

NUECES COUNTY HOSPITAL DISTRICT

AGREED UPON PROCEDURES

DECEMBER 31, 2012

DRAFT FOR MANAGEMENT DISCUSSIONS ONLY

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

December 20, 2013

The Board of Managers of the
Nueces County Hospital District
Corpus Christi, Texas

We have performed the procedures enumerated in the attached supplement, agreed to by the Nueces County Hospital District and Christus Spohn Health System (Spohn), to selected records and transactions solely for the purpose of determining whether Spohn complied with its capital expenditure obligation under the Master Agreement and Lease Agreement with the Nueces County Hospital District.

This engagement to apply agreed upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not; perform an audit, the objective of which would be the expression of an opinion on Nueces County Hospital District's or Spohn's financial statements or specified elements, accounts, or items thereof. Accordingly, we do not express such an opinion. Also, we express no opinion on the effectiveness of Nueces County Hospital District's or Spohn's internal control or any part thereof. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the management of Nueces County Hospital District and the Board of Managers and is not intended to be and should not be used by anyone other than these specified parties.

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NUECES COUNTY HOSPITAL DISTRICT

AGREED UPON PROCEDURES

CONTRACT TERMS

Nueces County Hospital District (District) has a Master Agreement and Lease Agreement with Spohn which includes a provision to require a specified amount of Capital Expenditures on an annual basis. The capital expenditure portion of the agreement has been revised three times and is summarized below:

SUMMARY OF CAPITAL REQUIREMENT BY YEAR

PERIOD	TERM		DOLLAR AMOUNT / TIMING	DESCRIPTION
	FROM	TO		
1	08/06/96	12/31/05	\$3 million; avg annual over lease term	Commercially reasonable;
2	01/01/06	12/31/06	\$6 million; Per year Added: Greater of: a) \$3 million or b) 20% of net DSH	Defined capital: Minimum useful life per Medicare Provider Reimbursement Manual (MPR Manual)
3	01/01/07	present	\$6 million in 2 categories; 3 yr rolling avg 1. \$3 million @ MMC or 2 MOB's only 2. \$3 million excluding: major equip, landscape, shrubs	1)Minimum useful life per MPR Manual 2)Defined 3 specific locations: Memorial Medical Center (MMC) 2 Memorial Office Buildings at Morgan (MOBs)

We reviewed management’s calculation of allowable costs, as shown in Exhibit 2. Management has deemed certain assets as non-countable based on the Lease Agreement’s terms and related legal guidance provided by the District.

The capital costs submitted by Spohn shown at Exhibit 1 included information technology costs for hardware and software amounting to \$16,338,488 and laundry equipment of \$835,520. These items are based on an allocation of costs for the entire system and Spohn could not provide a detailed listing. It could not be verified that these items were physically located at the allowable locations. Improvement costs for the clinics of \$246,277 are not allowable under the contract. Management contends that they would consider additional information on the location for these disallowed costs.

We reviewed the reported assets deemed not countable by the Hospital District and validated the District’s non-countable determinations as legitimate based on the Master Agreement’s terms and related legal guidance provided by the District.

PROCEDURES PERFORMED

We reviewed Spohn's capital asset listing as of December 31, 2012 and agreed selected assets acquired or built during the year ended December 31, 2012 to capital expenditure costs submitted to the District. Capital Expenditures exceeding \$100,000 that were not fully depreciated were agreed to purchase invoices. A few smaller items were also selected for testing.

Equipment

We selected all equipment purchases exceeding \$100,000 plus several smaller purchases during the year ended December 31, 2012. Our sample of large equipment consisted of 10 purchased items each with a cost ranging from \$23,599 to \$184,000 for a total cost of \$1,151,561. On **December 20, 2013**, accompanied by Spohn's Plant Maintenance Manager and Controller, we physically observed that the selected equipment was on-site at Memorial Hospital. Additionally, all of the equipment selected was agreed to invoices and were subject to the detailed review listed below.

Leasehold Improvements

On **December 20, 2013**, accompanied by Spohn personnel, we observed the location of leasehold improvements for one leasehold improvement amounting to \$44,955. Additionally, invoices were reviewed supporting the expenditure. There were two leasehold improvements totaling of \$72,450.

