

Adair County Memorial Hospital
Greenfield, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2013 and 2012**

Together with Independent Auditor's Report

Adair County Memorial Hospital

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Adair County Memorial Hospital

Officials
June 30, 2013

Name	Title	Term Expires
Board of Trustees		
Willard Olesen	Chairperson	November 2014
Chad Schreck	Vice Chairperson	November 2016
Paul Nelson	Treasurer	November 2016
Roberta Caltrider	Secretary	November 2014
Tad Day	Member	November 2018
Ron Martin	Member	November 2018
Lois Houghtaling	Member	November 2014
Hospital Officials		
Angela Mortoza	Chief Executive Officer	Indefinite
Kevin Heinzeroth	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Adair County Memorial Hospital
Greenfield, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Adair County Memorial Hospital (Hospital) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2013 and 2012, and the respective change in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and 28 be presented to supplement the basic financial statements. Such information, although not a 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in Exhibits 1-8 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 – 8 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2013 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
November 26, 2013.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

This section of Adair County Memorial Hospital's (Hospital) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years that ended on June 30, 2013 and 2012. Please read it in conjunction with the financial statements in this report, which follow.

2013 Financial Highlights

- The Hospital's total assets increased by approximately \$82,000, primarily due to the financial results for the year ended June 30, 2013.
- During the year, the Hospital's total operating revenues increased approximately \$502,000 to \$9,764,784, or 5%, from the prior year while expenses increased approximately \$491,000, or 5%, to \$10,895,503. The Hospital had a loss from operations of \$1,130,719 which is 12% of total operating revenue.
- The Hospital received approximately \$1,398,000 in County tax subsidies, \$42,000 in investment income, and \$48,000 in noncapital grants and contributions resulting in an increase in net position of approximately \$357,000.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$203,000. The following is a list of significant items purchased:

<u>Asset</u>	<u>2013 Cost</u>
Ambulance garage	\$ 97,900
Anesthesia machine	\$ 35,000
IRHTP fiber	\$ 19,000
Home Care HVAC	\$ 15,800
Ambulance quarters foundation	\$ 10,700
Hospital shower remodel	\$ 10,300

2012 Financial Highlights

- The Hospital's total assets increased by approximately \$330,000 or 2%, primarily due to the financial results for the year ended June 30, 2012.
- During the year, the Hospital's total operating revenues increased approximately \$625,600 to \$9,262,318, or 7%, from the prior year while expenses increased \$6,700, or less than 1%, to \$10,404,000. The Hospital had a loss from operations of \$1,142,000 which is 12% of total operating revenue.
- The Hospital received approximately \$1,317,000 in County tax subsidies, \$53,000 in investment income, and \$49,000 in noncapital grants and contributions resulting in an increase in net position of approximately \$277,000.
- During the fiscal year, the Hospital made capital investments for a total of approximately \$141,000. The following is a list of significant items purchased:

<u>Department</u>	<u>2012 Cost</u>
Home care software	\$ 33,000
C-ARM	\$ 30,000
Analyzer	\$ 24,000
Imager	\$ 20,000

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Required Financial Statements

- The basic financial statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities.
- The Statements of Net Position include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital, and assessing the liquidity and financial flexibility of the Hospital.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue, Expenses, and Changes in Net Position. This statement measures improvements in the Hospital's operations over the past 3 years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Analysis of Hospital

The Statements of Net Position and the Statements of Revenue, Expenses, and Changes in Net Position report information about the Hospital's activities. These two statements report the net position of the Hospital and changes in it. Increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

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

Net Position

A summary of the Hospital's Statements of Net Position are presented in Table 1 below:

Table 1: Condensed Statements of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Total current assets	\$ 8,908,226	8,096,806	7,315,972	811,420	10%
Net capital assets	7,479,350	8,257,349	9,289,378	(777,999)	-9%
Other assets, including funded depreciation	<u>2,291,976</u>	<u>2,243,218</u>	<u>1,662,474</u>	<u>48,758</u>	2%
Total assets	<u>\$ 18,679,552</u>	<u>18,597,373</u>	<u>18,267,824</u>	<u>82,179</u>	0%
Current liabilities	\$ 2,727,747	2,713,035	2,375,241	14,712	1%
Long-term debt	<u>8,475,476</u>	<u>8,765,267</u>	<u>9,050,126</u>	<u>(289,791)</u>	-3%
Total liabilities	11,203,223	11,478,302	11,425,367	(275,079)	-2%
Net position	<u>7,476,329</u>	<u>7,119,071</u>	<u>6,842,457</u>	<u>357,258</u>	5%
Total liabilities and net position	<u>\$ 18,679,552</u>	<u>18,597,373</u>	<u>18,267,824</u>	<u>82,179</u>	0%

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Total assets increased by approximately \$82,000 to \$18,679,552 in fiscal year 2013 up from \$18,597,373 in fiscal year 2012. The most significant increase was in cash and cash equivalents on hand as a result of the receipt of preliminary cost report settlements for previous fiscal years. The change in total net position results primarily from operating results in the current year.

Total assets increased by \$329,549 to \$18,597,373 in fiscal year 2012, up from \$18,267,824 in fiscal year 2011. The most significant increase was in cash and cash equivalents on hand as a result of the receipt of preliminary cost report settlements for previous fiscal years. The change in total net position results primarily from operating results in the current year.

Summary of Revenue, Expenses, and Changes in Net Position

The following table presents a summary of the Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2013, 2012 and 2011:

Table 2: Condensed Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating revenue:					
Net patient service revenue	\$ 9,245,397	8,761,711	8,260,939	483,686	6%
Other	519,387	500,607	375,772	18,780	4%
Total operating revenue	<u>9,764,784</u>	<u>9,262,318</u>	<u>8,636,711</u>	<u>502,466</u>	5%
Expenses:					
Salaries and employee benefits	5,486,083	5,048,719	5,240,615	437,364	9%
Medical professional fees	1,769,074	1,735,247	1,599,305	33,827	2%
Supplies and other expenses	2,273,773	2,053,035	2,097,291	220,738	11%
Depreciation, amortization and interest	1,366,573	1,567,110	1,460,158	(200,537)	-13%
Total operating expenses	<u>10,895,503</u>	<u>10,404,111</u>	<u>10,397,369</u>	<u>491,392</u>	5%
Operating loss	(1,130,719)	(1,141,793)	(1,760,658)	11,074	-1%
Non-operating revenue	<u>1,487,977</u>	<u>1,418,407</u>	<u>1,389,986</u>	<u>69,570</u>	5%
Excess revenue over expenses before capital grants and contributions	357,258	276,614	(370,672)	80,644	29%
Capital grants and contributions	--	--	209,053	--	0%
Net position – beginning of year	<u>7,119,071</u>	<u>6,842,457</u>	<u>7,004,076</u>	<u>276,614</u>	4%
Net position – end of year	\$ <u><u>7,476,329</u></u>	<u><u>7,119,071</u></u>	<u><u>6,842,457</u></u>	<u><u>357,258</u></u>	5%

