

Madison County Memorial Hospital

Auditor's Report and Financial Statements

June 30, 2013 and 2012



Madison County Memorial Hospital
June 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Madison County Memorial Hospital (Hospital), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2013 the Hospital implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs and reporting of deferred outflows and inflows through retroactive application to prior year's financial statements. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2013 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2013 and 2012

Introduction

This management's discussion and analysis of the financial performance of Madison County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased between 2013 and 2012 by \$102,685 or 6% and increased \$286,354 or 22% between 2012 and 2011.
- Patient accounts receivable, net of allowances increased \$195,558 or 11% in 2013 compared to 2012 and decreased \$349,451 or 17% in 2012 compared to 2011.
- The Hospital's net position increased \$387,052 or 3% in 2013 over 2012 and increased \$1,051,036 or 8% in 2012 over 2011.
- The Hospital reported an operating loss in 2013 and 2012 of \$930,949 and \$582,785, respectively. The operating loss in 2013 represents an increase of \$348,164 from the operating loss reported in 2012. The loss in 2012 represents an increase of \$130,273 from the operating loss reported in 2011.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating.

Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the Balance Sheet. The Hospital's net position increased by \$387,052 or 3% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position

	2013	2012	2011
		<i>(As Restated)</i>	<i>(As Restated)</i>
Assets			
Patient accounts receivable, net	\$ 1,963,036	\$ 1,767,478	\$ 2,116,929
Other current assets	4,229,032	5,636,469	4,133,068
Capital assets, net	17,575,353	18,765,955	15,524,794
Other noncurrent assets	11,266,192	8,209,965	12,387,317
Total assets	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>	<u>\$ 34,162,108</u>
Liabilities			
Current liabilities	\$ 3,224,344	\$ 2,382,385	\$ 2,705,205
Long-term debt	14,542,786	15,188,978	15,737,404
Total liabilities	<u>17,767,130</u>	<u>17,571,363</u>	<u>18,442,609</u>
Deferred Inflows of Resources	<u>1,941,025</u>	<u>1,870,098</u>	<u>1,832,129</u>
Net Position			
Net investment in capital assets	3,132,779	4,580,735	6,640,667
Restricted expendable	805,369	853,708	1,530,837
Unrestricted	11,387,310	9,503,963	5,715,866
Total net position	<u>15,325,458</u>	<u>14,938,406</u>	<u>13,887,370</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>	<u>\$ 34,162,108</u>

In 2013, the Hospital was an early adopter of GASB 65, *Items Previously Reported as Assets and Liabilities*. The Hospital's Plant Fund certificate of deposit investments were \$6,219,705 in 2012, which increased to \$9,652,141 in 2013 or 55%.

In 2012, the Hospital finished their building addition and renovation project resulting in the project and related equipment being capitalized throughout FYE 2012.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by \$387,052 or 3% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
		<i>(As Restated)</i>	<i>(As Restated)</i>
Operating Revenues			
Net patient service revenue	\$ 15,790,158	\$ 16,417,665	\$ 15,426,070
Other operating revenues	<u>111,873</u>	<u>140,243</u>	<u>113,743</u>
Total operating revenues	<u>15,902,031</u>	<u>16,557,908</u>	<u>15,539,813</u>
Operating Expenses			
Salaries and wages and employee benefits	9,328,096	9,461,598	9,155,300
Medical and professional fees	1,798,099	1,965,333	1,957,442
Depreciation and amortization	1,768,941	1,572,099	1,104,432
Other operating expenses	<u>3,937,844</u>	<u>4,141,663</u>	<u>3,775,151</u>
Total operating expenses	<u>16,832,980</u>	<u>17,140,693</u>	<u>15,992,325</u>
Operating Loss	<u>(930,949)</u>	<u>(582,785)</u>	<u>(452,512)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,870,116	1,835,015	1,750,532
Interest expense	(877,500)	(514,408)	(137,832)
Bond issuance costs	(63,681)	-	(212,710)
Interest subsidy income	187,006	100,488	-
Interest income	108,376	86,108	76,109
Rent income	32,408	31,424	29,367
Non-capital grants and contributions	<u>56,130</u>	<u>57,035</u>	<u>35,464</u>
Total nonoperating revenues	<u>1,312,855</u>	<u>1,595,662</u>	<u>1,540,930</u>
Excess of Revenues over Expenses, Before Capital Grants and Contributions	381,906	1,012,877	1,088,418
Capital Grants and Contributions	<u>5,146</u>	<u>38,159</u>	<u>350,569</u>
Increase in Net Position	<u>\$ 387,052</u>	<u>\$ 1,051,036</u>	<u>\$ 1,438,987</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2013, 2012 and 2011, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Madison County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients. The primary components of the change in operations from 2012 to 2013 are as follows:

