837	-	-	6,626,837
Estimated third-party settlements	1,658,989	-	-	1,658,989
Total current liabilities	9,038,618	-	-	9,038,618
Long-Term Debt	3,247,208	-	-	3,247,208
Total liabilities	12,285,826	-	-	12,285,826
Net Assets				
Invested in capital assets, net of related debt	13,886,901	-	-	13,886,901
Restricted by donor, nonexpendable	283,336	-	-	283,336
Restricted by donor, expendable for specific operating activities	672,652	-	-	672,652
Unrestricted	44,142,877	-	-	44,142,877
Total net assets	58,985,766	-	-	58,985,766
Total liabilities and net assets	\$ 71,271,592	\$ -	\$ -	\$ 71,271,592

McDonough County Hospital District
d/b/a McDonough District Hospital
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2010

	McDonough County Hospital District	McDonough Service Organization, Inc.	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 55,208,893	\$ 155,327	\$ -	\$ 55,364,220
Other	1,079,505	-	-	1,079,505
Total operating revenues	<u>56,288,398</u>	<u>155,327</u>	<u>-</u>	<u>56,443,725</u>
Operating Expenses				
Salaries	25,614,974	134,032	-	25,749,006
Employee benefits	8,261,699	37,891	-	8,299,590
Supplies and drugs	6,407,819	5,538	(25,154)	6,388,203
Purchased services	3,617,344	-	-	3,617,344
Professional fees	1,169,511	-	-	1,169,511
Utilities	880,324	-	-	880,324
Insurance	1,075,398	-	-	1,075,398
Other expenses	1,490,557	3,020	-	1,493,577
Depreciation	2,685,492	-	-	2,685,492
Leased equipment	917,058	-	-	917,058
Total operating expenses	<u>52,120,176</u>	<u>180,481</u>	<u>(25,154)</u>	<u>52,275,503</u>
Operating Income (Loss)	<u>4,168,222</u>	<u>(25,154)</u>	<u>25,154</u>	<u>4,168,222</u>
Nonoperating Revenues (Expenses)				
Investment income	733,772	-	-	733,772
Other, net	(230,401)	-	-	(230,401)
Contributions	142,105	-	-	142,105
Interest - capital asset related debt	-	-	-	-
Total nonoperating revenues	<u>645,476</u>	<u>-</u>	<u>-</u>	<u>645,476</u>
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts				
	4,813,698	(25,154)	25,154	4,813,698
Capital grants and gifts	166,983	-	-	166,983
Increase (Decrease) in Net Assets	4,980,681	(25,154)	25,154	4,980,681
Transfer of assets	-	2,407,401	(2,407,401)	-
Net Assets, Beginning of Year	<u>54,005,085</u>	<u>(2,382,247)</u>	<u>2,382,247</u>	<u>54,005,085</u>
Net Assets, End of Year	<u>\$ 58,985,766</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,985,766</u>

McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Hospital Net Patient Service Revenue
Years Ended June 30, 2010 and 2009

	2010		
	Inpatient	Outpatient	Total
Patient Services Charges			
Ambulance service	\$ -	\$ 2,252,244	\$ 2,252,244
Anesthesiology	1,774,388	2,941,881	4,716,269
Behavioral health services	3,588	530,499	534,087
CT scanner	1,443,682	7,395,599	8,839,281
Day health and gerontology	-	263,190	263,190
Delivery room	350,229	-	350,229
EEG	30,677	88,526	119,203
EKG	1,111,668	2,363,822	3,475,490
Emergency service	1,693,232	9,801,847	11,495,079
Home health	-	1,383,801	1,383,801
Hospice	-	1,098,096	1,098,096
Laboratory	5,715,071	17,546,685	23,261,756
McDonough Medical Group	-	2,954,309	2,954,309
Medical and surgical supply	3,101,497	2,495,585	5,597,082
MRI scanner	367,479	4,282,009	4,649,488
Nursery	656,116	-	656,116
Operating rooms	3,146,065	9,003,978	12,150,043
Other	-	230,980	230,980
Oxygen	564,521	15,438	579,959
Pharmacy	3,473,683	2,841,380	6,315,063
Rehab services	864,938	2,064,106	2,929,044
Radiology	774,343	4,843,173	5,617,516
Respiratory therapy	753,108	903,874	1,656,982
Routine revenue	9,125,959	1,243,465	10,369,424
Skilled nursing routine revenue	2,139,655	-	2,139,655
Vascular studies	206,497	719,521	926,018
Wound care services	-	99,005	99,005
	<u>\$ 37,296,396</u>	<u>\$ 77,363,013</u>	<u>114,659,409</u>
Allowances, Charity Care and Provision for Uncollectible Accounts			<u>(59,450,516)</u>
Net Patient Service Revenue			<u>\$ 55,208,893</u>

2009		
Inpatient	Outpatient	Total
\$ -	\$ 2,111,341	\$ 2,111,341
1,919,208	2,608,104	4,527,312
11,439	558,896	570,335
1,895,901	7,139,137	9,035,038
-	240,147	240,147
386,540	-	386,540
43,887	127,061	170,948
1,380,085	2,410,076	3,790,161
1,532,739	7,231,535	8,764,274
-	1,251,086	1,251,086
-	1,200,989	1,200,989
6,190,168	16,598,612	22,788,780
-	1,947,927	1,947,927
-	-	-
3,449,949	2,232,595	5,682,544
500,770	4,271,609	4,772,379
632,714	-	632,714
3,244,844	8,050,070	11,294,914
-	563,560	563,560
618,078	14,855	632,933
4,195,268	2,674,490	6,869,758
958,902	1,912,010	2,870,912
856,511	5,051,326	5,907,837
959,171	929,046	1,888,217
9,725,501	1,095,194	10,820,695
2,213,080	-	2,213,080
251,859	724,579	976,438
<u>\$ 40,966,614</u>	<u>\$ 70,944,245</u>	111,910,859
		<u>(58,299,666)</u>
		<u>\$ 53,611,193</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Accounts Receivable - Patients
June 30, 2010 and 2009**

	2010		2009	
	Amount (In Thousands)	Percent of Total	Amount (In Thousands)	Percent of Total
Discharged patients, outpatients and patients in hospital				
Current	\$ 11,412	46.8%	\$ 10,242	46.7%
One to three months	7,110	29.2%	6,673	30.4%
Over three months	<u>5,853</u>	<u>24.0%</u>	<u>5,019</u>	<u>22.9%</u>
	24,375	<u>100.0%</u>	21,934	<u>100.0%</u>
Less - allowance for contractual adjustments	9,765		8,904	
Less - allowance for doubtful accounts	<u>2,563</u>		<u>2,203</u>	
Accounts receivable - patients	<u>\$ 12,047</u>		<u>\$ 10,827</u>	

**McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Financial Highlights
June 30, 2010 and the Years Then Ended**

	<u>2010</u>	<u>2009</u>
Financial Condition		
Working capital	\$ 6,600,993	\$ 7,801,676
Ratio of current assets to current liabilities	1.73 to 1	2.12 to 1
Debt service coverage ratio	9.2 to 1	N/A
Unrestricted net assets	\$ 58,029,778	\$ 53,068,529
Property and equipment, net	\$ 17,839,357	\$ 16,538,559
Operating Results		
Operating revenue	\$ 56,443,725	\$ 54,909,707
Operating income	\$ 4,168,222	\$ 5,001,348
Operating income as a percent of operating revenue	7.4%	9.1%
Excess of revenues over expenses	\$ 4,813,698	\$ 5,923,706
Excess of revenues over expenses as a percent of operating revenue	8.53%	10.79%

Additional Information

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Hospital Statistical Data

(Unaudited)

Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Discharges		
Adult acute care	2,197	2,608
Newborn	327	402
Skilled nursing unit	<u>293</u>	<u>378</u>
Total	<u><u>2,817</u></u>	<u><u>3,388</u></u>
Admissions		
Adult acute care	2,155	2,596
Newborn	328	401
Skilled nursing unit	<u>299</u>	<u>370</u>
Total	<u><u>2,782</u></u>	<u><u>3,367</u></u>
Percentage of Occupancy		
Acute care	24.0%	27.9%
Skilled nursing unit	50.2%	56.5%
Patient Days		
Medical and surgical/pediatrics	7,543	8,794
Obstetrics	940	1,093
Skilled nursing unit	<u>2,929</u>	<u>3,297</u>
Total (exclusive of newborn days)	<u><u>11,412</u></u>	<u><u>13,184</u></u>
Average Length of Stay (Acute Care Days)	3.9	3.8
Departmental Volume Indicators		
X-ray procedures		
Inpatient	2,999	3,476
Outpatient	<u>21,143</u>	<u>23,246</u>
Total	<u><u>24,142</u></u>	<u><u>26,722</u></u>
Surgical procedures		
Inpatient	746	765
Outpatient	<u>3,103</u>	<u>2,958</u>
Total	<u><u>3,849</u></u>	<u><u>3,723</u></u>

**McDonough County Hospital District
d/b/a McDonough District Hospital
Hospital Statistical Data (Continued)
(Unaudited)
Years Ended June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
Emergency Room Visits	13,363	12,724
Respiratory Therapy Units	10,493	14,020
Physical Therapy Units	27,294	31,838
Laboratory Billed Tests	212,742	208,723
EKG	6,693	8,221
Ambulance Trips	2,639	2,663
Deliveries	328	401
Day Health Days	4,316	3,987
CT Scans	5,628	6,023
MRI Scans	1,671	1,811
Home Health Visits	9,129	8,693
Approximate Number of Employees (FTE)	468	479

McDonough County Hospital District
d/b/a McDonough District Hospital
Accountants' Report and Financial Statements
June 30, 2011 and 2010

**McDonough County Hospital District
d/b/a McDonough District Hospital**

June 30, 2011 and 2010

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Independent Accountants' Report

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
Macomb, Illinois

We have audited the accompanying balance sheets of McDonough County Hospital District d/b/a McDonough District Hospital (the "Hospital") as of June 30, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 McDonough County Hospital District d/b/a McDonough District Hospital as of June 30, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

BKD, LLP

September 15, 2011

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2011 and 2010**

Introduction

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

Financial Highlights

- Cash increased in 2011 by \$518,193 or 42.9% compared to a decrease of \$397,278 or 24.7% in 2010.
- Noncurrent cash and investments increased in 2011 by \$3,686,098 or 10.1% and in 2010 by \$7,758,646 or 27.1%.
- Net patient accounts receivable increased in 2011 by \$860,368 or 7.1% following an increase in 2010 by \$1,219,688 or 11.3%. In 2009, patient accounts receivable increased \$681,083 or 6.7%.
- The Hospital's total assets net of total liabilities (net assets) increased in each of the past three years with a \$7,057,677 or 12.0% increase in 2011, a \$4,980,681 or 9.2% increase in 2010 and a \$6,163,749 or 12.9% increase in 2009.
- The Hospital reported operating income in 2011 of \$6,286,278 representing an increase of \$2,015,785 from the operating income reported in 2010 of \$4,270,493. Operating income in 2010 decreased by \$730,855 from the 2009 operating income of \$5,001,348.

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, contributors, grantors or enabling legislation. The Hospital is accounted for as a government entity operating an acute care hospital (a business-type activity) and presents its financial statements using the economic resources measurement focus method and the accrual basis of accounting.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2011 and 2010**

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; Operating Activities, Noncapital Financing Activities, Capital and Related Financing Activities and Investing 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 increased by \$7,057,677 (12.0%) in 2011 over 2010 as shown in Table 1 and increased by \$4,980,681 (9.2%) in 2010 over 2009.