Sources of Revenue

Operating Revenue

During fiscal year 2013 and 2012, the Hospital derived the majority, or 95%, of its total operating revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts. The difference between the covered charges and the established contract is recognized as a contractual allowance. Other revenue includes grant income, cafeteria sales, and other miscellaneous services.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Table 3 presents the relative percentages of gross charges billed for patient services, by payor, for the fiscal years ended June 30, 2013, 2012, and 2011:

Table 3: Payor Mix by Percentage

	Year Ended June 30,		
	2013	2012	2011
Medicare	46 %	48	46
Medicaid	12	7	7
Wellmark	23	24	22
Other Commercial	14	15	22
Self-pay and other	5	6	3
Total patient revenues	<u>100 %</u>	<u>100</u>	<u>100</u>

Other Revenue

Other revenue includes grant income, 340B program revenue, cafeteria sales, and other miscellaneous services.

Table 4: Other Revenue

	Year Ended June 30,			Dollar Change	Percent Change
	2013	2012	2011		
Grants	\$ 304,886	274,018	266,114	30,868	11%
Pharmacy Revenue - 340B program	96,608	--	--	96,608	100%
Meals Sold	46,545	41,405	40,012	5,140	12%
Lifeline	24,600	26,985	27,740	(2,385)	-9%
EHR Incentive	4,229	111,578	--	(107,349)	-96%
Other	42,519	46,621	30,693	(4,102)	-9%
Total	<u>\$ 519,387</u>	<u>500,607</u>	<u>364,559</u>	<u>18,780</u>	<u>4%</u>

Non-operating Income

Non-operating income includes county tax subsidies, investment income and noncapital grants and contributions in fiscal year 2013 and 2012. The Hospital holds funds in its statements of net position that are invested primarily in money market funds and CD's. These investments earned \$42,000 and \$53,000 during fiscal year 2013 and 2012, respectively. The Hospital also received \$1,398,000 in county tax subsidy, and \$48,000 in noncapital grants and contributions in fiscal year 2013. In fiscal year 2012, the Hospital received \$1,317,000 in county tax subsidy and \$49,000 in noncapital grants and contributions.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Operating and Financial Performance

The following summarizes the Hospital's statements of revenue, expenses, and changes in net position between 2013, 2012, and 2011:

Overall activity at the Hospital, as measured by patient admissions, decreased by 11% to 153 admissions in 2013, from 171 admissions in 2012. Patient days remained consistent, with 810 in 2013 to 807 in 2012. Total outpatient procedures in the Emergency, Surgery, and Radiology departments decreased 7% to 5,022 in 2013 compared to 5,128 in 2012.

Overall activity at the Hospital, as measured by patient admissions, decreased by 2% to 171 admissions in 2012, from 175 admissions in 2011. Patient days increased 6% to 807 in 2012 from 759 in 2011. Total outpatient procedures in the Emergency, Surgery, and Radiology departments decreased 1% to 5,128 in 2012 compared to 5,193 in 2011.

Table 5: Patient and Hospital Statistical Data

	Year Ended June 30,			Change	Percent Change
	2013	2012	2011		
Total Admissions	153	171	175	(18)	-11%
Total Days Care	830	807	759	23	3%
Average Daily Census	2.27	2.20	2.08	0.07	3%
Average Length of Stay	5.42	4.72	4.34	0.71	15%
Emergency Room Visits	1,575	1,643	1,587	(68)	-4%
Total Surgical Procedures	215	220	185	(5)	-2%
Total Radiology Procedures	3,232	3,265	3,421	(33)	-1%
Total Ambulance Runs	445	329	302	116	35%
Home Health Visits	9,434	8,694	8,816	740	9%
Clinic Visits	15,823	15,406	17,523	417	3%
Full-time equivalents (FTE's)	81.37	78.08	80.60	3.29	4%

Total net patient service revenue increased approximately \$484,000, or 6%, in 2013 to \$9,245,397. In 2012, total net patient service revenue increased \$501,000, or 6%, to \$8,762,000.

In fiscal year 2013, gross patient revenue increased \$1,024,000, or 9% from prior year primarily due to increased inpatient and outpatient volume, as well as ancillary services. Contractual adjustments as a percent of gross revenue increased from 20.7% in 2012 to 22.6% in 2013. In fiscal year 2012, gross patient revenue increased \$708,000, or 7% from 2011 primarily due to increased outpatient volume and ancillary services. Contractual adjustments as a percent of gross revenue increased from 20.2% in 2011 to 20.7% in 2012.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2013 and 2012

Contractual Adjustments increased over prior year as described in the table below:

Table 6: Contractual Adjustments Summary

	Year Ended June 30,			Dollar Change	Percent Change
	2013	2012	2011		
Medicare	\$ 706,298	720,217	415,684	(13,919)	-2%
Medicaid	321,965	83,481	194,845	238,484	286%
Wellmark and other commercial	1,707,460	1,470,592	1,455,158	236,868	16%
Other Adjustments and charity care	71,230	75,139	85,402	(3,909)	-5%
Total	\$ <u>2,806,953</u>	<u>2,349,429</u>	<u>2,151,089</u>	<u>457,524</u>	19%

Net days in accounts receivable increased from 50 days in fiscal year 2012 to 51 days in fiscal year 2013. Net days in accounts receivable decreased from 55 days in fiscal year 2011 to 50 days in fiscal year 2012

Salary expenses increased approximately \$276,000, or 7%, to \$4,045,732 in 2013 from \$3,770,101 in 2012. As a percentage of net patient service revenue, salary expense was 44% and 43% for the fiscal years ended June 2013 and 2012, respectively. Full-time equivalents increased from 78.08 in 2012 to 81.37 in 2013.

Salary expenses decreased approximately \$250,000, or 6%, to \$3,770,101 in 2012 from \$4,020,196 in 2011. As a percentage of net patient service revenue, salary expense was 43% and 49% for the fiscal years ended June 2012 and 2011, respectively. Full-time equivalents decreased from 80.60 in 2011 to 78.08 in 2012.

Employee benefit expense increased approximately \$161,000, or 13% in 2013. Employee benefit expense represented 36% and 34% of salary expenses in fiscal years 2013 and 2012 respectively. Employee benefit expense increased \$58,000, or 5% in 2012. Employee benefit expense represented 34% and 30% of salary expenses in fiscal years 2012 and 2011, respectively.