In 2013, the operating loss increased by \$348,164 as compared to 2012. Some of the factors contributing to the increased operating loss were:

- The Hospital experienced a shift from inpatient acute care to outpatient observation care from 2012 to 2013 which is typical for the industry. The Hospital's total patient days decreased 7% and outpatient observation hours increased 24% from 2012 to 2013.
- The Hospital appropriately decreased operating expenses as net patient revenue decreased 4% from 2012 to 2013.
- The sequestration cuts totaled \$27,000 reduced reimbursement from April 1 through June 30, 2013 for the Hospital.

In 2012, the operating loss increased by \$130,273 as compared to 2011. Some of the factors contributing to the increased operating loss were:

- The Hospital has been proactive to meet electronic medical record standards set forth by the government. The Hospital achieved Stage 1 Meaningful Use for Medicare and met Medicaid Year 1 and 2 criteria during FYE 2012. This resulted in \$807,400 additional Net Patient Service Revenue for the facility.
- The Hospital's patient days decreased 26% from 2011 to 2012. The decrease in revenue is primarily due to changes in physician status and the elimination of other programs, such as hospitality and inpatient detoxification services during 2012.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense which, in total, decreased by \$282,807 or 18% from 2012 to 2013 and increased by \$54,732 or 4% from 2011 to 2012. The decrease in 2013 was primarily due to increased interest expense related to revenue bonds and loans for the building project completed in 2012 and bond issuance costs associated with refunding 2005 debt at a lower interest rate in the spring of 2013. The increase in 2012 was primarily due to an increase in interest expense, net of interest subsidy income, of \$276,088 related to revenue bonds and loans for the building project completed in 2012, along with no bond issuance cost recorded in 2012.

Contributions

The Hospital received contributions of \$56,130 from various individuals in 2013, a decrease of \$905 or 2% from 2012. The Hospital also received capital contributions of \$5,146 in 2013.

The Hospital received contributions of \$57,035 from various individuals in 2012, an increase of \$21,571 or 61% from 2011. The Hospital also received capital contributions of \$38,159 in 2012.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2013, 2012 and 2011, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$17,600,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Hospital purchased new capital assets costing \$559,221.

At the end of 2012, the Hospital had \$18,800,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Hospital purchased new capital assets costing \$4,823,079.

Debt

In 2013, the Hospital had \$15,153,786 in revenue notes and bonds and loans outstanding. The Hospital refunded the 2005 debt in the spring of 2013 and issued Series 2013 bonds in the amount of \$2,210,000 to save interest expense over the life of the bonds.

In 2012, the Hospital had \$15,754,978 in revenue notes and bonds and loans outstanding. The Hospital issued no new debt in 2012.

Factors Bearing on Madison County Memorial Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

- The Hospital relies heavily on the continuance of the Critical Access Hospital program and the associated cost reimbursement for Medicare and Medicaid patients. The Hospital is closely monitoring cost cutting measures at the Congressional level and will continue grass roots efforts to educate Congressional leaders about the detrimental impact significant changes to the Critical Access Hospital program would mean to the Hospital.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.462.2373.