McDonough County Hospital District d/b/a McDonough District Hospital

Management's Discussion and Analysis

June 30, 2011 and 2010

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Cash	\$ 1,726,116	\$ 1,207,923	\$ 1,605,201
Noncurrent cash and investments	40,033,537	36,347,439	28,588,793
Patient accounts receivable, net of allowances	12,907,221	12,046,853	10,827,165
Supply inventory	1,350,706	1,391,287	1,369,290
Prepaid expenses and other	2,799,142	993,548	986,204
Capital assets, net of accumulated depreciation	18,777,776	17,839,357	16,538,559
Unamortized debt issue costs	12,000	15,000	-
Other assets	1,603,962	1,430,185	1,076,057
Total assets	\$ 79,210,460	\$ 71,271,592	\$ 60,991,269
Liabilities			
Current maturities of long-term debt	\$ 775,689	\$ 752,792	\$ -
Accounts payable and accrued expenses	8,408,539	6,626,837	6,134,457
Estimated third-party settlements	1,511,270	1,658,989	851,727
Long-term debt	2,471,519	3,247,208	-
Total liabilities	13,167,017	12,285,826	6,986,184
Net Assets			
Invested in capital assets, net of related debt	17,125,184	17,854,357	16,585,480
Restricted by donor, non-expendable	283,866	283,336	283,188
Restricted by donor, expendable for specific operating activities	785,437	672,652	653,368
Unrestricted	47,848,956	40,175,421	36,483,049
Total net assets	66,043,443	58,985,766	54,005,085
Total liabilities and net assets	\$ 79,210,460	\$ 71,271,592	\$ 60,991,269

Cash and noncurrent cash and investments collectively increased \$4,204,291 or 11.2% in 2011. The increase is due to the continued receipts from the state of Illinois Hospital Assessment Program for approximately \$1,789,000 and to the increase in net assets of \$7,057,677. In 2010, cash and noncurrent cash and investments increased \$7,361,368 or 24.3%.

Net patient service revenues increased in 2011 by \$5,135,946 (9.3%) as compared to 2010. Net patient accounts receivable increased by \$860,368 (7.1%). This translates to approximately one less day of net revenue at June 30, 2011 versus June 30, 2010. Patient accounts receivable increased by \$1,577,664 (2.9%) or five more days at June 30, 2010 versus June 30, 2009.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2011 and 2010**

Capital assets increased and related long term debt decreased for the current building project, as discussed in the *Capital Assets* section below.

Accounts payable and accrued expenses collectively increased \$1,781,702 or 26.9% in 2011. The increase is due to a change in estimate for the self-insured portion of medical malpractice risk. In 2010 accounts payable and accrued expenses increased \$492,380 or 8.0%.

Operating Results and Changes in the Hospital's Net Assets

In 2011, the Hospital's net assets increased by \$7,057,677 or 12.0%, as shown in Table 2. This increase is made up of several different components and represents an increase of 41.7% compared with the increase in net assets for 2010 of \$4,980,681. The Hospital's change in net assets decreased from \$6,163,749 in 2009 to \$4,980,681 in 2010, a decrease of 19.2%.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$3,481,829, 2010 - \$3,194,488	\$ 60,503,816	\$ 55,367,870	\$ 53,786,556
Other operating revenues	1,309,424	1,178,126	1,123,151
Total operating revenues	<u>61,813,240</u>	<u>56,545,996</u>	<u>54,909,707</u>
Operating Expenses			
Salaries and wages	27,109,943	25,749,006	24,611,987
Employee benefits	8,282,008	8,299,590	7,505,224
Supplies and drugs	6,558,890	6,388,203	6,464,080
Purchased services	3,457,933	3,617,344	3,575,443
Professional fees	1,714,215	1,169,511	973,303
Utilities	924,787	880,324	902,825
Insurance	2,189,285	1,075,398	633,117
Other operating expenses	1,484,424	1,493,577	1,772,833
Depreciation and amortization	2,900,017	2,685,492	2,560,050
Leased equipment	905,460	917,058	909,497
Total operating expenses	<u>55,526,962</u>	<u>52,275,503</u>	<u>49,908,359</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Management's Discussion and Analysis

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Income	\$ 6,286,278	\$ 4,270,493	\$ 5,001,348
Nonoperating Revenues (Expenses)			
Investment income	747,825	733,772	1,000,625
Other, net	(351,641)	(332,672)	(278,660)
Contributions	242,395	142,105	203,811
Interest - capital asset related debt	(30,557)	-	(3,418)
Total nonoperating revenues	<u>608,022</u>	<u>543,205</u>	<u>922,358</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	6,894,300	4,813,698	5,923,706
Capital Grants and Gifts	<u>163,377</u>	<u>166,983</u>	<u>240,043</u>
Increase in Net Assets	<u>\$ 7,057,677</u>	<u>\$ 4,980,681</u>	<u>\$ 6,163,749</u>

Operating Income and Losses

The first component of the overall change in the Hospital's net assets is its operating income, generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2011, the Hospital has reported an operating income of \$6,286,278.

2011

The operating income for 2011 increased by \$2,015,785 as compared to 2010. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$5,135,946 or 9.3%
- An increase in salaries and wages of \$1,360,937 or 5.3%
- An increase in insurance expense of \$1,113,887 or 103.6%

Overall gross patient charges increased by \$7,270,838 or 6.3%. However, inpatient revenues were down \$3,394,980 or 9.1% from 2010 as a result of physicians retiring or relocating. Outpatient revenues increased from 2010 by \$10,665,818 or 13.6% in part due to additional volume in surgery and the emergency room.

In July 2011, the Hospital received notification of a Sole Community Hospital Low Volume Adjustment settlement related to the year ended June 30, 2008, resulting in an increase in net patient service revenue of approximately \$1,500,000 during 2011.

Insurance expense increased due to a change in estimate for the self-insured portion of medical malpractice risk.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2011 and 2010**

2010

The operating income for 2010 decreased by \$833,126 as compared to 2009. The primary components of the decreased operating income are:

- An increase in net patient service revenue of \$1,581,314 or 2.9%
- An increase in salaries, wages and employee benefits of \$1,931,385 or 6.0%

Overall gross patient charges increased by \$2,748,550 or 2.5%. However, inpatient revenues were down \$5,618,145 or 13.1% from 2009 as a result of four physicians retiring or relocating. Outpatient revenues increased from 2009 by \$8,366,695 or 12.1% in part due to additional outpatient volume in surgery and the emergency room.

Salaries, wages and benefits increased \$1,931,385 between 2010 and 2009. Most expense category changes between the two years were within expected increases associated with standard cost of living wage increases. The primary exception was an increase in the Hospital's self-insured employee health plan of approximately \$676,000.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest income from its investments, investment income from its share of ownership in the Physician Hospital Organization, Inc., leasing office space to members of its medical staff, unrestricted contributions and interest expense.

Nonoperating revenues and expenses remained consistent in 2011 compared to 2010.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Hospital had \$18,777,776 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital purchased new capital assets costing \$4,247,910. Significant purchases include construction in progress as described in Note 5, new parking lots and a digital mammography system.

At the end of 2010, the Hospital had \$17,839,357 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2010, the Hospital purchased new capital assets costing \$4,445,628. Significant purchases include initial cost of the laboratory expansion, continued remodeling of the surgical support area, expansion of endoscopic services and sleep study rooms and purchase of a nurse call system and radiology equipment.

Debt

At June 30, 2011, the Hospital had \$3,247,208 in debt certificates outstanding. At June 30, 2010, the Hospital had \$4,000,000 in debt certificates outstanding. The decrease is due to scheduled maturity payments.

McDonough County Hospital District d/b/a McDonough District Hospital

Management's Discussion and Analysis

June 30, 2011 and 2010

Other Economic Factors

The largest employer in the hospital service region, Western Illinois University ("University"), has experienced a slight decline in the number of employees at the Macomb campus, dropping below 2,000. State of Illinois financial problems has delayed appropriated fund disbursements to Western causing the University to delay filling positions; though no layoffs were instituted. The University experienced an increase in 2011 fall student enrollment, reversing recent declines; the growth is the result of increased recruitment of freshmen. The University also expects to break ground on a much anticipated new Center for Performing Arts in the Spring of 2012. Employment for NTN Bower (second largest employer in county at 650) and Pella Corporation (275) have been stable during the past year. Macomb's retail base has remained constant. A new grocery store is scheduled to open on the west side of Macomb. Recently released 2010 census data reports McDonough County population at 32,612, a decline of 0.9% from 32,913 in the 2000 census.

Report of Management's Responsibility

The management of the Hospital is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management.

The 2011 and 2010 financial statements have been audited by the independent accounting firm of **BKD, LLP**, who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the board of directors. The board of directors provides oversight to the financial reporting process. Integral to this process is the review and discussion with management of the monthly financial statements and the external auditors for the annual financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers 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 Hospital Administration by telephoning 309.836.1675.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Balance Sheets

June 30, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	\$ 1,726,116	\$ 1,207,923
Patient accounts receivable, net of allowance; 2011 - \$2,691,000, 2010 - \$2,563,000	12,907,221	12,046,853
Supply inventory	1,350,706	1,391,287
Prepaid expenses and other	2,799,142	993,548
Total current assets	18,783,185	15,639,611
Noncurrent Cash and Investments		
By board for funded depreciation	21,688,398	16,507,961
By board for self-insurance trust fund	4,988,682	4,945,320
By board for loan/grant scholarship fund	201,783	220,134
Under bond indenture agreement - held by trustee	1,582,617	4,000,000
Development fund	1,604,028	1,577,621
Externally restricted by donors	992,075	827,848
Certificates of deposit and government agency notes	8,975,954	8,268,555
	40,033,537	36,347,439
Capital Assets, Net	18,777,776	17,839,357
Other Assets		
Unamortized debt issue costs	12,000	15,000
Other	1,603,962	1,430,185
	1,615,962	1,445,185
Total assets	\$ 79,210,460	\$ 71,271,592

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities		
Current maturities of long-term debt	\$ 775,689	\$ 752,792
Accounts payable and accrued expenses	8,408,539	6,626,837
Estimated third-party settlements	<u>1,511,270</u>	<u>1,658,989</u>
Total current liabilities	<u>10,695,498</u>	<u>9,038,618</u>
Long-term Debt	<u>2,471,519</u>	<u>3,247,208</u>
Total liabilities	<u>13,167,017</u>	<u>12,285,826</u>
Net Assets		
Invested in capital assets, net of related debt	17,125,184	17,854,357
Restricted by donor, non-expendable	283,866	283,336
Restricted by donor, expendable for specific operating activities	785,437	672,652
Unrestricted	<u>47,848,956</u>	<u>40,175,421</u>
Total net assets	<u>66,043,443</u>	<u>58,985,766</u>
Total liabilities and net assets	<u>\$ 79,210,460</u>	<u>\$ 71,271,592</u>

McDonough County Hospital District
d/b/a McDonough District Hospital
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - \$3,481,829, 2010 - \$3,194,488	\$ 60,503,816	\$ 55,367,870
Other operating revenues	1,309,424	1,178,126
Total operating revenues	<u>61,813,240</u>	<u>56,545,996</u>
Operating Expenses		
Salaries and wages	27,109,943	25,749,006
Employee benefits	8,282,008	8,299,590
Supplies and drugs	6,558,890	6,388,203
Purchased services	3,457,933	3,617,344
Professional fees	1,714,215	1,169,511
Utilities	924,787	880,324
Insurance	2,189,285	1,075,398
Other operating expenses	1,484,424	1,493,577
Depreciation	2,900,017	2,685,492
Leased equipment	905,460	917,058
Total operating expenses	<u>55,526,962</u>	<u>52,275,503</u>
Operating Income	<u>6,286,278</u>	<u>4,270,493</u>
Nonoperating Revenues (Expenses)		
Investment income	747,825	733,772
Other, net	(351,641)	(332,672)
Contributions	242,395	142,105
Interest - capital asset related debt	(30,557)	-
Total nonoperating revenues	<u>608,022</u>	<u>543,205</u>
Excess of Revenues Over Expenses Before Capital Grants and Gifts	6,894,300	4,813,698
Capital Grants and Gifts	<u>163,377</u>	<u>166,983</u>
Increase in Net Assets	7,057,677	4,980,681
Net Assets, Beginning of Year	<u>58,985,766</u>	<u>54,005,085</u>
Net Assets, End of Year	<u>\$ 66,043,443</u>	<u>\$ 58,985,766</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital**