In 2013, purchased services, including professional services expense increased approximately \$34,000, or 2% from prior year. As a percentage of net patient service revenue, purchase services expense decreased to 19% in fiscal year 2013, from 20% in fiscal year 2012. In 2012, purchased services, including professional services expense increased approximately \$136,000, or 9% from 2011. As a percentage of net patient service revenue, purchase services expense increased slightly to 20% in fiscal year 2012, from 19% in fiscal year 2011.

Depreciation decreased by \$191,000, or 16% in 2013, primarily due to depreciation on radiology equipment. Interest expense decreased \$10,000 to \$387,885 in 2013. Depreciation increased by \$110,000, or 10% in 2012, primarily due to depreciation on radiology equipment. Interest expense decreased \$3,500 to \$398,000 in 2012.

Total operating expenses increased by \$491,000, or 5%, for the year ended June 30, 2013 for the reasons discussed above. Total operating expenses increased by \$6,700, or less than 1%, for the year ended June 30, 2012 for the reasons discussed above.

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Management's Discussion and Analysis June 30, 2013 and 2012

Capital Assets

During fiscal year 2013 and 2012, the Hospital invested approximately \$203,000 and \$141,000, respectively, in a broad range of capital assets included in Table 7 below.

Table 7: Capital Assets

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Land and Land Improvements	\$ 412,353	407,047	407,047	5,306	1%
Buildings and Fixed Equipment	10,316,602	10,159,641	10,146,149	156,961	2%
Major Movable Equipment	<u>3,150,897</u>	<u>3,106,087</u>	<u>3,019,829</u>	<u>44,810</u>	1%
Subtotal	13,879,852	13,672,775	13,573,025	207,077	2%
Less: Accumulated Depreciation	<u>6,456,067</u>	<u>5,482,042</u>	<u>4,345,748</u>	<u>974,025</u>	18%
Net capital assets	<u>\$ 7,423,785</u>	<u>8,190,733</u>	<u>9,227,277</u>	<u>(766,948)</u>	-9%
Construction in Progress	<u>\$ 55,565</u>	<u>66,616</u>	<u>62,101</u>	<u>(11,051)</u>	-17%

Net property, plant, and equipment decreased in 2013 and 2012 as a result of the cost of new additions being less than annual depreciation expense. The Hospital has enhanced existing facilities and upgraded communication and patient care equipment. The decrease in Construction in Progress is due to capitalization of the Iowa Rural Health Telecommunications Program fiber connected in 2013. The increase in Construction in Progress in 2012 is due to planning fees for a remodel of the surgery, physical therapy and outpatient specialty clinic areas.

Long-Term Debt (including Capital Leases)

At June 30, 2013, the Hospital had \$8,765,118 in short-term and long-term debt. This has decreased \$279,038 from fiscal year 2012, as a result of scheduled payments. More detailed information about the Hospital's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 47% of the Hospital's total assets at June 30, 2013.

At June 30, 2012, the Hospital had \$9,044,156 in short-term and long-term debt. This has decreased \$340,000 from fiscal year 2011, as a result of a scheduled payments and the early retirement of the loan with Union State Bank. More detailed information about the Hospital's long-term liabilities is presented in the notes to the basic financial statements. Total debt outstanding represents approximately 48.6% of the Hospital's total assets at June 30, 2012

Contacting Hospital's Chief Financial Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Kevin Heinzerth
Chief Financial Officer
Adair County Memorial Hospital
641-743-7238

Adair County Memorial Hospital

Statements of Net Position June 30, 2013 and 2012

ASSETS	2013	2012
Current assets:		
Cash and cash equivalents	\$ 3,995,927	3,443,413
Short-term investments	1,360,659	1,352,318
Assets limited as to use or restricted, current portion	237,606	229,201
Receivables -		
Patients, net of estimated uncollectibles		
of \$346,430 in 2013 and \$331,932 in 2012	1,285,082	1,189,571
Pledges	14,006	26,636
Succeeding year property tax	1,485,978	1,398,009
Other	150,960	57,990
Inventories	180,603	204,670
Prepaid expenses	197,405	194,998
Total current assets	8,908,226	8,096,806
Assets limited as to use or restricted, net of current portion	2,159,783	2,112,729
Capital assets, net	7,479,350	8,257,349
Deferred financing costs, net	132,193	130,489
Total assets	\$ 18,679,552	18,597,373
LIABILITIES AND NET POSITION		
Current liabilities:		
Current portion of long-term debt	\$ 289,643	278,889
Accounts payable	239,090	328,764
Accrued salaries, vacation and benefits payable	465,817	451,149
Accrued interest payable	23,754	24,286
Estimated third-party payor settlements	223,465	231,938
Deferred revenue for succeeding year property tax receivable	1,485,978	1,398,009
Total current liabilities	2,727,747	2,713,035
Long-term debt, net of current portion	8,475,476	8,765,267
Total liabilities	11,203,223	11,478,302
Net position (deficit):		
Net investment in capital assets	(694,302)	(195,340)
Restricted - expendable	--	4,440
Unrestricted	8,170,631	7,309,971
Total net position	7,476,329	7,119,071
Total liabilities and net position	\$ 18,679,552	18,597,373

See notes to financial statements

Adair County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debts	\$ 9,589,328	9,022,528
Provision for bad debts	(343,931)	(260,817)
	<u>9,245,397</u>	<u>8,761,711</u>
Net patient service revenue	9,245,397	8,761,711
Other operating revenue	519,387	500,607
	<u>9,764,784</u>	<u>9,262,318</u>
Total operating revenue		
OPERATING EXPENSES:		
Salaries	4,045,732	3,770,101
Employee benefits	1,440,351	1,278,618
Medical professional fees	1,769,074	1,735,247
Supplies and other	1,311,383	1,099,371
General services	281,914	273,298
Administrative services	611,084	623,881
Insurance	69,392	56,485
Interest	387,885	397,521
Depreciation and amortization	978,688	1,169,589
	<u>10,895,503</u>	<u>10,404,111</u>
Total operating expenses		
OPERATING LOSS	<u>(1,130,719)</u>	<u>(1,141,793)</u>
NONOPERATING REVENUE:		
County tax revenue	1,398,009	1,316,664
Investment income	41,716	52,767
Noncapital grants and contributions	48,252	48,976
	<u>1,487,977</u>	<u>1,418,407</u>
Nonoperating revenue		
INCREASE IN NET POSITION	357,258	276,614
NET POSITION, Beginning of year	<u>7,119,071</u>	<u>6,842,457</u>
NET POSITION, End of year	<u>\$ 7,476,329</u>	<u>7,119,071</u>