Detailed Review

For both equipment and leasehold improvement selected above, we reviewed the following:

1. Validated the cost of selected assets by comparing reported cost to the purchase invoice;
2. Verified that reported assets are physically located at Memorial Medical Center (MMC), medical office buildings (MOB) as reported and allowed by Master Agreement terms, as amended;
3. Verify that reported assets comply with the following:
 - a) Meet the definition of an asset as defined in the Medicare Provider Reimbursement Manual (MPR Manual) for years wherein the MPR Manual definition was applicable
 - b) Have a minimum useful life as defined in the American Hospital Association's publication Estimated Useful Lives of Hospital Assets (AHA Asset Guide) for years wherein the AHA Asset Guide was applicable.
4. Reviewed reported assets transfers in and out;
 - a) Confirm asset transfers in are recorded at remaining depreciable value.
 - b) Confirm reported asset transfers out are recorded at net book value.
 - c) Confirm that reported assets that are physically removed are reported on the transfers out schedule.

Construction in Progress (CIP)

For CIP projects we obtained a detailed list of the costs included for each project and selected invoices from the major contractors for each project. There were four projects that were completed in 2012 that was in progress in 2011 and one project started in 2012. We reviewed the supporting invoices or the most recent architects certified statement for the selected projects as shown in Exhibit 5. Additionally, on December 20, 2013, accompanied by Spohn personnel, we observed the location of the CIP with a cost of least \$100,000 as listed in Exhibit 5. All of the projects that were in progress at December 31, 2012 had been completed by the time of our observation.

FINDINGS AND OBSERVATIONS

No exceptions were noted.

Leasehold Improvements

No exceptions were noted.

Revised Management Calculation

Exhibit 3 is a revised copy of management's calculation of allowable costs after updating for the exceptions. After eliminating the exceptions, the allowable costs continue to meet the capital expenditure requirements in the Spohn's first and second contract.

Under Contract 3, Spohn is required to expend a total of \$6 Million for the 3 year rolling average and a rolling average of \$3Million specifically on the MMC building. December 31, 2009 is the first 3 year rolling period that an average can be calculated. As shown in Exhibit 3, compliance with Contract 3 since 2009 is as follows:

- For the 3 year rolling average ended December 31, 2009, Spohn's expenditures totaled \$4,886,731 and the MMC building averaged \$1,572,614. Therefore Spohn's total and building expenditures were underfunded by \$1,113,269 and \$1,427,386, respectively, for the three year rolling average.
- For the 3 year rolling period ending December 31, 2010, Spohn's expenditures totaled \$6,691,736 and MMC building averaged \$3,517,178. Therefore Spohn's expenditures complied with the contract.
- For the 3 year rolling period year ended December 31, 2011, Spohn's expenditures totaled \$7,701,011 and MMC buildings averaged to \$6,235,210. Therefore Spohn's expenditures complied with the contract.
- For the 3 year rolling period ending December 31, 2012, Spohn's expenditures totaled \$7,822,653 and MMC building averaged \$6,216,681. Therefore Spohn's expenditures complied with the contract.

ADDITIONAL PROCEDURES

Reserve Planning

Exhibit 4 is provided to aid Management in planning necessary reserves by establish undepreciated values of reported assets as of December 31, 2012. As shown in Exhibit 4, based on Spohn's Asset Listing the balance of undepreciated assets at December 31, 2012 is \$31,645,778. The Exhibit is broken down between equipment and leasehold improvements because equipment generally is depreciated over a shorter period than leasehold improvements.

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EXHIBITS

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EXHIBIT 1
Capital Expenditures Reported by Christus Spohn Memorial
1996 thru 2012
As Reported by Spohn

CONTRACT	YEAR	MEMORIAL MEDICAL CENTER BUILDING (MMC)								ROLLING AVERAGE BY CONTRACT PERIOD										
		MEDICAL OFFICE BUILDING (MOB)		PATIENT CARE		NON PATIENT		INFORMATION TECHNOLOGY		LAUNDRY		CLINIC		TOTAL		TOTAL BY CONTRACT OR PERIOD				
		CONTRACT 3		CONTRACT 2		CONTRACT 1		CONTRACT 3		CONTRACT 2		CONTRACT 1		TOTAL						
		EQUIPMENT MOB	BUILDING	TOTAL 2012	TOTAL 2011	TOTAL 2010	TOTAL 2009	CONTRACT 2	CONTRACT 1											
1	1996	18,154		13,144		113,015														
1	1997	474,617	248,243	966,430	683,190															
1	1998	891,429	476,466	1,234,839	427,837	3,597,888														
1	1999	796,275	317,450	1,672,507	673,201				835,520											
1	2000	930,574	183,523	932,089	60,870															
1	2001	796,279	348,320	2,386,669	142,296															
1	2002	169,702	625,731	344,836	31,905	576,607														
1	2003	534,869	176,978	2,224,335	95,952	413,082														
1	2004	643,776	454,925	2,927,910	94,651	945,572														
1	2005	613,628	286,195	3,295,051	238,672	1,920,445														3,965,704
2	2006	3,158,903	442,746	2,973,741	80,349	986,633														7,642,372
3	2007	1,265,425	205,456	1,530,609	85,918	824,262		2,992												
3	2008	1,854,479	851,958	6,026,246	131,289	1,023,171		98,719												
3	2009	1,597,938	80,602	1,030,273		1,620,600				4,504,032	1,572,614									6,076,646
3	2010	7,099,118	29,173	1,374,133		802,004				9,304,428	4,356,056	3,517,178				7,873,234				
3	2011	10,008,573	160,201	1,723,022		1,386,649			144,566	13,423,011	5,494,202	6,853,369		12,347,571						
3	2012	1,542,353	72,450	1,458,935		2,241,575				5,315,313	3,130,903	6,216,681			9,347,584					
TOTAL		32,396,092	4,960,417	32,114,769	2,859,145	16,338,488	835,520	246,277	89,750,708											
% to Total		36%	6%	36%	3%	18%	1%	0%	100%											