**Statements of Cash Flows
June 30, 2011 and 2010**

	2011	2010
Operating Activities		
Receipts from and on behalf of patients	\$ 59,495,729	\$ 54,955,444
Payments to suppliers and contractors	(16,969,488)	(14,090,877)
Payments to employees	(35,391,951)	(34,048,596)
Other receipts, net	1,309,424	1,178,126
Net cash provided by operating activities	8,443,714	7,994,097
Noncapital Financing Activities		
Contributions	242,395	142,105
Other	(351,641)	(332,672)
Net cash used in noncapital financing activities	(109,246)	(190,567)
Capital and Related Financing Activities		
Capital grants and gifts	163,377	166,983
Principal paid on long-term debt	(752,792)	-
Proceeds from the issuance of long-term debt	-	4,000,000
Interest paid on long-term debt	(30,557)	-
Purchase of capital assets	(4,102,895)	(5,005,127)
Proceeds from sale of capital assets	18,642	16,338
Net cash used in capital and related financing activities	(4,704,225)	(821,806)
Investing Activities		
Purchase of investments	(3,864,469)	(8,151,087)
Investment income	747,825	733,772
Net cash used in investing activities	(3,116,644)	(7,417,315)
Increase (Decrease) in Cash and Cash Equivalents	513,599	(435,591)
Cash and Cash Equivalents, Beginning of Year	1,230,548	1,666,139
Cash and Cash Equivalents, End of Year	\$ 1,744,147	\$ 1,230,548
Supplemental Cash Flows Information		
Property and equipment included in accounts payable	\$ 363,904	\$ 218,889

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Statements of Cash Flows (Continued)

June 30, 2011 and 2010

	2011	2010
Reconciliation of Cash to the Balance Sheet		
Cash	\$ 1,726,116	\$ 1,207,923
Cash in noncurrent cash and investments board designated	18,031	22,625
Total cash	1,744,147	1,230,548
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating income	6,286,278	4,270,493
Depreciation	3,294,574	3,118,319
(Gain) loss on sale and disposal of capital assets	(3,725)	10,173
Changes in operating assets and liabilities		
Patient accounts receivable, net	(860,368)	(1,219,688)
Supply inventory	40,581	(21,997)
Prepaid expense and other assets	(1,802,594)	(22,344)
Estimated third-party settlements	(147,719)	807,262
Accounts payable and accrued expenses	1,636,687	1,051,879
Net cash provided by operating activities	\$ 8,443,714	\$ 7,994,097

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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

Nature of Operations and Reporting Entity

McDonough County Hospital District d/b/a McDonough District Hospital (the "Hospital") is an acute care hospital located in Macomb, Illinois. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the McDonough County area. The Hospital's financial statements include the financial position and results of operations of McDonough Service Organization, Inc. ("MSO"), a blended component unit. The MSO was dissolved in 2010 and all assets and liabilities were transferred to the Hospital. The primary purpose of MSO was to develop services and to support the practice of physicians and other medical service providers. The Hospital is a 40% owner of McDonough Physician-Hospital Organization, Inc. ("MPHO"). The Hospital accounts for its ownership in MPHO under the equity method. The primary purpose of MPHO is to coordinate physician and hospital participation in managed care contracting.

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 are recognized when the transaction takes place. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific include certain taxes, investment income and interest on capital assets-related debt and 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.

Subsequent events have been evaluated through September 15, 2011, which is the date the financial statements were available to be issued.

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.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2011 and 2010

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

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

The Hospital has joined together with other providers of health care services to form the Illinois Compensation Trust, a risk pool (the "Pool") currently operating as common risk management and insurance programs for its members. The Hospital pays annual premiums to the Pool for its employee injuries insurance coverage. The Pool's governing agreements specify that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered plus any accrued and unpaid interest. The Hospital provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Patient accounts receivable are ordinarily due 30 days after the issuance of the invoice. Balances past due more than 30 days are considered delinquent if no payment arrangements have been made. Accounts are written off after an evaluation of the collectibility of the account has been made.

Supplies

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

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2011 and 2010

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by the sick time buy back policy and the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

Income Taxes

The Hospital is exempt from income taxes under provisions of the Internal Revenue Code as a political subdivision of the state of Illinois. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Reclassifications

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

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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. 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 fiscal intermediary.

The Medicare program has designated the Hospital as a sole community hospital for Medicare reimbursement purposes. This designation increases the payments the Hospital receives for inpatient services provided to Medicare beneficiaries.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2011 and 2010

Approximately 36% and 35% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Approximately 56% of gross patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both years ended June 30, 2011 and 2010.

During the year ended June 30, 2011, net patient service revenue increased by approximately \$1,500,000 due to Sole Community Hospital Low Volume Adjustment related to the year ended June 30, 2008.

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 discounts from established charges and fee schedules.

Illinois Hospital Medicaid Assessment Program

In December 2008, the state of Illinois implemented a hospital assessment program beginning July 1, 2008, that qualified for federal matching funds through the Illinois Medicaid program. Under the program, each hospital is assessed taxes based on that hospital's adjusted gross hospital revenue. Payments related to this program began in March 2009. Under the provisions of the program, the Hospital anticipates annual net patient service revenue of approximately \$1,789,000. The hospital assessment program contains a sunset provision effective June 30, 2013, and there is no assurance that the program will not be discontinued or materially modified.

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 credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Illinois; bonds of any city, county, school district or special road district of the state of Illinois; bonds of any state or a surety bond having an aggregate value at least equal to the amount of the deposits.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

At June 30, 2011 and 2010, respectively, \$8,486,543 and \$9,631,426 of the Hospital's bank balances of \$23,031,845 and \$32,126,182 were exposed to custodial credit risk as follows:

	2011	2010
Uninsured and collateral held by pledging financial institution	\$ 742,209	\$ -
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	7,744,334	9,631,426
Total	\$ 8,486,543	\$ 9,631,426

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

At June 30, 2011 and 2010, the Hospital had the following investments and maturities:

Type	June 30, 2011		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,427,896	\$ 1,326,204	\$ 3,101,692
U.S. agencies and instrumentalities obligations	14,341,675	-	14,341,675
	\$ 18,769,571	\$ 1,326,204	\$ 17,443,367
Type	June 30, 2010		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,810,332	\$ 1,740,862	\$ 3,069,470
U.S. agencies and instrumentalities obligations	1,047,300	-	1,047,300
	\$ 5,857,632	\$ 1,740,862	\$ 4,116,770

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2011</u>	<u>2010</u>
Carrying value		
Deposits	\$ 22,585,682	\$ 31,279,573
Investments	<u>18,769,571</u>	<u>5,857,632</u>
	<u>\$ 41,355,253</u>	<u>\$ 37,137,205</u>
Included in the following balance sheet captions		
Cash	\$ 1,726,116	\$ 1,207,923
Noncurrent cash and investments less \$183,752 and \$197,509 notes receivable for 2011 and 2010, respectively, and \$220,648 donations receivable for 2011 and 2010	<u>39,629,137</u>	<u>35,929,282</u>
	<u>\$ 41,355,253</u>	<u>\$ 37,137,205</u>

Investment Income

	<u>2011</u>	<u>2010</u>
Interest	\$ 788,568	\$ 854,022
Net decrease in fair value of investments	<u>(40,743)</u>	<u>(120,250)</u>
	<u>\$ 747,825</u>	<u>\$ 733,772</u>

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2011 and 2010

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable, net of contractual allowances at June 30, 2011 and 2010, consisted of:

	2011	2010
Medicare	\$ 1,784,074	\$ 2,196,322
Medicaid	281,470	258,258
Other third-party payers	8,615,380	7,646,870
Patients	4,917,297	4,508,403
	15,598,221	14,609,853
Less allowance for uncollectible accounts	2,691,000	2,563,000
	\$ 12,907,221	\$ 12,046,853

Note 5: Capital Assets

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

	2011			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 111,602	\$ -	\$ -	\$ 111,602
Land improvements	1,291,709	682,037	10,490	1,963,256
Buildings	17,859,266	329,739	133,421	18,055,584
Equipment	43,714,040	1,976,671	2,114,354	43,576,357
Construction in progress	893,723	1,259,463	-	2,153,186
	63,870,340	4,247,910	2,258,265	65,859,985
Less accumulated depreciation				
Land improvements	1,031,269	63,871	10,490	1,084,650
Buildings	13,095,104	636,734	121,079	13,610,759
Equipment	31,904,610	2,593,969	2,111,779	32,386,800
	46,030,983	3,294,574	2,243,348	47,082,209
Capital assets, net	\$ 17,839,357	\$ 953,336	\$ 14,917	\$ 18,777,776

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

	2010			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 111,602	\$ -	\$ -	\$ 111,602
Land improvements	1,191,163	101,091	545	1,291,709
Buildings	16,813,286	1,280,383	234,403	17,859,266
Equipment	41,196,442	4,541,820	2,024,222	43,714,040
Construction in progress	2,371,389	(1,477,666)	-	893,723
	<u>61,683,882</u>	<u>4,445,628</u>	<u>2,259,170</u>	<u>63,870,340</u>
Less accumulated depreciation				
Land improvements	995,375	36,656	762	1,031,269
Buildings	12,728,298	659,178	292,372	13,095,104
Equipment	31,421,650	2,422,485	1,939,525	31,904,610
	<u>45,145,323</u>	<u>3,118,319</u>	<u>2,232,659</u>	<u>46,030,983</u>
Capital assets, net	<u>\$ 16,538,559</u>	<u>\$ 1,327,309</u>	<u>\$ 26,511</u>	<u>\$ 17,839,357</u>

Construction in progress relates to the expansion of the Hospital's laboratory, improvements to the elevator and stairs and acquisition of equipment.

The \$2.8 million project will be completed during 2012. The Hospital has entered into construction contracts for approximately \$2,300,000 as of June 30, 2011, related to the project. A \$4 million debt certificate was issued for the purpose of financing the project as well as funding other equipment and improvements.

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2011 and 2010, consisted of:

	2011	2010
Payable to suppliers and contractors	\$ 960,156	\$ 1,181,053
Payable to employees (including payroll taxes and benefits)	3,754,679	3,475,999
Other	3,693,704	1,969,785
	<u>\$ 8,408,539</u>	<u>\$ 6,626,837</u>

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**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an amount of \$200,000 per claim and \$4,100,000 in the aggregate. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimates will change by a material amount in the near term.

Activity in the Hospital's accrued employee health claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	\$ 765,342	\$ 668,902
Current year claims incurred and changes in estimates for claims incurred in prior years	5,058,824	5,314,512
Claims and expenses paid	(5,055,701)	(5,218,072)
Balance, end of year	\$ 768,465	\$ 765,342

Note 8: Long-term Obligations

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

	2011				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt Debt certificates, series 2010	\$ 4,000,000	\$ -	\$ 752,792	\$ 3,247,208	\$ 775,689
	2010				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt Debt certificates, series 2010	\$ -	\$ 4,000,000	\$ -	\$ 4,000,000	\$ 752,792

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

Debt Certificates

The Series 2010 debt certificates to bank are due through June 15, 2015, with principal and interest at 3% payable monthly. The certificates are secured by certain capital assets. The debt service requirements as of June 30, 2011, are as follows:

	Total to be Paid	Principal	Interest
2012	\$ 862,497	\$ 775,689	\$ 86,808
2013	862,497	799,282	63,215
2014	862,497	823,593	38,904
2015	862,498	848,644	13,854
	<u>\$ 3,449,989</u>	<u>\$ 3,247,208</u>	<u>\$ 202,781</u>

Note 9: Restricted and Designated Net Assets

At June 30, 2011 and 2010, all restricted expendable net assets were available to be used for specific operating activities.

Restricted non-expendable net assets are restricted to investment in perpetuity. The income derived from non-expendable net assets is to be used for the support of unrestricted Hospital activities.

At June 30, 2011 and 2010, \$26,878,863 and \$21,673,415, respectively, of unrestricted net assets has been designated by the Hospital's board of directors for capital acquisitions, for use if and when an obligation should arise from the Hospital being self-insured for malpractice insurance and to provide loans and grants to Hospital employees. Designated net assets remain under the control of the board of directors, which may at its discretion, later use these net assets for other purposes.

Note 10: Assets Held in Trust

The Hospital is a contingent income beneficiary of the Fellheimer Trust. Because the assets of the Trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. The fair value of the assets totaled approximately \$8,839,000 and \$7,714,000 at June 30, 2011 and 2010, respectively. Distributions of income are made at the discretion of the trustees. The terms of the Trust require that income from the Trust be distributed at least annually to the Hospital "... for the purpose of providing nursing home, medical and extended care for elderly persons residing in the vicinity of Macomb, Illinois and, to the extent feasible, giving preferential consideration to persons lacking financial means to otherwise provide for such care."