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 9,141,413	9,536,983
Cash paid for employee salaries and benefits	(5,471,415)	(4,996,881)
Cash paid to suppliers and contractors	(4,203,831)	(3,771,884)
Other receipts and payments, net	<u>519,565</u>	<u>500,188</u>
Net cash provided by (used in) operating activities	<u>(14,268)</u>	<u>1,268,406</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	60,882	135,140
County tax receipts	<u>1,398,009</u>	<u>1,316,664</u>
Net cash provided by noncapital financing activities	<u>1,458,891</u>	<u>1,451,804</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(202,571)	(140,586)
Principal payments on long-term debt	(279,037)	(340,483)
Interest payments	<u>(388,417)</u>	<u>(397,899)</u>
Net cash used in capital and related financing activities	<u>(870,025)</u>	<u>(878,968)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to short-term investments and assets limited as to use or restricted	(63,800)	(850,281)
Withdrawals from investments and assets limited as to use or restricted	--	300,084
Investment income	<u>41,716</u>	<u>52,767</u>
Net cash used in investing activities	<u>(22,084)</u>	<u>(497,430)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	552,514	1,343,812
CASH AND CASH EQUIVALENTS, Beginning of year	<u>3,443,413</u>	<u>2,099,601</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 3,995,927</u>	<u>3,443,413</u>

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,130,719)	(1,141,793)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	978,688	1,169,589
(Gain) loss on sale of capital assets	178	(419)
Interest expense included in operating expenses	387,885	397,521
(Increase) decrease in current assets -		
Receivables -		
Patients	(95,511)	48,585
Other	(92,970)	(13,835)
Inventories	24,067	(4,244)
Prepaid expenses	(2,407)	(11,383)
Estimated third-party payor settlements	--	494,749
Increase (decrease) in current liabilities -		
Accounts payable	(89,674)	45,860
Accrued salaries, vacation and benefits payable	14,668	51,838
Estimated third-party payor settlements	(8,473)	231,938
Net cash provided by (used in) operating activities	\$ <u>(14,268)</u>	<u>1,268,406</u>

See notes to financial statements

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Adair County Memorial Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles. The Hospital is a Critical Access Hospital, operating with 25 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in the Adair County area.

A. *Reporting Entity*

For financial reporting purposes, Adair County Memorial Hospital has included all funds of the Hospital, specifically all assets, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

The Hospital is the beneficiary of the Adair County Health Foundation (Foundation), a legally separate not-for-profit corporation. The Foundation was formed to "protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services." The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The statements of net position display the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

E. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

G. Short-Term Investments

Short-term investments are assets available for operations without donor imposed restrictions. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at fair value.

H. Patient Receivables, Net

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. 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 bad debts 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) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

I. Inventories

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. Succeeding Year Property Tax Receivable

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

K. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

By Indenture Agreements – These funds are reserve funds as specified under indenture agreements.

By Donors – These funds are maintained by the Hospital according to the terms of donor restrictions to a specific time period or purpose.

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

L. Investment Income

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in increase in net position unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the increase in net position unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2013 and 2012, there were no investment declines that were determined to be other than temporary.

M. Capital Assets, Net

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings, improvements, and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over (under) expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

N. Deferred Financing Costs

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt. During 2013, the Hospital switched from the straight-line method to the bonds outstanding method resulting in amortization expense of (\$1,704). Amortization expense in 2012 was \$13,740. Amortization expense is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

O. Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits and earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Accrued compensated absences payable at June 30, 2013 and 2012 was \$229,842 and \$246,562, respectively.

P. Statement of Revenue, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenues peripheral or incidental transactions are reported as nonoperating gains and losses.

Q. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Adair, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

R. Increase in Net Position

The statements of revenue, expenses and changes in net position include increase in net position as a performance indicator. Changes in unrestricted net position that are excluded from increase in net position, consistent with industry practice, are contributions of capital assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

S. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

T. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

U. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from revenue under the Hospital's charity care policy were \$71,230 and \$75,139 for 2013 and 2012, respectively.

V. County Tax Revenue

Taxes are included in nonoperating revenue when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

W. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

X. *Change in Accounting Principle*

During 2013, the Hospital has adopted the provisions of GASB Statement No. 63. GASB Statements No. 63 required additional changes such as now referring to "Net Assets" as "Net Position" on the statements of net position.

Y. *Subsequent Events*

The Hospital considered events occurring through November 26, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

The Hospital entered into a contract on August 21, 2013 to purchase a new information technology system containing Electronic Health Record, Human Resources and Payroll modules. The total estimated purchase price of this system is approximately \$1,328,000, and will be paid for by cash reserves of the Hospital. The scheduled completion date of the project is June 9, 2014.

(2) **Net Patient Service Revenue**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare fiscal intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 1,171,967	1,121,907
Outpatient	9,358,395	8,516,788
Clinics	<u>1,865,919</u>	<u>1,733,262</u>
Total gross patient service revenue	<u>12,396,281</u>	<u>11,371,957</u>
Deductions from patient service revenue:		
Medicare	706,298	720,217
Medicaid	321,965	83,481
Other payors	1,707,460	1,470,592
Charity care	<u>71,230</u>	<u>75,139</u>
Total deductions from patient service revenue	<u>2,806,953</u>	<u>2,349,429</u>
Net patient service revenue before provision for bad debts	<u>\$ 9,589,328</u>	<u>9,022,528</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 47% and 10%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013 compared to 44% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2012. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 and 2012 net patient service revenue increased approximately \$92,000 and \$-0- respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

(3) Cash, Short-Term Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2013 and 2012 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had only certificates of deposit investments at June 30, 2013 and 2012.