Madison County Memorial Hospital
Balance Sheets
June 30, 2013 and 2012

Assets

	<u>2013</u>	<u>2012</u>
		<i>(As Restated)</i>
Current Assets		
Cash and cash equivalents	\$ 1,487,123	\$ 1,589,808
Assets held under bond indenture agreement	231,261	238,370
Patient accounts receivable, net of allowance; \$640,200 and \$582,200 in 2013 and 2012, respectively	1,963,036	1,767,478
Property taxes receivable	1,964,420	1,896,541
Other receivables	6,452	10,151
Estimated amounts due from third-party payers	-	1,309,000
Supplies	300,175	332,049
Prepaid expenses	239,601	260,550
	<u>6,192,068</u>	<u>7,403,947</u>
Noncurrent Cash, Deposits, Investments and Other		
Internally designated	10,035,778	6,597,781
Externally restricted		
Held under bond indenture agreement	1,431,187	1,808,046
By donors	30,488	42,508
	<u>11,497,453</u>	<u>8,448,335</u>
Less amount required to meet current obligations	231,261	238,370
	<u>11,266,192</u>	<u>8,209,965</u>
Capital Assets, Net of Accumulated Depreciation	<u>17,575,353</u>	<u>18,765,955</u>
Total Assets	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2013	2012
		<i>(As Restated)</i>
Current Liabilities		
Current maturities of long-term debt	\$ 611,000	\$ 566,000
Accounts payable	508,571	818,285
Accrued vacation	355,802	387,216
Accrued payroll and related liabilities	562,182	537,887
Accrued interest	66,296	72,997
Estimated amounts due to third-party payers	1,120,493	-
	<hr/>	<hr/>
Total current liabilities	3,224,344	2,382,385
Long-term Debt	<hr/>	<hr/>
	14,542,786	15,188,978
	<hr/>	<hr/>
Total liabilities	17,767,130	17,571,363
	<hr/>	<hr/>
Deferred Inflows of Resources - Property Taxes	1,941,025	1,870,098
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	3,132,779	4,580,735
Restricted-expendable for		
Debt service	774,881	811,200
Specific operating activities	30,488	42,508
Unrestricted	11,387,310	9,503,963
	<hr/>	<hr/>
Total net position	15,325,458	14,938,406
	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>

Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		<i>(As Restated)</i>
Net patient service revenue before provision for uncollectible accounts	\$ 16,582,474	\$ 17,221,869
Provision for uncollectible accounts	<u>(792,316)</u>	<u>(804,204)</u>
Net patient service revenue	15,790,158	16,417,665
Other	<u>111,873</u>	<u>140,243</u>
Total operating revenues	<u>15,902,031</u>	<u>16,557,908</u>
Operating Expenses		
Salaries and wages	7,227,219	7,332,579
Employee benefits	2,100,877	2,129,019
Medical professional fees	1,798,099	1,965,333
Supplies and expenses	1,837,953	1,978,221
General services	573,972	604,957
Administrative services	1,362,921	1,378,777
Depreciation and amortization	1,768,941	1,572,099
Insurance	<u>162,998</u>	<u>179,708</u>
Total operating expenses	<u>16,832,980</u>	<u>17,140,693</u>
Operating Loss	<u>(930,949)</u>	<u>(582,785)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,870,116	1,835,015
Interest expense	(877,500)	(514,408)
Bond issuance costs	(63,681)	-
Interest subsidy income	187,006	100,488
Interest income	108,376	86,108
Rent income	32,408	31,424
Noncapital grants and contributions	<u>56,130</u>	<u>57,035</u>
Total nonoperating revenues	<u>1,312,855</u>	<u>1,595,662</u>
Excess of Revenues over Expenses, Before Capital Grants and Contributions	381,906	1,012,877
Capital Grants and Contributions	<u>5,146</u>	<u>38,159</u>
Increase in Net Position	387,052	1,051,036
Net Position, Beginning of Year	<u>14,938,406</u>	<u>13,887,370</u>
Net Position, End of Year	<u>\$ 15,325,458</u>	<u>\$ 14,938,406</u>

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u> <i>(As Restated)</i>
Operating Activities		
Receipts from and on behalf of patients	\$ 18,024,093	\$ 15,430,116
Payments to suppliers and contractors	(5,677,533)	(6,405,799)
Payments to employees	(9,335,215)	(9,381,023)
Other receipts, net	<u>114,547</u>	<u>153,237</u>
Net cash provided by (used in) operating activities	<u>3,125,892</u>	<u>(203,469)</u>
Noncapital Financing Activities		
Property taxes	1,870,116	1,835,015
Noncapital grants and gifts	56,130	57,035
Other	<u>32,408</u>	<u>31,424</u>
Net cash provided by noncapital financing activities	<u>1,958,654</u>	<u>1,923,474</u>
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	2,210,000	-
Discount on issuance of capital debt	(24,310)	-
Principal paid on capital debt and leases	(2,806,000)	(281,000)
Financing costs	(63,681)	-
Interest paid on capital debt and leases	(884,201)	(515,276)
Interest subsidy	188,434	84,071
Capital grants and contributions	5,146	38,159
Proceeds from sale of capital assets	374	13,353
Purchase of capital assets	<u>(870,823)</u>	<u>(5,133,330)</u>
Net cash used in capital and related financing activities	<u>(2,245,061)</u>	<u>(5,794,023)</u>
Investing Activities		
Interest on deposits and investments	108,376	86,108
Purchase of deposits and investments	(11,591,896)	(7,947,014)
Proceeds from disposition of deposits and investments	<u>8,310,609</u>	<u>12,174,805</u>
Net cash provided by (used in) investing activities	<u>(3,172,911)</u>	<u>4,313,899</u>
Increase (Decrease) in Cash and Cash Equivalents	(333,426)	239,881
Cash and Cash Equivalents, Beginning of Year	<u>1,608,179</u>	<u>1,368,298</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,274,753</u>	<u>\$ 1,608,179</u>