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

The Trust further provides that, under certain restricted conditions, distributions may be made of Trust principal for construction of Hospital facilities or for the Hospital's general purposes. Income distributed to the Hospital by the Trust amounted to \$275,850 in 2011 and \$226,600 in 2010, respectively.

Note 11: Medical Malpractice Claims

The Hospital is self-insured for medical malpractice risks. The Hospital has an excess coverage policy for professional liability. Losses from asserted and unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

Activity in the Hospital's accrued medical malpractice claims liability during 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	\$ 1,751,000	\$ 1,145,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,600,000	656,400
Claims and expenses paid	(21,000)	(50,400)
Balance, end of year	\$ 3,330,000	\$ 1,751,000

Note 12: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all eligible employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the Plan. The Plan provides retirement and death benefits to Plan members and their beneficiaries. Benefit provisions are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for the Hospital expressed as a percentage of covered payroll were 4% for 2011 and 2010. Employees are required to contribute an amount equal to at least 2% of their compensation in order to be eligible for the Hospital contribution. Contributions actually made by Plan members and the Hospital aggregated \$1,564,626 and \$736,348 during 2011 and \$1,430,634 and \$697,212 during 2010, respectively.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2011 and 2010

Note 13: Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large 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 of our 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 state funded programs.

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

Independent Accountants' Report on Supplementary Information

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
Macomb, Illinois

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The nature of our audit procedures is more fully described in our report on the basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

St. Louis, Missouri
September 15, 2011

Supplementary Information

McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Net Patient Service Revenue
Years Ended June 30, 2011 and 2010

	2011		
	Inpatient	Outpatient	Total
Patient Services Charges			
Ambulance service	\$ -	\$ 2,648,742	\$ 2,648,742
Anesthesiology	1,679,712	3,196,086	4,875,798
Behavioral health services	3,912	647,000	650,912
CT scanner	1,335,511	8,020,297	9,355,808
Day health and gerontology	-	255,993	255,993
Delivery room	364,481	-	364,481
EEG	13,935	80,823	94,758
EKG	986,166	2,513,682	3,499,848
Emergency service	1,643,241	11,352,927	12,996,168
Home health	-	1,329,745	1,329,745
Hospice	-	1,338,958	1,338,958
Laboratory	5,122,726	19,030,340	24,153,066
McDonough Medical Group	-	5,769,109	5,769,109
Medical and surgical supply	2,943,097	2,679,920	5,623,017
MRI scanner	176,800	4,531,608	4,708,408
Nursery	740,411	-	740,411
Operating rooms	3,030,689	9,796,636	12,827,325
Other	-	249,126	249,126
Oxygen	549,622	21,936	571,558
Pharmacy	2,981,600	2,931,663	5,913,263
Rehab services	804,876	2,490,537	3,295,413
Radiology	717,139	5,634,335	6,351,474
Respiratory therapy	878,203	1,048,955	1,927,158
Routine revenue	7,689,010	1,666,853	9,355,863
Skilled nursing routine revenue	2,089,787	-	2,089,787
Vascular studies	150,498	775,068	925,566
Wound care services	-	177,469	177,469
	<u>\$ 33,901,416</u>	<u>\$ 88,187,808</u>	122,089,224
Allowances, Charity Care and Provision for Uncollectible Accounts			<u>(61,585,408)</u>
Net Patient Service Revenue			<u>\$ 60,503,816</u>

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2010

Inpatient	Outpatient	Total
\$ -	\$ 2,255,894	\$ 2,255,894
1,774,388	2,941,881	4,716,269
3,588	530,499	534,087
1,443,682	7,395,599	8,839,281
-	263,190	263,190
350,229	-	350,229
30,677	88,526	119,203
1,111,668	2,363,822	3,475,490
1,693,232	9,801,847	11,495,079
-	1,383,801	1,383,801
-	1,098,096	1,098,096
5,715,071	17,546,685	23,261,756
-	3,109,636	3,109,636
3,101,497	2,495,585	5,597,082
367,479	4,282,009	4,649,488
656,116	-	656,116
3,146,065	9,003,978	12,150,043
-	230,980	230,980
564,521	15,438	579,959
3,473,683	2,841,380	6,315,063
864,938	2,064,106	2,929,044
774,343	4,843,173	5,617,516
753,108	903,874	1,656,982
9,125,959	1,243,465	10,369,424
2,139,655	-	2,139,655
206,497	719,521	926,018
-	99,005	99,005
<u>\$ 37,296,396</u>	<u>\$ 77,521,990</u>	114,818,386

(59,450,516)

\$ 55,367,870

**McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Accounts Receivable - Patients
June 30, 2011 and 2010**

	2011		2010	
	Amount (In Thousands)	Percent of Total	Amount (In Thousands)	Percent of Total
Discharged patients, outpatients and patients in hospital				
Current	\$ 12,153	44.6%	\$ 11,412	46.8%
One to three months	7,836	28.7%	7,110	29.2%
Over three months	<u>7,287</u>	<u>26.7%</u>	<u>5,853</u>	<u>24.0%</u>
	27,276	<u>100.0%</u>	24,375	<u>100.0%</u>
Less - allowance for contractual adjustments	11,678		9,765	
Less - allowance for doubtful accounts	<u>2,691</u>		<u>2,563</u>	
Accounts receivable - patients	<u>\$ 12,907</u>		<u>\$ 12,047</u>	

**McDonough County Hospital District
d/b/a McDonough District Hospital
Schedules of Financial Highlights
June 30, 2011 and 2010 and the Years Then Ended**

	<u>2011</u>	<u>2010</u>
Financial Condition		
Working capital	\$ 8,087,687	\$ 6,600,993
Ratio of current assets to current liabilities	1.76 to 1	1.73 to 1
Debt service coverage ratio	11.85 to 1	9.2 to 1
Unrestricted net assets	\$ 64,974,140	\$ 58,029,778
Property and equipment, net	\$ 18,777,776	\$ 17,839,357
Operating Results		
Operating revenue	\$ 61,813,240	\$ 56,545,996
Operating income	\$ 6,286,278	\$ 4,270,493
Operating income as a percent of operating revenue	10.2%	7.6%
Excess of revenues over expenses	\$ 6,894,300	\$ 4,813,698
Excess of revenues over expenses as a percent of operating revenue	11.15%	8.51%

Additional Information

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Hospital Statistical Data

(Unaudited)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Discharges		
Adult acute care	1,924	2,197
Newborn	320	327
Skilled nursing unit	<u>310</u>	<u>293</u>
Total	<u><u>2,554</u></u>	<u><u>2,817</u></u>
Admissions		
Adult acute care	1,910	2,155
Newborn	321	328
Skilled nursing unit	<u>304</u>	<u>299</u>
Total	<u><u>2,535</u></u>	<u><u>2,782</u></u>
Percentage of Occupancy		
Acute care	18.6%	24.0%
Skilled nursing unit	46.5%	50.2%
Patient Days		
Medical and surgical/pediatrics	5,655	7,543
Obstetrics	912	940
Skilled nursing unit	<u>2,718</u>	<u>2,929</u>
Total (exclusive of newborn days)	<u><u>9,285</u></u>	<u><u>11,412</u></u>
Average Length of Stay (Acute Care Days)	3.4	3.9
Departmental Volume Indicators		
X-ray procedures		
Inpatient	2,695	2,999
Outpatient	<u>22,210</u>	<u>21,143</u>
Total	<u><u>24,905</u></u>	<u><u>24,142</u></u>
Surgical procedures		
Inpatient	699	746
Outpatient	<u>3,290</u>	<u>3,103</u>
Total	<u><u>3,989</u></u>	<u><u>3,849</u></u>

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**McDonough County Hospital District
d/b/a McDonough District Hospital**

Hospital Statistical Data (Continued)

(Unaudited)

Years Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Emergency Room Visits	14,199	13,363
Respiratory Therapy Units	11,482	10,493
Physical Therapy Units	30,670	27,294
Laboratory Billed Tests	184,506	213,064
EKG	6,465	6,693
Ambulance Trips	2,975	2,639
Deliveries	321	328
Day Health Days	4,456	4,316
CT Scans	5,610	5,628
MRI Scans	1,627	1,671
Home Health Visits	8,515	9,129
Approximate Number of Employees (FTE)	452	468

McDonough County Hospital District
d/b/a McDonough District Hospital
Accountants' Report and Financial Statements
June 30, 2012 and 2011

**McDonough County Hospital District
d/b/a McDonough District Hospital**

June 30, 2012 and 2011

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Independent Accountants' Report

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
Macomb, Illinois

We have audited the accompanying balance sheets of McDonough County Hospital District d/b/a McDonough District Hospital (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. 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 McDonough County Hospital District d/b/a McDonough District Hospital as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Board of Directors
McDonough County Hospital District
d/b/a McDonough District Hospital
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Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The other 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 audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

September 13, 2012

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011**

Introduction

This management's discussion and analysis of the financial performance of McDonough County Hospital District d/b/a McDonough District Hospital (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 decreased in 2012 by \$1,231,771 or 71.4% compared to an increase of \$518,193 or 42.9% in 2011.
- Noncurrent cash and investments increased in 2012 by \$2,456,858 or 6.1% and in 2011 by \$3,686,098 or 10.1%.
- Net patient accounts receivable increased in 2012 by \$2,262,107 or 17.5% following an increase in 2011 by \$860,368 or 7.1%. In 2010, patient accounts receivable increased \$1,219,688 or 11.3%.
- The Hospital's total assets net of total liabilities (net assets) increased in each of the past three years with a \$5,226,696 or 7.9% increase in 2012, a \$7,057,677 or 12.0% increase in 2011 and a \$4,980,681 or 9.2% increase in 2010.
- The Hospital reported operating income in 2012 of \$4,071,330 representing a decrease of \$2,214,948 from the operating income reported in 2011 of \$6,286,278. Operating income in 2011 increased by \$2,015,785 from the 2010 operating income of \$4,270,493.

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, contributors, grantors or enabling legislation. The Hospital is accounted for as a government entity operating an acute care hospital (a business-type activity) and presents its financial statements using the economic resources measurement focus method and the accrual basis of accounting.

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011**

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; Operating Activities, Noncapital Financing Activities, Capital and Related Financing Activities and Investing 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 increased by \$5,226,696 (7.9%) in 2012 over 2011 as shown in Table 1 and increased by \$7,057,677 (12.0%) in 2011 over 2010.

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011

Table 1: Assets, Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets			
Cash	\$ 494,345	\$ 1,726,116	\$ 1,207,923
Noncurrent cash and investments	42,490,395	40,033,537	36,347,439
Patient accounts receivable, net of allowances	15,169,328	12,907,221	12,046,853
Supply inventory	1,392,858	1,350,706	1,391,287
Prepaid expenses and other	1,883,022	2,799,142	993,548
Capital assets, net of accumulated depreciation	21,794,012	18,777,776	17,839,357
Unamortized debt issue costs	9,000	12,000	15,000
Other assets	1,438,453	1,603,962	1,430,185
Total assets	<u>\$ 84,671,413</u>	<u>\$ 79,210,460</u>	<u>\$ 71,271,592</u>
Liabilities			
Current maturities of long-term debt	\$ 799,282	\$ 775,689	\$ 752,792
Accounts payable and accrued expenses	9,978,667	8,408,539	6,626,837
Estimated third-party settlements	951,088	1,511,270	1,658,989
Long-term debt	1,672,237	2,471,519	3,247,208
Total liabilities	<u>13,401,274</u>	<u>13,167,017</u>	<u>12,285,826</u>
Net Assets			
Invested in capital assets, net of related debt	19,871,540	17,125,184	17,854,357
Restricted by donor, non-expendable	283,915	283,866	283,336
Restricted by donor, expendable for specific operating activities	699,765	785,437	672,652
Unrestricted	50,414,919	47,848,956	40,175,421
Total net assets	<u>71,270,139</u>	<u>66,043,443</u>	<u>58,985,766</u>
Total liabilities and net assets	<u>\$ 84,671,413</u>	<u>\$ 79,210,460</u>	<u>\$ 71,271,592</u>

Cash and noncurrent cash and investments collectively increased \$1,225,087 or 2.93% in 2012. The increase is due to a \$3,044,053 increase in funded depreciation and an \$894,608 increase in the self-insurance trust fund coupled with a \$1,231,771 decrease in cash and a \$1,042,571 decrease in bond indentures. The increase in funded depreciation can be attributed to the Medicaid replacement tax payment of \$1,800,000 as well as the transfer of the 2011 CMS low volume adjustment settlement of \$1,500,000. The increase in the self-insurance fund is to fund the trust to the appropriate level based on the actuary analysis. The decrease in the bond indenture fund can be attributed to the use of the fund for the Hospital's current lab remodeling project, which will be completed in fiscal year 2013. The increase in cash and noncurrent cash and investments is also attributable to the increase in net assets of \$5,226,696. In 2011, cash and noncurrent cash and investments increased \$4,204,291 or 11.2%.

McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011

Net patient service revenues increased in 2012 by \$2,562,501 (4.2%) as compared to 2011. Net patient accounts receivable increased by \$2,262,107 (17.5%). This translates to approximately 10 more days of net revenue at June 30, 2012 versus June 30, 2011. This increase is primarily attributable to the state's delay to pay Medicaid claims. Overall, gross Medicaid accounts receivable increased approximately \$7,400,000. Patient accounts receivable increased by \$860,368 (7.1%) or one less of a day at June 30, 2011 versus June 30, 2010.

Capital assets increased and related long term debt decreased for the current building project, as discussed in the *Capital Assets* section below.

Accounts payable and accrued expenses collectively increased \$1,570,128 or 18.7% in 2012. The increase is due to a change in estimate for the self-insured portion of medical malpractice risk. In 2011 accounts payable and accrued expenses increased \$1,781,702 or 26.9%.

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's net assets increased by \$5,226,696 or 7.9%, as shown in Table 2. This increase is made up of several different components and represents a decrease of 25.94% compared with the increase in net assets for 2011 of \$7,057,677. The Hospital's change in net assets increased from \$4,980,681 in 2010 to \$7,057,677 in 2011, an increase of 41.7%.

Table 2: Operating Results and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating Revenues			
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$4,285,026, 2011 - \$3,481,829	\$ 63,066,317	\$ 60,503,816	\$ 55,367,870
Other operating revenues	<u>1,302,157</u>	<u>1,309,424</u>	<u>1,178,126</u>
Total operating revenues	<u>64,368,474</u>	<u>61,813,240</u>	<u>56,545,996</u>
Operating Expenses			
Salaries and wages	29,155,433	27,109,943	25,749,006
Employee benefits	8,849,231	8,282,008	8,299,590
Supplies and drugs	7,091,570	6,558,890	6,388,203
Purchased services	4,388,123	3,457,933	3,617,344
Professional fees	2,579,983	1,714,215	1,169,511
Utilities	865,900	924,787	880,324
Insurance	1,627,184	2,189,285	1,075,398
Other operating expenses	2,034,701	1,484,424	1,493,577
Depreciation and amortization	2,977,459	2,900,017	2,685,492
Leased equipment	<u>727,560</u>	<u>905,460</u>	<u>917,058</u>
Total operating expenses	<u>60,297,144</u>	<u>55,526,962</u>	<u>52,275,503</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital
Management's Discussion and Analysis
June 30, 2012 and 2011**

	2012	2011	2010
Operating Income	\$ 4,071,330	\$ 6,286,278	\$ 4,270,493
Nonoperating Revenues (Expenses)			
Investment income	828,311	747,825	733,772
Other, net	(389,426)	(351,641)	(332,672)
Contributions	57,419	242,395	142,105
Interest - capital asset related debt	(26,942)	(30,557)	-
Total nonoperating revenues	469,362	608,022	543,205
Excess of Revenues Over Expenses Before Capital Grants and Gifts	4,540,692	6,894,300	4,813,698
Capital Grants and Gifts	686,004	163,377	166,983
Increase in Net Assets	\$ 5,226,696	\$ 7,057,677	\$ 4,980,681

Operating Income and Losses

The first component of the overall change in the Hospital's net assets is its operating income, generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2012, the Hospital has reported an operating income of \$4,071,330.

2012

The operating income for 2012 decreased by \$2,214,948 as compared to 2011. The primary components of the decreased operating income are:

- An increase in net patient service revenue of \$2,562,501 or 4.2%
- An increase in salaries and wages of \$2,045,490 or 7.5%
- An increase in purchased services of \$930,190 or 26.9%
- An increase in professional fees of \$865,768 or 50.51%
- A decrease in insurance expense of \$562,101 or 25.7%

Overall gross patient charges increased by \$11,324,811 or 9.28%. Inpatient revenues were up \$3,172,547 or 9.36% from 2011 as a result of four new physicians. Outpatient revenues increased from 2011 by \$8,152,264 or 9.24% due to the addition of a convenience clinic and due to increases in emergency service, laboratory service and operating room service charges. Hospital staff grew 13.9 full-time employees over 2011 due to expansion of physician offices and Hospital's response to Medicare's pay for performance model. Additional expenses were incurred as a result of outsourcing the Hospital's hospitalist program and partial staffing for emergency room physician positions.

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2011

The operating income for 2011 increased by \$2,015,785 as compared to 2010. The primary components of the increased operating income are:

- An increase in net patient service revenue of \$5,135,946 or 9.3%
- An increase in salaries and wages of \$1,360,937 or 5.3%
- An increase in insurance expense of \$1,113,887 or 103.6%

Overall gross patient charges increased by \$7,270,838 or 6.3%. However, inpatient revenues were down \$3,394,980 or 9.1% from 2010 as a result of physicians retiring or relocating. Outpatient revenues increased from 2010 by \$10,665,818 or 13.6% in part due to additional volume in surgery and the emergency room.

In July 2011, the Hospital received notification of a Sole Community Hospital Low Volume Adjustment settlement related to the year ended June 30, 2008, resulting in an increase in net patient service revenue of approximately \$1,500,000 during 2011.

Insurance expense increased due to a change in estimate for the self-insured portion of medical malpractice risk.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of interest income from its investments, investment income from its share of ownership in the Physician Hospital Organization, Inc., leasing office space to members of its medical staff, unrestricted contributions and interest expense.

Nonoperating revenues and expenses decreased \$138,660 or 22.8% in 2012 compared to 2011. Reason for decrease is primarily attributable to a \$37,785 or 10.7% decrease in other nonoperating revenues and an \$184,976 or 76.3% decrease in contribution revenues.

Capital Asset and Debt Administration

Capital Assets

At the end of 2012, the Hospital had \$21,794,012 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Hospital purchased new capital assets costing \$6,422,577. Significant purchases include construction in progress as described in Note 5, new CT scanning equipment and new equipment related to the orthopedic clinic that was added in 2012.

At the end of 2011, the Hospital had \$18,777,776 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2011, the Hospital purchased new capital assets costing \$4,247,910. Significant purchases include construction in progress as described in Note 5, new parking lots and a digital mammography system.

**McDonough County Hospital District
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Management's Discussion and Analysis
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Debt

At June 30, 2012, the Hospital had \$2,471,519 in debt certificates outstanding. At June 30, 2011, the Hospital had \$3,247,208 in debt certificates outstanding. The decrease is due to scheduled maturity payments.

Other Economic Factors

The largest employer in the hospital service region, Western Illinois University ("University"), has remained relatively stable in the number of employees at the Macomb campus (1,908) even with a near record number of retirements due to uncertainty with the state pension programs. While enrollment for the 2012 freshman class at the University was slightly down from last year, enrollment as a whole remained fairly stable. Groundbreaking on the WIU Performing Arts Center is still unknown but will be no earlier than the Spring of 2013. NTN Bower (the second largest employer in the county) broke ground in May 2012 on a new \$100,000,000 facility that will be approximately 200,000 square feet and create 80 permanent full-time jobs.

Report of Management's Responsibility

The management of the Hospital is responsible for the preparation and integrity of the financial information presented in this report. The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board and the Financial Accounting Standards Board and include amounts based on judgments and estimates made by management.

The 2012 and 2011 financial statements have been audited by the independent accounting firm of **BKD, LLP**, who was given unrestricted access to all financial records and related data, including the minutes of all meetings of the board of directors. The board of directors provides oversight to the financial reporting process. Integral to this process is the review and discussion with management of the monthly financial statements and the external auditors for the annual financial statements.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

**Balance Sheets
June 30, 2012 and 2011**

Assets

	2012	2011
Current Assets		
Cash	\$ 494,345	\$ 1,726,116
Patient accounts receivable, net of allowance; 2012 - \$3,053,030, 2011 - \$2,691,489	15,169,328	12,907,221
Supply inventory	1,392,858	1,350,706
Prepaid expenses and other	1,883,022	2,799,142
Total current assets	18,939,553	18,783,185
Noncurrent Cash and Investments		
By board for funded depreciation	24,732,451	21,688,398
By board for self-insurance trust fund	5,883,290	4,988,682
By board for loan/grant scholarship fund	251,042	201,783
Under bond indenture agreement - held by trustee	540,046	1,582,617
Development fund	1,607,709	1,604,028
Externally restricted by donors	881,480	992,075
Certificates of deposit and government agency notes	8,594,377	8,975,954
	42,490,395	40,033,537
Capital Assets, Net	21,794,012	18,777,776
Other Assets		
Unamortized debt issue costs	9,000	12,000
Other	1,438,453	1,603,962
	1,447,453	1,615,962
Total assets	\$ 84,671,413	\$ 79,210,460

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Current maturities of long-term debt	\$ 799,282	\$ 775,689
Accounts payable and accrued expenses	9,978,667	8,408,539
Estimated third-party settlements	<u>951,088</u>	<u>1,511,270</u>
Total current liabilities	<u>11,729,037</u>	<u>10,695,498</u>
Long-term Debt	<u>1,672,237</u>	<u>2,471,519</u>
Total liabilities	<u>13,401,274</u>	<u>13,167,017</u>
Net Assets		
Invested in capital assets, net of related debt	19,871,540	17,125,184
Restricted by donor, non-expendable	283,915	283,866
Restricted by donor, expendable for specific operating activities	699,765	785,437
Unrestricted	<u>50,414,919</u>	<u>47,848,956</u>
Total net assets	<u>71,270,139</u>	<u>66,043,443</u>
Total liabilities and net assets	<u>\$ 84,671,413</u>	<u>\$ 79,210,460</u>

McDonough County Hospital District
d/b/a McDonough District Hospital
Statements of Revenues, Expenses and Changes in Net Assets
June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2012 - \$4,285,026, 2011 - \$3,481,829	\$ 63,066,317	\$ 60,503,816
Other operating revenues	1,302,157	1,309,424
Total operating revenues	64,368,474	61,813,240
Operating Expenses		
Salaries and wages	29,155,433	27,109,943
Employee benefits	8,849,231	8,282,008
Supplies and drugs	7,091,570	6,558,890
Purchased services	4,388,123	3,457,933
Professional fees	2,579,983	1,714,215
Utilities	865,900	924,787
Insurance	1,627,184	2,189,285
Other operating expenses	2,034,701	1,484,424
Depreciation	2,977,459	2,900,017
Leased equipment	727,560	905,460
Total operating expenses	60,297,144	55,526,962
Operating Income	4,071,330	6,286,278
Nonoperating Revenues (Expenses)		
Investment income	828,311	747,825
Other, net	(389,426)	(351,641)
Contributions	57,419	242,395
Interest - capital asset related debt	(26,942)	(30,557)
Total nonoperating revenues	469,362	608,022
Excess of Revenues Over Expenses Before Capital Grants and Gifts	4,540,692	6,894,300
Capital Grants and Gifts	686,004	163,377
Increase in Net Assets	5,226,696	7,057,677
Net Assets, Beginning of Year	66,043,443	58,985,766
Net Assets, End of Year	\$ 71,270,139	\$ 66,043,443