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

The composition of short-term investments and assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Short-term investments:		
Operating reserves -		
Certificates of deposit	\$ 1,353,999	1,343,137
Accrued interest	6,660	9,181
Total short-term investments	<u>\$ 1,360,659</u>	<u>1,352,318</u>
Assets limited as to use or restricted:		
By indenture agreements -		
Cash and cash equivalent	\$ 194,512	164,131
Certificates of deposit	653,029	645,597
	847,541	809,728
By Donors,		
Certificate of deposit	--	4,440
By Board of Trustees for capital improvement,		
Certificates of deposit	1,549,848	1,527,762
Total assets limited as to use or restricted	2,397,389	2,341,930
Less amounts required to meet current obligations	237,606	229,201
Assets limited as to use or restricted, net of current portion	<u>\$ 2,159,783</u>	<u>2,112,729</u>

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 2,126,135	1,763,851
Less estimated third-party contractual adjustments	(494,623)	(242,348)
Less allowance for doubtful accounts	(346,430)	(331,932)
	<u>\$ 1,285,082</u>	<u>1,189,571</u>

The Hospital is located in Greenfield, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	33%	27%
Medicaid	3	10
Other third-party payors	41	35
Patients	23	28
	<u>100%</u>	<u>100%</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

(5) Capital Assets, Net

Capital assets activity for the years ended June 30, 2013 and 2012 were as follows:

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 50,806	--	--	50,806
Construction in progress	66,616	116,497	(127,548)	55,565
Total capital assets, not being depreciated	<u>117,422</u>	<u>116,497</u>	<u>(127,548)</u>	<u>106,371</u>
Capital assets, being depreciated:				
Land improvements	356,241	5,306	--	361,547
Building and leasehold improvements	9,249,747	10,478	108,438	9,368,663
Fixed equipment	909,894	21,861	16,184	947,939
Major movable equipment	3,106,087	48,429	(3,619)	3,150,897
Total capital assets, being depreciated	<u>13,621,969</u>	<u>86,074</u>	<u>121,003</u>	<u>13,829,046</u>
Less accumulated depreciation:				
Land improvements	195,280	23,638	--	218,918
Building and leasehold improvements	2,657,449	511,082	--	3,168,531
Fixed equipment	546,135	88,550	--	634,685
Major movable equipment	2,083,178	357,122	(6,367)	2,433,933
Total accumulated depreciation	<u>5,482,042</u>	<u>980,392</u>	<u>(6,367)</u>	<u>6,456,067</u>
Total capital assets, being depreciated, net	<u>8,139,927</u>	<u>(894,318)</u>	<u>127,370</u>	<u>7,372,979</u>
Total capital assets, net	<u>\$ 8,257,349</u>	<u>(777,821)</u>	<u>(178)</u>	<u>7,479,350</u>
	June 30, 2011	Additions	Transfers and Disposals	June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 50,806	--	--	50,806
Construction in progress	62,101	50,296	(45,781)	66,616
Total capital assets, not being depreciated	<u>112,907</u>	<u>50,296</u>	<u>(45,781)</u>	<u>117,422</u>
Capital assets, being depreciated:				
Land improvements	356,241	--	--	356,241
Building and leasehold improvements	9,242,460	7,287	--	9,249,747
Fixed equipment	903,689	--	6,205	909,894
Major movable equipment	3,019,829	83,350	2,908	3,106,087
Total capital assets, being depreciated	<u>13,522,219</u>	<u>90,637</u>	<u>9,113</u>	<u>13,621,969</u>
Less accumulated depreciation:				
Land improvements	171,480	23,800	--	195,280
Building and leasehold improvements	2,144,780	512,669	--	2,657,449
Fixed equipment	453,565	92,570	--	546,135
Major movable equipment	1,575,923	526,810	(19,555)	2,083,178
Total accumulated depreciation	<u>4,345,748</u>	<u>1,155,849</u>	<u>(19,555)</u>	<u>5,482,042</u>
Total capital assets, being depreciated, net	<u>9,176,471</u>	<u>(1,065,212)</u>	<u>28,668</u>	<u>8,139,927</u>
Total capital assets, net	<u>\$ 9,289,378</u>	<u>(1,014,916)</u>	<u>(17,113)</u>	<u>8,257,349</u>

Depreciation and amortization expense related to capital assets of \$980,392 and \$1,155,849 in 2013 and 2012, respectively, is included in the accompanying statements of revenue, expenses and changes in net position.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2013 and 2012 consisted of the following:

	<u>June 30,</u> <u>2012</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2013</u>	<u>Due Within</u> <u>One Year</u>
Hospital Revenue Bonds					
Series 2007 A (B)	\$ 4,260,000	--	(85,000)	4,175,000	90,000
REC Loan (C)	180,000	--	(30,000)	150,000	30,000
USDA Series A and B (D)	4,323,854	--	(90,063)	4,233,791	93,852
Capital Lease (E)	280,302	--	(73,974)	206,328	75,791
	<u>\$ 9,044,156</u>	<u>--</u>	<u>(279,037)</u>	<u>8,765,119</u>	<u>289,643</u>
	<u>June 30,</u> <u>2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2012</u>	<u>Due Within</u> <u>One Year</u>
Union State Bank (A)	\$ 66,966	--	(66,966)	--	--
Hospital Revenue Bonds					
Series 2007 A (B)	4,345,000	--	(85,000)	4,260,000	85,000
REC Loan (C)	210,000	--	(30,000)	180,000	30,000
USDA Series A and B (D)	4,410,184	--	(86,330)	4,323,854	89,915
Capital Lease (E)	352,489	--	(72,187)	280,302	73,974
	<u>\$ 9,384,639</u>	<u>--</u>	<u>(340,483)</u>	<u>9,044,156</u>	<u>278,889</u>

- (A) The Union State Bank notes payable consists of two separate notes with monthly payments of approximately \$1,232 in the aggregate, interest rates range from 4.0% to 4.50% collateralized by property and equipment. The note was fully paid off in 2012.
- (B) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially ranging from \$85,000 to \$280,000 through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%, collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

- (C) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over ten years; the first payment was made August 2008.
- (D) The USDA 2009 Series A and B bonds; \$4,500,000 maturing May 2039 with interest only payments monthly for the first 24 months, interest at 4.125%. Annual payments including principal and interest are \$266,760 on an aggregate basis.
- (E) Capital lease obligation, payable in monthly installments of \$6,664, including interest at 2.43%, through March 2016, collateralized by leased equipment.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

A summary of the Hospital's future principal and interest payments as of June 30, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 289,643	379,092	668,735
2015	300,451	369,307	669,758
2016	284,781	359,137	643,918
2017	241,194	349,885	591,079
2018	250,659	340,676	591,335
2019-2023	1,252,125	1,548,300	2,800,425
2024-2028	1,550,525	1,239,743	2,790,268
2029-2033	1,946,716	843,160	2,789,876
2034-2038	2,433,194	338,906	2,772,100
2039-2040	215,831	3,997	219,828
	<u>\$ 8,765,119</u>	<u>5,772,203</u>	<u>14,537,322</u>

In conjunction with the issuance of the Hospital Revenue Bonds Series 2007A, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund and a sinking fund which are included on the statement of net position as assets limited as to use or restricted. In addition, the Hospital is required to meet a coverage ratio of 1.20% or above. At June 30, 2013 and 2012, the Hospital met the coverage ratio.

In conjunction with the issuance of the USDA 2009 Series A and B bonds, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund which is included on the statement of net position as assets limited as to use or restricted.