NOTE:
The summary represents capital expenditures as reported by Spohn and does not reflect any adjustments which may be made by the District after final review of detail to the compliance of contract terms.

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EXHIBIT 2
Capital Expenditures By Christus Spohn Memorial
1996 thru 2012
Revised for Allowable Capital

CONTRACT	YEAR	MEMORIAL MEDICAL CENTER BUILDING (MMC)	MEDICAL OFFICE BUILDING (MOB)	PATIENT CARE	NON PATIENT	TOTAL	ROLLING AVERAGE BY CONTRACT PERIOD								
							TOTAL BY CONTRACT OR PERIOD								
							CONTRACT 3		TOTAL 2012	TOTAL 2011	TOTAL 2010	TOTAL 2009	CONTRACT 2	CONTRACT 1	
EQUIPMENT MOB	BUILDING														
1	1996	18,154		13,144	113,015	144,313									
1	1997	474,617	248,243	966,430	683,190	2,372,480									
1	1998	891,429	476,466	1,234,839	427,837	3,030,571									
1	1999	796,275	317,450	1,672,507	673,201	3,459,433									
1	2000	930,574	183,523	932,089	60,870	2,107,056									
1	2001	796,279	348,320	2,386,669	142,296	3,673,564									
1	2002	169,702	625,731	344,836	31,905	1,172,174									
1	2003	534,869	176,978	2,224,335	95,952	3,032,134									
1	2004	643,776	454,925	2,927,910	94,651	4,121,262									
1	2005	613,628	286,195	3,295,051	238,672	4,433,546									3,044,691
2	2006	3,158,903	442,746	2,973,741	80,349	6,655,739							6,655,739		
3	2007	1,265,425	205,456	1,530,609	85,918	3,087,408									
3	2008	1,854,479	851,958	6,026,246	131,289	8,863,972									
3	2009	1,597,938	80,602	1,030,273		2,708,813	3,314,117	1,572,614				4,886,731			
3	2010	7,099,118	29,173	1,374,133		8,502,424	3,174,558	3,517,178			6,691,736				
3	2011	10,008,573	160,201	1,723,022		11,891,796	1,465,801	6,235,210	7,701,011						
3	2012	1,542,353	72,450	1,458,935		3,073,738	1,605,971	6,216,681	7,822,653						
TOTAL		32,396,092	4,960,417	32,114,769	2,859,145	72,330,423									

TOTAL 32,396,092 4,960,417 32,114,769 2,859,145 72,330,423

Contract Benchmarks
Benchmark Met

2012

3,000,000 6,000,000 6,000,000 6,000,000 6,000,000 6,000,000 3,000,000
Yes Yes Yes Yes No Yes Yes

Disallowed Information Technology allocations including Meditech. 16,338,488
Disallowed Laundry allocation - location of asset not @ MMC. 835,520
Disallowed clinic costs not located at MMC. 246,277

Total Disallowed 17,420,285

For the 3 year Rolling Period ended December 31, 2012:
Met the \$3 million average for MMC building and equipment.
Met \$6,000,000 Total Expenditures for the 3 Year Rolling Average.