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Statements of Cash Flows

June 30, 2012 and 2011

	2012	2011
Operating Activities		
Receipts from and on behalf of patients	\$ 60,244,028	\$ 59,495,729
Payments to suppliers and contractors	(16,354,619)	(16,969,488)
Payments to employees	(38,004,664)	(35,391,951)
Other receipts, net	1,302,157	1,309,424
Net cash provided by operating activities	7,186,902	8,443,714
Noncapital Financing Activities		
Contributions	57,419	242,395
Other	(389,426)	(351,641)
Net cash used in noncapital financing activities	(332,007)	(109,246)
Capital and Related Financing Activities		
Capital grants and gifts	686,004	163,377
Principal paid on long-term debt	(775,689)	(752,792)
Interest paid on long-term debt	(26,942)	(30,557)
Purchase of capital assets	(6,509,131)	(4,102,895)
Proceeds from sale of capital assets	2,130	18,642
Net cash used in capital and related financing activities	(6,623,628)	(4,704,225)
Investing Activities		
Purchase of investments	(2,256,130)	(3,864,469)
Investment income	828,311	747,825
Net cash used in investing activities	(1,427,819)	(3,116,644)
Increase (Decrease) in Cash and Cash Equivalents	(1,196,552)	513,599
Cash and Cash Equivalents, Beginning of Year	1,744,147	1,230,548
Cash and Cash Equivalents, End of Year	\$ 547,595	\$ 1,744,147
Supplemental Cash Flows Information		
Property and equipment included in accounts payable	\$ 277,350	\$ 363,904

**McDonough County Hospital District
d/b/a McDonough District Hospital
Statements of Cash Flows (Continued)
June 30, 2012 and 2011**

	2012	2011
Reconciliation of Cash to the Balance Sheet		
Cash	\$ 494,345	\$ 1,726,116
Cash in noncurrent cash and investments board designated	53,250	18,031
Total cash	547,595	1,744,147
Reconciliation of Net Operating Revenues to Net Cash Provided by Operating Activities		
Operating income	4,071,330	6,286,278
Depreciation	3,364,376	3,294,574
(Gain) loss on sale and disposal of capital assets	39,835	(3,725)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(2,262,107)	(860,368)
Supply inventory	(42,152)	40,581
Prepaid expense and other assets	919,120	(1,802,594)
Estimated third-party settlements	(560,182)	(147,719)
Accounts payable and accrued expenses	1,656,682	1,636,687
Net cash provided by operating activities	\$ 7,186,902	\$ 8,443,714

McDonough County Hospital District d/b/a McDonough District Hospital

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

McDonough County Hospital District d/b/a McDonough District Hospital (the "Hospital") is an acute care hospital located in Macomb, Illinois. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the McDonough County area. The Hospital is a 40% owner of McDonough Physician-Hospital Organization, Inc. ("MPHO"). The Hospital accounts for its ownership in MPHO under the equity method. The primary purpose of MPHO is to coordinate physician and hospital participation in managed care contracting.

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 are recognized when the transaction takes place. Operating revenues and expenses include exchange transactions. Government-mandated nonexchange transactions that are not program specific include certain taxes, investment income and interest on capital assets-related debt and 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.

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.

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.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2012 and 2011

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

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

The Hospital has joined together with other providers of health care services to form the Illinois Compensation Trust, a risk pool (the "Pool") currently operating as common risk management and insurance programs for its members. The Hospital pays annual premiums to the Pool for its employee injuries insurance coverage. The Pool's governing agreements specify that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of specified stop-loss amounts.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2012 and 2011

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Patient accounts receivable are stated at net realizable amounts from patients, third-party payers and others for services rendered plus any accrued and unpaid interest. Patient accounts receivable are ordinarily due 30 days after the issuance of the invoice. Balances past due more than 30 days are considered delinquent if no payment arrangements have been made. Accounts are written off after an evaluation of the collectibility of the account has been made.

Supplies

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

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. The following estimated useful lives are being used by the Hospital:

Land improvements	5 – 10 years
Buildings and leasehold improvements	10 – 40 years
Equipment	3 – 10 years

Net Assets

Net assets of the Hospital are classified in four 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, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted non-expendable net assets have been restricted by donors to be maintained by the Hospital in perpetuity. 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.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2012 and 2011

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. Costs of these services were \$1,130,500 and \$835,400 for 2012 and 2011, respectively.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by the sick time buy back policy and the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. 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.

Income Taxes

The Hospital is exempt from income taxes under provisions of the Internal Revenue Code as a political subdivision of the state of Illinois. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

McDonough County Hospital District d/b/a McDonough District Hospital

Notes to Financial Statements

June 30, 2012 and 2011

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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services are paid at prospectively determined per diem rates that are based on the patients' acuity. 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 fiscal intermediary.

The Medicare program has designated the Hospital as a sole community hospital for Medicare reimbursement purposes. This designation increases the payments the Hospital receives for inpatient services provided to Medicare beneficiaries.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates.

Approximately 35% and 36% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for years ended June 30, 2012 and 2011, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term. Approximately 55% of gross patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for both years ended June 30, 2012 and 2011.

During the year ended June 30, 2011, net patient service revenue increased by approximately \$1,500,000 due to Sole Community Hospital Low Volume Adjustment related to the year ended June 30, 2008.

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 discounts from established charges and fee schedules.

Illinois Hospital Medicaid Assessment Program

In December 2008, the state of Illinois implemented a hospital assessment program beginning July 1, 2008, that qualified for federal matching funds through the Illinois Medicaid program. Under the program, each hospital is assessed taxes based on the hospital's adjusted gross hospital revenue. Payments related to this program began in March 2009. Under the provisions of the program, the Hospital anticipates annual net patient service revenue of approximately \$1,789,000. As part of legislation to achieve Medicaid savings, the Hospital will receive a 3.5% rate reduction for all payments including the current Hospital Assessment program. However, part of the

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

legislation also included an Enhanced Hospital Assessment Program which extended the original sunset provision from June 30, 2013 to December 31, 2014, and provides for an additional \$611,200.

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 credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Illinois; bonds of any city, county, school district or special road district of the state of Illinois; bonds of any state or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2012 and 2011, respectively, \$14,494,069 and \$8,486,543 of the Hospital's bank balances of \$19,701,052 and \$23,031,845 were exposed to custodial credit risk as follows:

	2012	2011
Uninsured and collateral held by pledging financial institution	\$ 1,851,866	\$ 742,209
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	12,642,203	7,744,334
Total	\$ 14,494,069	\$ 8,486,543

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

At June 30, 2012 and 2011, the Hospital had the following investments and maturities:

Type	June 30, 2012		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,333,382	\$ 1,112,120	\$ 3,221,262
U.S. agencies and instrumentalities obligations	19,110,756	-	19,110,458
	<u>\$ 23,444,138</u>	<u>\$ 1,112,120</u>	<u>\$ 22,331,720</u>
Type	June 30, 2011		
	Maturities in Years		
	Fair Value	Less Than 1	1 - 5
U.S. Treasury obligations	\$ 4,427,896	\$ 1,326,204	\$ 3,101,692
U.S. agencies and instrumentalities obligations	14,341,675	-	14,341,675
	<u>\$ 18,769,571</u>	<u>\$ 1,326,204</u>	<u>\$ 17,443,367</u>

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2012	2011
Carrying value		
Deposits	\$ 19,122,162	\$ 22,585,682
Investments	23,444,138	18,769,571
	<u>\$ 42,566,300</u>	<u>\$ 41,355,253</u>
Included in the following balance sheet captions		
Cash	\$ 494,345	\$ 1,726,116
Noncurrent cash and investments less \$197,792 and \$183,752 notes receivable for 2012 and 2011, respectively, and \$220,648 donations receivable for 2012 and 2011	42,071,955	39,629,137
	<u>\$ 42,566,300</u>	<u>\$ 41,355,253</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

Investment Income

	2012	2011
Interest	\$ 771,531	\$ 788,568
Net increase (decrease) in fair value of investments	56,780	(40,743)
	\$ 828,311	\$ 747,825

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable, net of contractual allowances at June 30, 2012 and 2011, consisted of:

	2012	2011
Medicare	\$ 1,559,875	\$ 1,784,074
Medicaid	1,175,110	281,470
Other third-party payers	9,831,447	8,615,380
Patients	5,655,896	4,917,297
	18,222,328	15,598,221
Less allowance for uncollectible accounts	3,053,000	2,691,000
	\$ 15,169,328	\$ 12,907,221

The Hospital has a concentration in accounts receivable due from Illinois Medicaid. Illinois Medicaid comprises approximately \$10,100,000 or 64% of gross accounts receivable at June 30, 2012, and approximately \$1,110,000 of net receivables. The Hospital has reserved the receivables at the normal amount expected from the State program. 73% of total state accounts receivable is greater than 60 days aged.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

Note 5: Capital Assets

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

	2012			
	Beginning Balance	Additions/ Transfers	Disposals	Ending Balance
Land	\$ 111,602	\$ -	\$ -	\$ 111,602
Land improvements	1,963,256	238,958	134,173	2,068,041
Buildings	18,055,584	399,300	10,834	18,444,050
Equipment	43,576,357	4,209,427	1,207,313	46,578,471
Construction in progress	2,153,186	1,574,892	-	3,728,078
	<u>65,859,985</u>	<u>6,422,577</u>	<u>1,352,320</u>	<u>70,930,242</u>
Less accumulated depreciation				
Land improvements	1,084,650	104,222	95,447	1,093,425
Buildings	13,610,759	632,815	10,834	14,232,740
Equipment	32,386,800	2,627,339	1,204,074	33,810,065
	<u>47,082,209</u>	<u>3,364,376</u>	<u>1,310,355</u>	<u>49,136,230</u>
Capital assets, net	<u>\$ 18,777,776</u>	<u>\$ 3,058,201</u>	<u>\$ 41,965</u>	<u>\$ 21,794,012</u>

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

Debt Certificates

The Series 2010 debt certificates to bank are due through June 15, 2015, with principal and interest at 3% payable monthly. The certificates are secured by certain capital assets. The debt service requirements as of June 30, 2012, are as follows:

	Total to be Paid	Principal	Interest
2013	\$ 862,497	799,282	63,215
2014	862,497	823,593	38,904
2015	862,498	848,644	13,854
	<u>\$ 2,587,492</u>	<u>\$ 2,471,519</u>	<u>\$ 115,973</u>

Note 9: Restricted and Designated Net Assets

At June 30, 2012 and 2011, all restricted expendable net assets were available to be used for specific operating activities.

Restricted non-expendable net assets are restricted to investment in perpetuity. The income derived from non-expendable net assets is to be used for the support of unrestricted Hospital activities.

At June 30, 2012 and 2011, \$30,866,783 and \$26,878,863, respectively, of unrestricted net assets has been designated by the Hospital's board of directors for capital acquisitions, for use if and when an obligation should arise from the Hospital being self-insured for malpractice insurance and to provide loans and grants to Hospital employees. Designated net assets remain under the control of the board of directors, which may at its discretion, later use these net assets for other purposes.

Note 10: Assets Held in Trust

The Hospital is a contingent income beneficiary of the Fellheimer Trust. Because the assets of the Trust are not controlled by the Hospital, they are not included in the Hospital's financial statements. The fair value of the assets totaled approximately \$8,664,000 and \$8,839,000 at June 30, 2012 and 2011, respectively. Distributions of income are made at the discretion of the trustees. The terms of the Trust require that income from the Trust be distributed at least annually to the Hospital "... for the purpose of providing nursing home, medical and extended care for elderly persons residing in the vicinity of Macomb, Illinois and, to the extent feasible, giving preferential consideration to persons lacking financial means to otherwise provide for such care." The Trust further provides that, under certain restricted conditions, distributions may be made of

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

Trust principal for construction of Hospital facilities or for the Hospital's general purposes. Income distributed to the Hospital by the Trust amounted to \$319,120 in 2012 and \$275,850 in 2011, respectively. Undistributed income due to the Hospital by the Trust amounted to \$63,190 in 2012 and \$80,539 in 2011, respectively.

Note 11: Medical Malpractice Claims

The Hospital is self-insured for medical malpractice risks. The Hospital has an excess coverage policy for professional liability. Losses from asserted and unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Discount rates to determine total liability were 4% in 2012 and 2011.