The following is a summary of capitalized leased assets included in capital assets:

	<u>2013</u>	<u>2012</u>
Major movable equipment	\$ 376,890	376,890
Less: accumulated depreciation	169,549	94,194
	<u>\$ 207,341</u>	<u>282,696</u>

(8) Restricted Net Position

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

	<u>2013</u>	<u>2012</u>
Purchase of capital assets	\$ --	4,440

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$1,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

(10) Designated Net Position

Of the \$8,170,631 and \$7,309,971 of unrestricted net position in 2013 and 2012, respectively, \$1,549,848 and \$1,527,762 has been designated by the Hospital's Board of Trustees for capital improvements. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

(11) Pension Plan

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

Plan members are required to contribute 5.78% and 5.38% of their annual covered salary and the Hospital is required to contribute 8.67% and 8.07% of annual covered salary for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$351,665, \$306,210 and \$275,676, respectively, equal to the required contributions for each year.

(12) Management Contract

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2013 and 2012 were \$360,243 and \$344,404, respectively.

(13) Other Revenue

Other revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Grants	\$ 304,886	274,018
Pharmacy revenue – 340B program	96,608	--
Meals sold	46,545	41,405
Lifeline	24,600	26,985
CMS electronic health record incentive payments	4,229	111,578
Gain (loss) on sale of capital asset	(178)	419
Other	42,697	46,202
	<u>\$ 519,387</u>	<u>500,607</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2013 and 2012

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2013 and 2012, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. An incentive receivable of approximately \$19,000 and \$22,000 has been recognized in the statement of net position as of June 30, 2013 and 2012, and is included in estimated third-party payor settlements. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. As of June 30, 2013 and 2012 the Hospital has elected to record \$4,229 and \$111,578 of the incentive payment as other operating revenue in the period earned, and defer the remaining amount of the receivable related to future Medicare reimbursement. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

Adair County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) June 30, 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2013, Adair County Memorial Hospital's (excludes the Adair County Health Foundation) expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,398,009	--	1,398,009	1,221,277	176,732
Add: Other revenues / receipts	9,825,536	(116,075)	9,709,461	11,878,345	(2,168,884)
Less: Expenses / disbursements	<u>10,881,973</u>	<u>(298,701)</u>	<u>10,583,272</u>	<u>12,738,782</u>	<u>2,155,510</u>
Net	341,572	182,626	524,198	360,840	<u>163,358</u>
Balance beginning of year	<u>7,080,923</u>	<u>(3,649,022)</u>	<u>3,431,901</u>	<u>3,431,901</u>	
Balance end of year	\$ <u>7,422,495</u>	<u>(3,466,396)</u>	<u>3,956,099</u>	<u>3,792,741</u>	

See accompanying independent auditor's report

Combining Statement of Net Position
June 30, 2013

ASSETS	Adair County Memorial Hospital	Adair County Health Foundation	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 3,956,099	39,828	--	3,995,927
Short-term investments	1,360,659	--	--	1,360,659
Assets limited as to use or restricted, current portion	237,606	--	--	237,606
Receivables -				
Patients, net of estimated uncollectibles of \$346,430	1,285,082	--	--	1,285,082
Pledges	--	14,006	--	14,006
Succeeding year property tax	1,485,978	--	--	1,485,978
Other	150,960	--	--	150,960
Inventories	180,603	--	--	180,603
Prepaid expenses	197,405	--	--	197,405
Total current assets	8,854,392	53,834	--	8,908,226
Assets limited as to use or restricted, net of current portion	2,159,783	--	--	2,159,783
Capital assets, net	7,479,350	--	--	7,479,350
Deferred financing costs, net	132,193	--	--	132,193
Total assets	\$ 18,625,718	53,834	--	18,679,552
LIABILITIES AND NET POSITION				
Current liabilities:				
Current portion of long-term debt	\$ 289,643	--	--	289,643
Accounts payable	239,090	--	--	239,090
Accrued salaries, vacation and benefits payable	465,817	--	--	465,817
Accrued interest payable	23,754	--	--	23,754
Estimated third-party payor settlements	223,465	--	--	223,465
Deferred revenue for succeeding year property tax receivable	1,485,978	--	--	1,485,978
Total current liabilities	2,727,747	--	--	2,727,747
Long-term debt, net of current portion	8,475,476	--	--	8,475,476
Total liabilities	11,203,223	--	--	11,203,223
Net position (deficit):				
Net investment in capital assets	(694,302)	--	--	(694,302)
Restricted - expendable	--	--	--	--
Unrestricted	8,116,797	53,834	--	8,170,631
Total net position	7,422,495	53,834	--	7,476,329
Total liabilities and net position	\$ 18,625,718	53,834	--	18,679,552

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses and Changes in Net Position
For the Year Ended June 30, 2013**

	<u>Adair County Memorial Hospital</u>	<u>Adair County Health Foundation</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUE:				
Net patient service revenue before provision for bad debts	\$ 9,589,328	--	--	9,589,328
Provision for bad debts	(343,931)	--	--	(343,931)
Net patient service revenue	9,245,397	--	--	9,245,397
Other operating revenue	519,387	--	--	519,387
Total operating revenue	<u>9,764,784</u>	<u>--</u>	<u>--</u>	<u>9,764,784</u>
OPERATING EXPENSES:				
Salaries	4,045,732	--	--	4,045,732
Employee benefits	1,440,351	--	--	1,440,351
Medical professional fees	1,769,074	--	--	1,769,074
Supplies and other	1,311,383	--	--	1,311,383
General services	281,914	--	--	281,914
Administrative services	597,554	25,621	(12,091)	611,084
Insurance	69,392	--	--	69,392
Interest	387,885	--	--	387,885
Depreciation and amortization	978,688	--	--	978,688
Total operating expenses	<u>10,881,973</u>	<u>25,621</u>	<u>(12,091)</u>	<u>10,895,503</u>
OPERATING LOSS	<u>(1,117,189)</u>	<u>(25,621)</u>	<u>12,091</u>	<u>(1,130,719)</u>
NONOPERATING REVENUE:				
County tax revenue	1,398,009	--	--	1,398,009
Investment income	41,716	--	--	41,716
Noncapital grants and contributions	6,945	41,307	--	48,252
Nonoperating revenue	<u>1,446,670</u>	<u>41,307</u>	<u>--</u>	<u>1,487,977</u>
EXCESS REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	329,481	15,686	12,091	357,258
CAPITAL GRANTS AND CONTRIBUTIONS	<u>12,091</u>	<u>--</u>	<u>(12,091)</u>	<u>--</u>
INCREASE IN NET POSITION	341,572	15,686	--	357,258
NET POSITION, Beginning of year	<u>7,080,923</u>	<u>38,148</u>	<u>--</u>	<u>7,119,071</u>
NET POSITION, End of year	<u>\$ 7,422,495</u>	<u>53,834</u>	<u>--</u>	<u>7,476,329</u>