Madison County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012

	2013	2012
		<i>(As Restated)</i>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 1,267,611	\$ 1,570,316
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	7,142	3,705
Held under bond indenture agreement	-	34,158
	\$ 1,274,753	\$ 1,608,179
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used In) Operating Activities		
Operating loss	\$ (930,949)	\$ (582,785)
Depreciation and amortization	1,768,941	1,572,099
(Gain)/Loss on sale of capital assets	(374)	14,040
Changes in operating assets and liabilities		
Receivables, net	(191,859)	386,532
Supplies	31,874	(902)
Estimated amounts due from and to third-party payers	2,429,493	(1,337,000)
Accounts payable and accrued expenses	(2,183)	(269,747)
Other current assets	20,949	14,294
Net cash provided by (used in) operating activities	\$ 3,125,892	\$ (203,469)
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 136,212	\$ 447,814
Interest paid included in purchase of capital assets	-	307,983
Capital assets acquired through noncash capital grants and gifts	-	34,884
Noncash Investing Activity		
Change in unrealized investment gains and losses	-	(31,542)

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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

Nature of Operations

Madison County Memorial Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2013 and 2012, cash equivalents consisted primarily of money market accounts and certificates of deposit.

Property Taxes

The Hospital received approximately 11% and 10% of its financial support from property tax revenues for the years ended June 30, 2013 and 2012, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Investments and Investment Income

All investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend, interest income and the realized gains and losses on investments carried at fair value.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

Madison County Memorial Hospital
Notes to Financial Statements
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The Hospital capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for the project, net of interest earned on investments acquired with the proceeds of the borrowing. Total interest capitalized and incurred was:

	2013	2012
Total interest expense incurred on borrowings for project		\$ 371,107
Interest income and earnings from investment of proceeds of borrowings for project and interest subsidy payments		135,105
Net interest cost capitalized	\$ -	\$ 236,002
Interest capitalized	\$ -	\$ 236,002
Interest costs charged to expense	877,500	514,408
Interest subsidy income	(187,006)	(100,488)
Total interest incurred	\$ 690,494	\$ 649,922

The Hospital completed a building and renovation project totaling \$13,200,000 in 2012. The project was paid for through borrowings in 2011 of a \$360,000 no interest loan and \$13,140,000 issuance of revenue bonds and existing funds.

Compensated Absences and Benefits

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

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$643,267 and \$685,843 for 2013 and 2012, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2013 and 2012, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenue of \$125,955 and \$807,400, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012, respectively.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 financial statement presentation. These reclassifications had no effect on the change in net position.

Subsequent Events

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

Implementation of New Accounting Principles

In 2013, the Hospital implemented the provisions of the following accounting principles:

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This standard was created to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in pre-November 1989 FASB and AICPA pronouncements, which do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement amends the net asset reporting requirements in GASB Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

The implementation of these standards did not have a significant impact on the Hospital’s financial statements.

In 2013, the Hospital also implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

Adoption of GASB 65 changed how the Hospital reports various debt issuance costs and deferred revenues related to property taxes, and resulted in the following reclassifications and restatements:

	As Previously Reported 2012	Implementation of GASB 65	As Restated 2012
Balance Sheet Items Affected			
Unamortized bond issuance costs	\$ 214,512	\$ (214,512)	\$ -
Deferred revenue for property taxes	1,870,098	(1,870,098)	-
Total current liabilities	4,252,483	(1,870,098)	2,382,385
Total liabilities	19,441,461	(1,870,098)	17,571,363
Deferred Inflows of Resources - Property Taxes	-	1,870,098	1,870,098
Net position			
Unrestricted	9,718,475	(214,512)	9,503,963
Total net position	15,152,918	(214,512)	14,938,406
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Depreciation and amortization	1,602,606	(30,507)	1,572,099
Net position, beginning of year	14,132,389	(245,019)	13,887,370
Increase in net position	1,020,529	30,507	1,051,036
Net position, end of year	15,152,918	(214,512)	14,938,406