Activity in the Hospital's accrued medical malpractice claims liability during 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ 3,330,000	\$ 1,751,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,040,000	1,600,000
Claims and expenses paid	(67,000)	(21,000)
Balance, end of year	\$ 4,303,000	\$ 3,330,000

Note 12: Pension Plan

The Hospital contributes to a defined contribution pension plan covering substantially all eligible employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the Plan. The Plan provides retirement and death benefits to Plan members and their beneficiaries. Benefit provisions are contained in the Plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for the Hospital expressed as a percentage of covered payroll were 4% for 2012 and 2011. Employees are required to contribute an amount equal to at least 2% of their compensation in order to be eligible for the Hospital contribution. Contributions actually made by Plan members and the Hospital aggregated \$1,859,930 and \$784,723 during 2012 and \$1,564,626 and \$736,348 during 2011, respectively.

**McDonough County Hospital District
d/b/a McDonough District Hospital**

Notes to Financial Statements

June 30, 2012 and 2011

Note 13: Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large 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 of our 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 state funded programs.

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

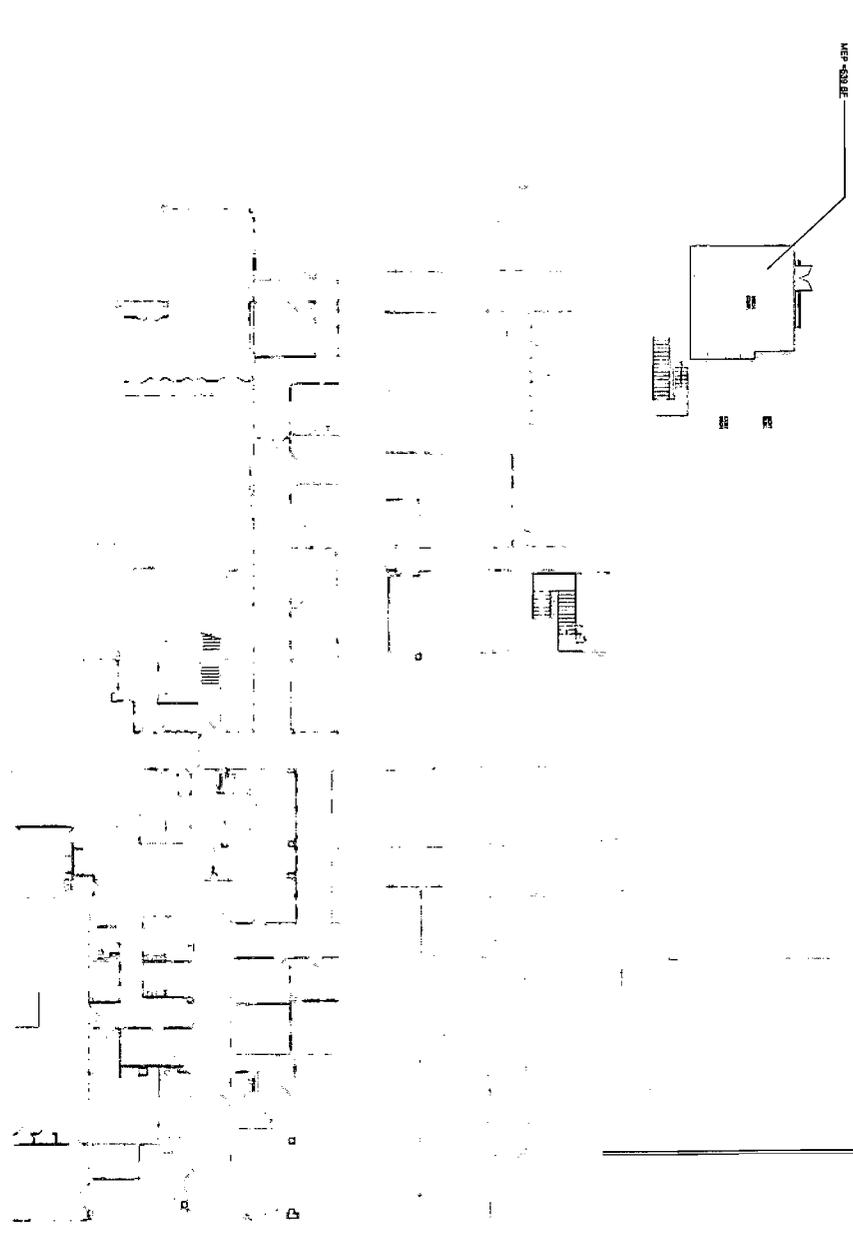
Other Information

2011		
Inpatient	Outpatient	Total
\$ -	\$ 2,648,742	\$ 2,648,742
1,679,712	3,196,086	4,875,798
3,912	647,000	650,912
-	-	-
1,335,511	8,020,297	9,355,808
-	255,993	255,993
364,481	-	364,481
13,935	80,823	94,758
986,166	2,513,682	3,499,848
1,643,241	11,352,927	12,996,168
-	1,329,745	1,329,745
-	1,338,958	1,338,958
5,122,726	19,030,340	24,153,066
-	5,769,109	5,769,109
2,943,097	2,679,920	5,623,017
176,800	4,531,608	4,708,408
740,411	-	740,411
3,030,689	9,796,636	12,827,325
-	249,126	249,126
549,622	21,936	571,558
2,981,600	2,931,663	5,913,263
804,876	2,490,537	3,295,413
717,139	5,634,335	6,351,474
878,203	1,048,955	1,927,158
7,689,010	1,666,853	9,355,863
2,089,787	-	2,089,787
150,498	775,068	925,566
-	177,469	177,469
<u>\$ 33,901,416</u>	<u>\$ 88,187,808</u>	122,089,224
		<u>(61,585,408)</u>
		<u>\$ 60,503,816</u>

McDonough County Hospital District
d/b/a McDonough District Hospital
Hospital Statistical Data (Continued)
Years Ended June 30, 2012 and 2011
(Unaudited)

	<u>2012</u>	<u>2011</u>
Emergency Room Visits	13,997	14,199
Respiratory Therapy Units	8,922	11,482
Physical Therapy Units	38,025	30,670
Laboratory Billed Tests	191,645	184,506
EKG	6,629	6,465
Ambulance Trips	2,817	2,975
Deliveries	331	321
Day Health Days	4,748	4,456
CT Scans	5,832	5,610
MRI Scans	1,616	1,627
Home Health Visits	8,758	8,515
Approximate Number of Employees (FTE)	458	452

RENOVATION - LOWER LEVEL FLOOR



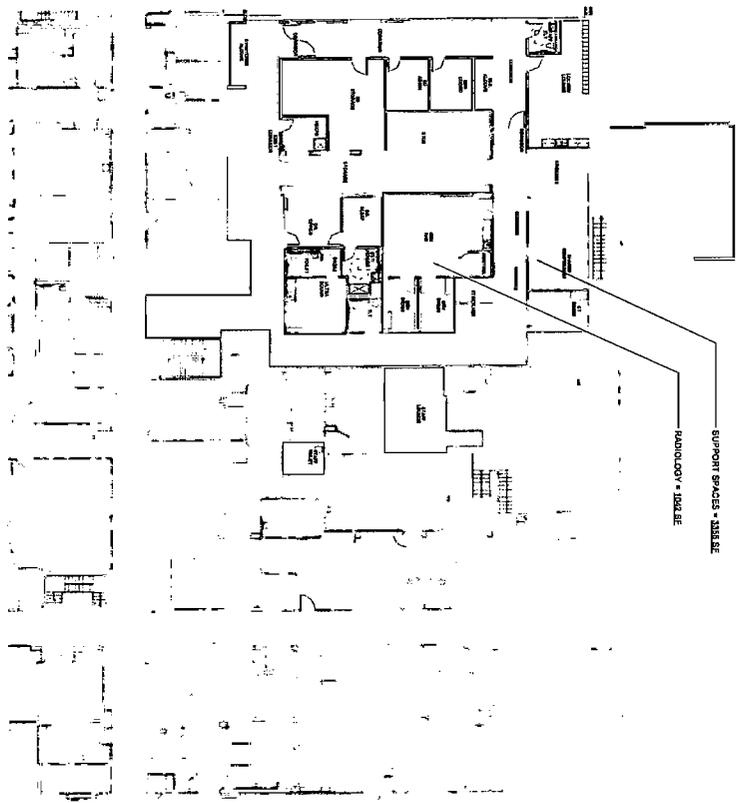
Original

OWNER	PROJECT	SHEET NO.	DATE
McDonough District Hospital	McDonough District Hospital Facilities Improvement	D1.04	08/26/13

- CLINICAL**
- ACUTE CARE - 12,319 SF (SECOND FLOOR)
 - ACUTE CARE - 6,442 SF (THIRD FLOOR)
 - PHYSICAL THERAPY - 4,592 SF
 - EMERGENCY - 4,467 SF
 - RADIOLOGY - 1,042 SF
 - WOUND CARE - 1,699 SF
 - INFUSION - 1,977 SF

- NON CLINICAL**
- SOC / INTUITION - 1,282 SF
 - HOSPITALIST - 428 SF
 - QUALITY & INNOVATION - 1,422 SF
 - CLINICAL NUTRITION & DIABETES - 1,028 SF
 - MEP - 639 SF
 - SUPPORT SPACES - NOT APPLICABLE
 - SWELL SPACE - 10,245 SF

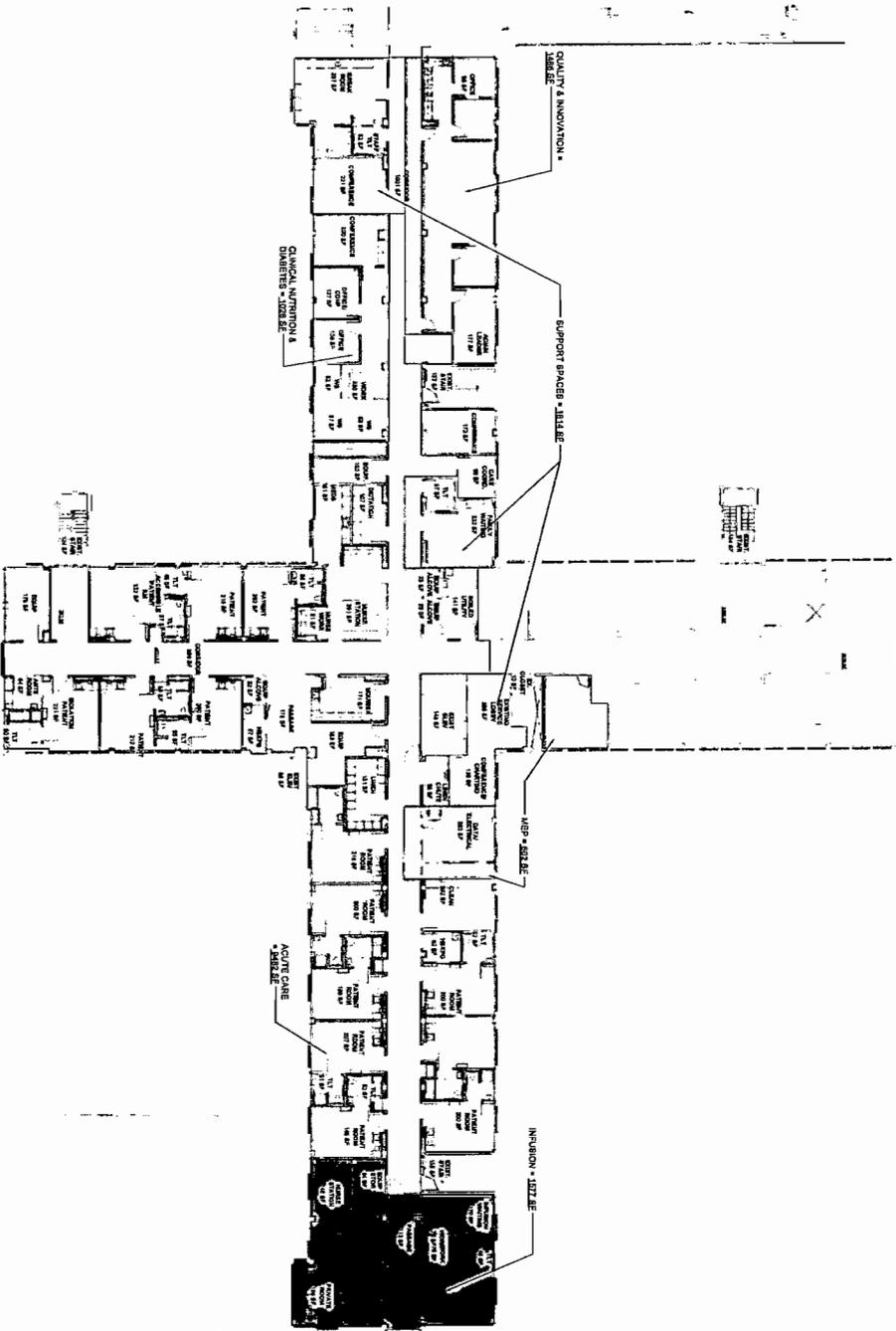
RENOVATION - 1ST FLOOR



- CLINICAL**
- ACUTE CARE - 1219 SF (SECOND FLOOR)
 - ACUTE CARE - 1542 SF (THIRD FLOOR)
 - PHYSICAL THERAPY - 1520 SF
 - EMERGENCY - 1887 SF
 - RADIOLOGY - 1042 SF
 - WOUND CARE - 1268 SF
 - INFUSION - 1177 SF
- NON CLINICAL**
- SOC / INVOLUTION - 1203 SF
 - HOSPITALIST - 448 SF
 - QUALITY & INNOVATION - 1488 SF
 - CLINICAL NUTRITION & DIABETES - 1228 SF
 - MEP - NOT APPLICABLE
 - SUPPORT SPACES - 1208 SF
 - SHELL SPACE - 1129 SF