See accompanying independent auditor's report

**Patient Service Revenue
For the Years Ended June 30, 2013 and 2012**

	2013				2012			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 356,834	--	--	356,834	360,743	--	--	360,743
Swing-bed	--	--	173,695	173,695	--	--	165,900	165,900
Hospital physicians	--	129,261	--	129,261	--	132,067	--	132,067
	<u>356,834</u>	<u>129,261</u>	<u>173,695</u>	<u>659,790</u>	<u>360,743</u>	<u>132,067</u>	<u>165,900</u>	<u>658,710</u>
NURSING SERVICES:								
Operating and recovery rooms	3,418	647,022	--	650,440	6,260	647,745	--	654,005
Emergency room	5,085	620,770	--	625,855	4,188	461,851	--	466,039
Emergency physicians	--	220,569	--	220,569	--	221,727	--	221,727
	<u>8,503</u>	<u>1,488,361</u>	<u>--</u>	<u>1,496,864</u>	<u>10,448</u>	<u>1,331,323</u>	<u>--</u>	<u>1,341,771</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	117,443	1,954,827	40,756	2,113,026	93,219	1,843,798	41,054	1,978,071
Central services and supplies	18,110	124,793	7,616	150,519	22,043	134,620	11,258	167,921
Blood administration	7,293	28,170	--	35,463	9,196	50,114	--	59,310
Electrocardiology	4,887	373,458	1,323	379,668	10,987	325,243	3,381	339,611
Ambulance	20,664	568,338	--	589,002	21,763	387,321	--	409,084
Radiology	17,629	714,774	2,640	735,043	17,649	681,280	2,702	701,631
MRI	2,443	261,209	--	263,652	--	336,677	--	336,677
Mammography	--	116,099	--	116,099	--	127,353	--	127,353
CT	29,295	794,562	1,909	825,766	27,834	787,519	3,992	819,345
Home health	--	749,256	--	749,256	--	762,675	--	762,675
Pharmacy	116,261	469,914	60,149	646,324	104,118	293,678	78,457	476,253
Intravenous therapy	5,215	87,510	1,635	94,360	6,090	51,713	1,115	58,918
Ultrasound	3,353	135,831	--	139,184	1,672	120,648	--	122,320
Anesthesiology	872	226,886	1,199	228,957	--	267,427	--	267,427
Respiratory therapy	62,816	19,696	26,608	109,120	47,070	24,111	2,520	73,701
Physical therapy	7,533	672,035	38,889	718,457	8,239	489,114	42,589	539,942
Occupational therapy	3,476	19,288	25,729	48,493	2,977	8,028	19,473	30,478
Speech therapy	269	12,256	4,597	17,122	734	262	3,238	4,234
Fontanelle clinic	--	261,488	--	261,488	--	245,659	--	245,659
Stuart clinic	--	597,170	--	597,170	--	586,833	--	586,833
Greenfield clinic	--	1,007,261	--	1,007,261	--	900,770	--	900,770
Cardiac rehab	--	114,314	--	114,314	--	57,942	--	57,942
Observation rooms	2,326	297,557	--	299,883	1,446	303,875	--	305,321
	<u>419,885</u>	<u>9,606,692</u>	<u>213,050</u>	<u>10,239,627</u>	<u>375,037</u>	<u>8,786,660</u>	<u>209,779</u>	<u>9,371,476</u>
GROSS PATIENT SERVICE REVENUE	\$ 785,222	11,224,314	386,745	12,396,281	746,228	10,250,050	375,679	11,371,957
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,735,723)				(2,274,290)
Charity care services and other discounts, based on charges forgone				(71,230)				(75,139)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBTS				9,589,328				9,022,528
PROVISION FOR BAD DEBTS				(343,931)				(260,817)
NET PATIENT SERVICE REVENUE				\$ 9,245,397				8,761,711

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Grants	\$ 304,886	274,018
Pharmacy revenue - 340B program	96,608	--
Meals sold	46,545	41,405
Lifeline	24,600	26,985
CMS electronic health record incentive payments	4,229	111,578
Gain (loss) on sale of capital assets	(178)	419
Other	<u>42,697</u>	<u>46,202</u>
	<u>\$ 519,387</u>	<u>500,607</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2013 and 2012**