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EXHIBIT 3
Capital Expenditures By Christus Spohn Memorial
1996 thru 2012
Revised for Allowable Capital per Report

ROLLING AVERAGE BY CONTRACT PERIOD												
TOTAL BY CONTRACT OR PERIOD												
CONTRACT 3												
CONTRACT	YEAR	TOTAL	EXCEPTIONS	REVISED TOTAL	EQUIPMENT MOB	BUILDING	TOTAL 2012	TOTAL 2011	TOTAL 2010	TOTAL 2009	CONTRACT 2	CONTRACT 1
1	1996	144,313		144,313								
	1997	2,372,480		2,372,480								
	1998	3,030,571		3,030,571								
	1999	3,459,433		3,459,433								
	2000	2,107,056		2,107,056								
	2001	3,673,564		3,673,564								
	2002	1,172,174		1,172,174								
	2003	3,032,134		3,032,134								
	2004	4,121,262	1(a)	(151,392)	3,969,870							
	2005	4,433,546	1(b)	(179,873)	4,253,673							3,007,884
2	2006	6,655,739	2	(126,184)	6,529,555						6,529,555	
3	2007	3,087,408		3,087,408								
3	2008	8,863,972		8,863,972								
3	2009	2,708,813		2,708,813	3,314,117	1,572,614				4,886,731		
3	2010	8,502,424		8,502,424	3,174,558	3,517,178			6,691,736			
3	2011	11,891,796		11,891,796	1,465,801	6,235,210		7,701,011				
3	2012	3,073,738		3,073,738	1,605,971	6,216,681	7,822,653					

TOTAL 72,330,423 (457,449) 71,872,974

Contract

- 1(a)** Disallowed Assets transferred to Spohn South;
- 1(b)** Disallowed Site Assessment included in Land Improvements

- 2** Disallowed Asset that was damaged in transit and never placed in service.

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EXHIBIT 4
Spohn's Capital Asset Listing
December 31, 2012

	<u>COST</u>	<u>ACCUMULATED DEPRECIATION</u>	<u>NET BOOK VALUE</u>
Total per Spohn's List			
Equipment	30,361,371	22,116,733	8,244,638
Leasehold Improvements	35,964,199	12,563,059	23,401,140
TOTAL	<u>66,325,570</u>	<u>34,679,792</u>	<u>31,645,778</u>
	100%	100%	100%
Physically Observed			
Equipment	4,830,860		
Leasehold Improvements	10,212,509		
TOTAL	<u>15,043,369</u>		
	23%		
Detailed Review			
Equipment	7,891,830		
Leasehold Improvements	15,766,594		
TOTAL	<u>23,658,424</u>		
	36%		

Not updated for physical
asset audit not completed

**EXHIBIT 5
Construction in Progress
2009 to 2012**

Completed in 2012	COSTS EXPENDED BY YEAR ENDED				TOTAL	INVOICES REVIEWED			TOTAL
	2009	2010	2011	2012		2010	2011	2012	
Renovation of the 7th Floor Gero Psych	24,721	572,744	--	--	597,465	595,000	--	--	595,000
Renovation to Elevator 5 & 6			114,736	--	114,736		114,736		114,736
Cooling Tower	122,991	2,174,735	196,277	--	2,494,003	1,734,581	314,816	--	2,049,397
Chiller	59,361	3,776		--	63,137	--	--	--	--
Fire Alarm System	461,468	237,666	190,553	--	889,687	399,929	173,875	--	573,804
Fire Sprinkler System	18,966	2,353,143	566,572	--	2,938,681	2,066,345	693,106	--	2,759,451
8th Floor AHU Upgrade and M/S Unit Conversion	--	1,088,926	1,555,481	16,633	2,661,040	960,382	1,263,735	--	2,224,117
Air Handler Units	--	--	987,068	369,116	1,356,184	2,225	1,088,184	--	1,090,409
Surgery Renovations	--	200,641	1,538,396	27,211	1,766,248	128,387	1,096,176	--	1,224,563
2nd Floor ICU and Gero Psych Roof	--	3,000	622,000	--	625,000	--	628,074	--	628,074
Memorial IR-Angio Suite	--	--	281,965 *	125,518	407,483	--	262,129 *	125,518	387,647
Roof Mitigation FEMA	--	--	852,561	648,133	1,500,694	--	664,277	648,133	1,312,410
Window Project FEMA	--	--	1,477,691	28,620	1,506,311	--	1,477,691	28,620	1,506,311
	<u>687,507</u>	<u>6,634,631</u>	<u>8,383,300</u>	<u>1,215,231</u>	<u>16,920,669</u>	<u>5,886,849</u>	<u>7,776,799</u>	<u>802,271</u>	<u>14,465,919</u>
									85%
Construction in Progress at December 31, 2012									
Elevator Modernization	--	--	--	3,150	3,150	--	--	--	--
ED Renovations	--	--	--	76,928	76,928	--	--	25,438	25,438
	<u>--</u>	<u>--</u>	<u>--</u>	<u>80,078</u>	<u>80,078</u>	<u>--</u>	<u>--</u>	<u>25,438</u>	<u>25,438</u>
									32%

* In 2012, reclassified Equipment with a cost of \$1,149,418

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