OWNER	PROJECT	SHEET NO.	DATE	PROJECT LOCATION
McDonough District Hospital	McDonough District Hospital Facilities Improvement	D1 05	08/26/13	McDonough District Hospital, McDonough, VA

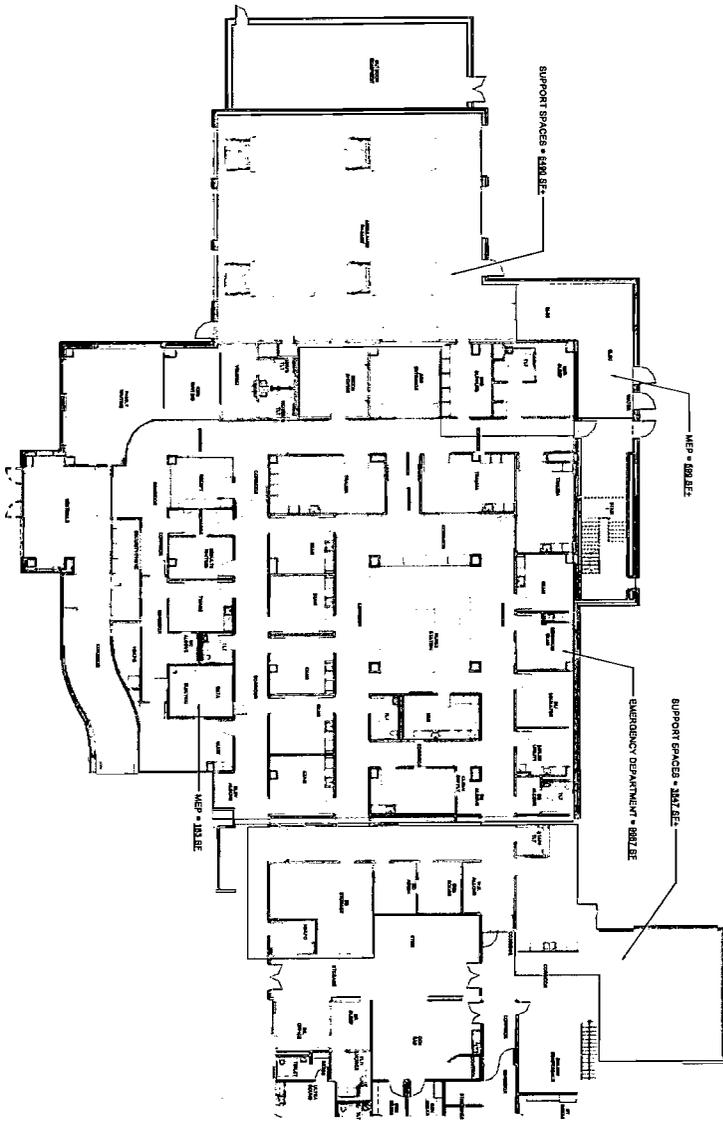
RENOVATION - 3RD FLOOR



- CLINICAL**
- ACUTE CARE - 12,319 SF (SECOND FLOOR)
 - ACUTE CARE - 8,442 SF (THIRD FLOOR)
 - PHYSICAL THERAPY - 4,003 SF
 - EMERGENCY - 3,817 SF
 - RADIOLOGY - 1,242 SF
 - WOUND CARE - 1,268 SF
 - INFUSION - 1,077 SF
- NON CLINICAL**
- SOC / UTILIZATION - 1,521 SF
 - HOSPITALIST - 468 SF
 - QUALITY & INNOVATION - 1,468 SF
 - CLINICAL NUTRITION & DIABETES - 1,028 SF
 - MSP - 623 SF
 - SUPPORT SPACES - 1,214 SF
 - SHELL SPACE - 10,293 SF

CONTRACTOR	PROJECT	ISSUE NO.	DATE	PROJECT NUMBER
McDonough District Hospital	McDonough District Hospital Facilities Improvement	D1.10	08/26/13	

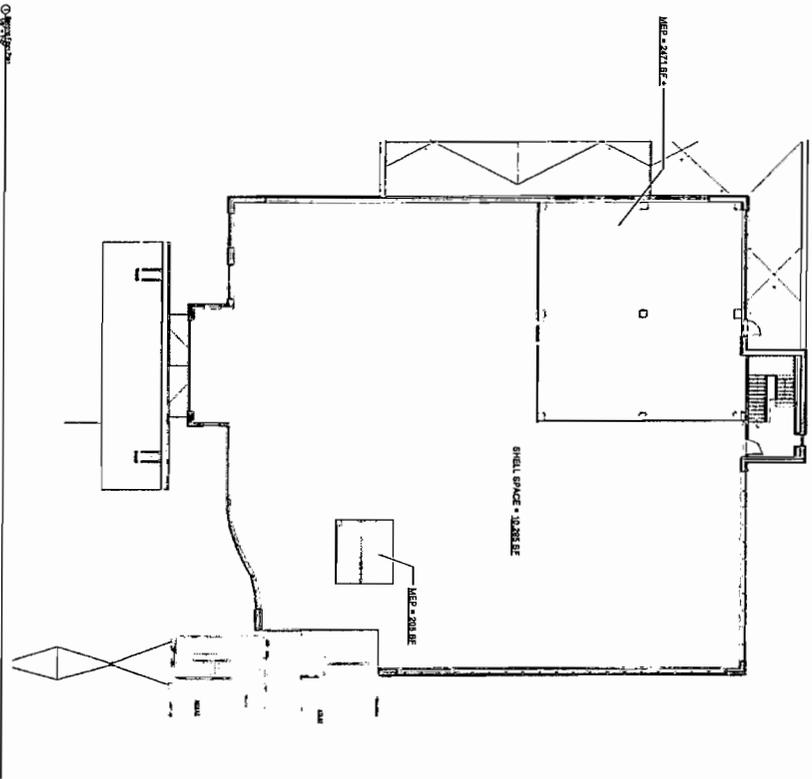
ADDITION - 1ST FLOOR



- CLINICAL
- ACUTE CARE - 12,316 SF (SECOND FLOOR)
- ACUTE CARE - 5,483 SF (THIRD FLOOR)
- PHYSICAL THERAPY - 2,000 SF
- EMERGENCY - 9,887 SF
- RADIOLOGY - 1,042 SF
- WOUND CARE - 1,562 SF
- INFUSION - 1,977 SF
- NON CLINICAL
- SOC / UTILIZATION - 1,483 SF
- HOSPITALIST - 426 SF
- QUALITY & INNOVATION - 1,046 SF
- CLINICAL NUTRITION & DIABETES - 1,428 SF
- MEP - 702 SF
- SUPPORT SPACES - 10,287 SF
- SHELL SPACE - 10,286 SF

OWNER	PROJECT	SHEET NO.	DATE
McDonough District Hospital	McDonough District Hospital Facilities Improvement	D1 06	08/26/13

ADDITION - 2ND FLOOR



- CLINICAL**
- ACUTE CARE - 12,316 SF (SECOND FLOOR)
- ACUTE CARE - 5,482 SF (THIRD FLOOR)
- PHYSICAL THERAPY - 5,500 SF
- EMERGENCY - 4,807 SF
- RADIOLOGY - 1,022 SF
- WOUND CARE - 1,265 SF
- INFUSION - 1,577 SF
- NON CLINICAL**
- SOC / ORIENTATION - 1,488 SF
- HOSPITALIST - 466 SF
- QUALITY & INNOVATION - 1,488 SF
- CLINICAL, NUTRITION & DIETITIAN - 1,026 SF
- MEP - 2078 SF
- SUPPORT SPACES - NOT APPLICABLE
- SHELL SPACE - 10,296 SF

CONTRACT
McDonough District Hospital

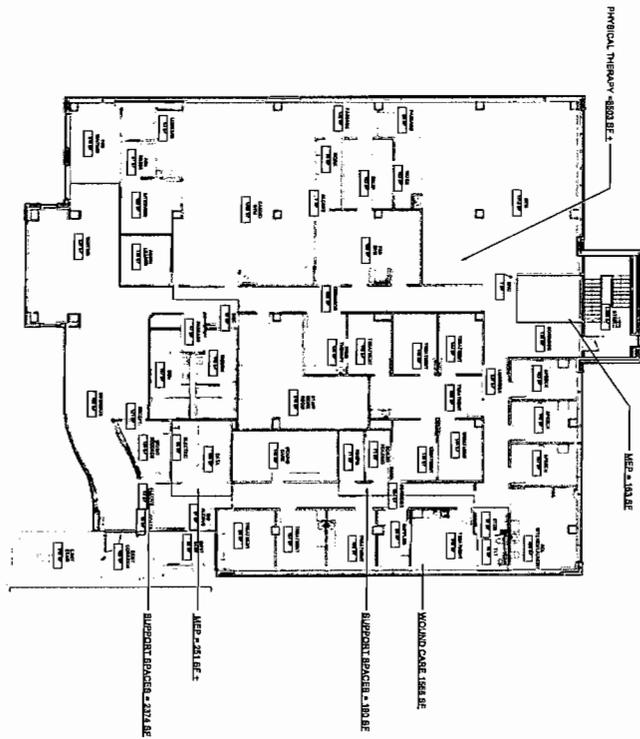
PROJECT
McDonough District Hospital Facilities Improvement

SHEET NO.
D1.07

DATE
08/26/13

PROJECT LOCATION
McDonough District Hospital
1000 W. 10th Street
McDonough, NE 68801

ADDITION - 3RD FLOOR



- | | |
|--------------------------|--|
| <input type="checkbox"/> | CLINICAL |
| <input type="checkbox"/> | ACUTE CARE - 12,318 SF (SECOND FLOOR) |
| <input type="checkbox"/> | ACUTE CARE - 9,482 SF (THIRD FLOOR) |
| <input type="checkbox"/> | PHYSICAL THERAPY - 8,203 SF |
| <input type="checkbox"/> | EMERGENCY - 9,287 SF |
| <input type="checkbox"/> | RADIOLOGY - 1,942 SF |
| <input type="checkbox"/> | WOUND CARE - 1,268 SF |
| <input type="checkbox"/> | INFUSION - 1,977 SF |
| <input type="checkbox"/> | NON CLINICAL |
| <input type="checkbox"/> | BOC/VENTILATION - 1,282 SF |
| <input type="checkbox"/> | HOSPITALITY - 486 SF |
| <input type="checkbox"/> | QUALITY & INNOVATION - 1,448 SF |
| <input type="checkbox"/> | CLINICAL NUTRITION & CHESTETS - 1,225 SF |
| <input type="checkbox"/> | MEP - 418 SF |
| <input type="checkbox"/> | SUPPORT SPACES - 3904 SF |
| <input type="checkbox"/> | SHELL SPACE - 6,288 SF |

OWNER
McDonough District Hospital

PROJECT
McDonough District Hospital Facilities Improvement

SHEET NO.
D1.109

DATE
08/26/13

DESIGNER
The McGraw-Hill Companies
McGraw-Hill Construction Information Group

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