	2013			2012		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 741,701	239,146	980,847	688,414	189,624	878,038
Emergency room	287,346	510,936	798,282	300,461	417,139	717,600
Operating and recovery rooms	90,038	42,464	132,502	77,128	66,656	143,784
Nursing administration	6,120	1,698	7,818	--	1,605	1,605
Hospital physicians	--	20,166	20,166	--	21,995	21,995
	<u>1,125,205</u>	<u>814,410</u>	<u>1,939,615</u>	<u>1,066,003</u>	<u>697,019</u>	<u>1,763,022</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	194,648	282,408	477,056	196,316	239,668	435,984
Blood administration	--	12,244	12,244	--	10,931	10,931
Electrocardiology	3,210	91,207	94,417	3,015	95,794	98,809
Ambulance	71,548	23,130	94,678	56,114	22,576	78,690
Radiology	155,712	215,216	370,928	226,907	207,056	433,963
MRI	--	51,465	51,465	--	67,860	67,860
Mammography	--	11,542	11,542	--	11,549	11,549
CT	--	118,125	118,125	--	102,663	102,663
Ultrasound	--	12,420	12,420	--	13,850	13,850
Home health	431,346	144,190	575,536	438,967	146,964	585,931
Pharmacy	88,022	219,691	307,713	89,400	135,339	224,739
Intravenous solutions	--	1,920	1,920	--	1,913	1,913
Anesthesiology	--	94,640	94,640	--	101,245	101,245
Respiratory therapy	--	7,220	7,220	--	5,657	5,657
Physical therapy	--	266,394	266,394	--	189,225	189,225
Occupational therapy	--	21,221	21,221	--	12,589	12,589
Speech therapy	--	8,749	8,749	--	1,504	1,504
Stuart clinic	231,417	120,161	351,578	211,977	119,656	331,633
Fontanelle clinic	188,891	49,767	238,658	167,879	85,723	253,602
Greenfield clinic	508,772	265,396	774,168	339,065	374,908	713,973
Renal clinic	55,736	37,700	93,436	40,838	36,896	77,734
Medical records	95,069	17,506	112,575	95,565	26,879	122,444
Cardiac rehab	71,498	55,784	127,282	68,756	5,014	73,770
Lifeline	1,272	14,113	15,385	1,509	15,131	16,640
	<u>2,097,141</u>	<u>2,142,209</u>	<u>4,239,350</u>	<u>1,936,308</u>	<u>2,030,590</u>	<u>3,966,898</u>
GENERAL SERVICES:						
Plant operation and maintenance	48,283	343,311	391,594	45,935	323,405	369,340
Dietary	116,064	41,084	157,148	115,647	43,837	159,484
Laundry	36,501	6,160	42,661	36,175	4,410	40,585
Housekeeping	90,198	15,197	105,395	93,325	8,655	101,980
	<u>291,046</u>	<u>405,752</u>	<u>696,798</u>	<u>291,082</u>	<u>380,307</u>	<u>671,389</u>
ADMINISTRATIVE SERVICES						
	<u>532,340</u>	<u>597,554</u>	<u>1,129,894</u>	<u>476,708</u>	<u>577,957</u>	<u>1,054,665</u>
NONDEPARTMENTAL:						
Employee benefits	--	1,440,351	1,440,351	--	1,278,618	1,278,618
Depreciation and amortization	--	978,688	978,688	--	1,169,589	1,169,589
Insurance	--	69,392	69,392	--	56,485	56,485
Interest	--	387,885	387,885	--	397,521	397,521
Administrative services - Foundation	--	13,530	13,530	--	45,924	45,924
	<u>--</u>	<u>2,889,846</u>	<u>2,889,846</u>	<u>--</u>	<u>2,948,137</u>	<u>2,948,137</u>
TOTAL EXPENSES	<u>\$ 4,045,732</u>	<u>6,849,771</u>	<u>10,895,503</u>	<u>3,770,101</u>	<u>6,634,010</u>	<u>10,404,111</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	2013		2012	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 886,976	41.72 %	771,049	43.71 %
31 - 60	467,067	21.97	276,503	15.67
61 - 90	206,873	9.73	218,486	12.39
91 - 120	117,711	5.54	109,173	6.19
121 and over	447,508	21.04	388,640	22.03
	<u>2,126,135</u>	<u>100.00 %</u>	<u>1,763,851</u>	<u>100.00 %</u>
Less:				
Allowance for doubtful accounts	(346,430)		(331,932)	
Allowance for contractual adjustments	<u>(494,623)</u>		<u>(242,348)</u>	
	<u>\$ 1,285,082</u>		<u>1,189,571</u>	

	2013	2012
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 331,932	331,539
Provision of uncollectible accounts	343,931	260,817
Recoveries of accounts previously written off	100,857	91,059
Accounts written off	<u>(430,290)</u>	<u>(351,483)</u>
Balance, end of year	<u>\$ 346,430</u>	<u>331,932</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
INVENTORIES:		
General	\$ 129,575	142,971
Pharmacy	40,357	51,220
Clinics and Home Care	<u>10,671</u>	<u>10,479</u>
	<u>\$ 180,603</u>	<u>204,670</u>
	<u>2013</u>	<u>2012</u>
PREPAID EXPENSES:		
Insurance	\$ 10,268	17,554
Maintenance contracts	105,531	99,447
Other	<u>81,606</u>	<u>77,997</u>
	<u>\$ 197,405</u>	<u>194,998</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Patient days (excluding swing-bed):		
Medicare	290	302
Medicaid	4	9
Private and other	<u>101</u>	<u>109</u>
Total	<u>393</u>	<u>420</u>
Medicare and Medicaid percentage	72%	74%
Patient discharges (excluding swing-bed):		
Medicare	84	93
Medicaid	3	4
Private and other	<u>31</u>	<u>34</u>
Total	<u>118</u>	<u>131</u>
Average length of stay (based on discharge days):		
Medicare	3.45 days	3.25 days
Medicaid	1.33 days	2.25 days
Private and other	3.25 days	3.21 days
Number of employees - full-time equivalents	81.37	78.08

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we identified a deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-13, that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We also identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as item II-B-13 and II-C-13 that we consider to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Seim Johnson, LLP

Omaha, Nebraska,
November 26, 2013.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2013

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) Two significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (d) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were reported.

Material Weakness:

II-A-13

Cash Reconciliations

Criteria:	Proper management oversight is an important aspect of internal control
Condition:	The lack of proper oversight by management prevents optimal internal control to mitigate the existence of error or fraud.
Cause:	Due to improper oversight by management, a lack of optimal internal control structure exists within the Foundation and Hospital
Effect:	Bank reconciliations had not been completed for several months prior to year-end. Timely reconciliations and oversight by management ensures an adequate internal control structure and reduces the risk of fraud and misappropriation.
Recommendation:	We recommend that management review their internal control structure in place within the Hospital and Foundation to mitigate the risk of error or fraud and ensure that reconciliations are completed timely.
Response:	Management is aware of this deficiency and will develop additional procedures to improve management oversight
Conclusion:	Response accepted.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2013

Significant Deficiencies:

II-B-13

Management Estimates

Criteria:	The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements.
Condition:	We identified misstatements in the financial statements related to third-party payor contractual adjustments and settlements during the audit that were not initially identified by the Hospital's internal controls.
Cause:	The results of the processes used by management to estimate the third-party payor contractual adjustments and settlements were not as extensive or detailed as needed to properly compute the estimates recorded in the financial statements.
Effect:	Audit journal entries were made to adjust amounts recorded by management for certain settlement and contractual adjustments in accounts receivable.
Recommendation:	We recommend that management review their estimation processes in these areas and determine if additional procedures or templates can be added to enhance the estimation process at year end and on an interim basis.
Response:	Management is aware of this deficiency and will develop additional procedures to improve the existing estimation process at year end and on an interim basis.
Conclusion:	Response accepted.

II-C-13

Segregation of Duties

Criteria:	One aspect of internal control is the segregation of duties among employees to prevent an employee from handling duties which are incompatible.
Condition:	The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.
Cause:	Due to limited number of administrative personnel, a lack of segregation of duties exists.
Effect:	Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist.
Recommendation:	We recommend the Hospital continue to monitor and improve its segregation of duties.
Response:	Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve segregation of duties.
Conclusion:	Response accepted.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2013

Part III: Other Findings Related to Required Statutory Reporting

III-A-13

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.

III-B-13

Certified Budget: Hospital disbursements during the year ended June 30, 2013 did not exceed amounts budgeted

III-C-13

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-13

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-13

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-13

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

III-G-13

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

III-H-13

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed or a schedule of salaries paid as required by the Code of Iowa.

Adair County Memorial Hospital

**Audit Staff
For the Year Ended June 30, 2013**

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Senior Manager

Nicole R. McDonald, CPA, Manager

Jeff A. Faltys, Staff Auditor