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- Medicare.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.
- Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

The Hospital had been notified by the Medicare Administrative Contractor (MAC) that Medicare cost reports have been reopened for 2008 through 2012 to reevaluate certain costs included in those cost reports. Management has evaluated the impact on the financial statements and provided for estimated amounts on years that have not been recouped by the MAC; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 55% and 51% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

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

Investments

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

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

At June 30, 2013 and 2012, the Hospital had the following investments and maturities:

June 30, 2013					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 611,198	\$ 611,198	\$ -	\$ -	\$ -

June 30, 2012					
Maturities in Years					
Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 582,471	\$ 582,471	\$ -	\$ -	\$ -

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s investment policy limits investments to maturities consistent with the needs and uses of the Hospital. The money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2013 and 2012, the Hospital’s investments in money market funds were rated AAA by Standard & Poor’s.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. All money market funds are in Northern Institutional Government Fund for 2013 and 2012.

Summary of Carrying Values

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

	2013	2012
Carrying value		
Deposits	\$ 12,357,949	\$ 9,438,815
Investments	611,198	582,471
Other	15,429	16,857
	\$ 12,984,576	\$ 10,038,143
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,487,123	\$ 1,589,808
Assets held under bond indenture agreement	231,261	238,370
Noncurrent cash, deposits, investments and other	11,266,192	8,209,965
	\$ 12,984,576	\$ 10,038,143

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Investment Income

Investment income for the years ended June 30 consisted of:

	2013	2012
Interest income	\$ 108,376	\$ 86,108

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2013 and 2012 consisted of:

	2013	2012
Medicare	\$ 915,701	\$ 596,828
Medicaid	108,876	149,779
Other third-party payers	710,324	768,993
Patients	868,335	834,078
	2,603,236	2,349,678
Less allowance for uncollectible accounts	640,200	582,200
	\$ 1,963,036	\$ 1,767,478

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Note 5: Capital Assets

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2013					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	1,427,344		(4,810)		1,422,534
Buildings and leasehold improvements	11,821,673		(34,562)		11,787,111
Fixed equipment	10,077,195		(10,162)	61,376	10,128,409
Major movable equipment	4,800,175	136,210	(183,220)	361,635	5,114,800
Construction in progress		423,011		(423,011)	
	<u>28,131,433</u>	<u>559,221</u>	<u>(232,754)</u>	<u>-</u>	<u>28,457,900</u>
Less accumulated depreciation					
Land improvements	(383,996)	(78,501)	4,810		(457,687)
Buildings and leasehold improvements	(3,419,210)	(468,811)	34,562		(3,853,459)
Fixed equipment	(2,524,257)	(537,206)	10,162		(3,051,301)
Major movable equipment	(3,038,015)	(665,305)	183,220		(3,520,100)
	<u>(9,365,478)</u>	<u>(1,749,823)</u>	<u>232,754</u>	<u>-</u>	<u>(10,882,547)</u>
Capital assets, net	<u>\$ 18,765,955</u>	<u>\$ (1,190,602)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,575,353</u>
2012					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	604,155			823,189	1,427,344
Buildings and leasehold improvements	6,567,865		(242,016)	5,495,824	11,821,673
Fixed equipment	4,562,295		(706,994)	6,221,894	10,077,195
Major movable equipment	4,546,967	10,880	(412,041)	654,369	4,800,175
Construction in progress	8,383,077	4,812,199		(13,195,276)	-
	<u>24,669,405</u>	<u>4,823,079</u>	<u>(1,361,051)</u>	<u>-</u>	<u>28,131,433</u>
Less accumulated depreciation					
Land improvements	(326,129)	(57,867)			(383,996)
Buildings and leasehold improvements	(3,262,245)	(382,738)	225,773		(3,419,210)
Fixed equipment	(2,811,560)	(417,083)	704,386		(2,524,257)
Major movable equipment	(2,744,677)	(696,836)	403,498		(3,038,015)
	<u>(9,144,611)</u>	<u>(1,554,524)</u>	<u>1,333,657</u>	<u>-</u>	<u>(9,365,478)</u>
Capital assets, net	<u>\$ 15,524,794</u>	<u>\$ 3,268,555</u>	<u>\$ (27,394)</u>	<u>\$ -</u>	<u>\$ 18,765,955</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

At June 30, 2012, certain capital assets associated with the Hospital's facility were considered for impairment due to the construction project. Although the capital assets related to the facility were not considered impaired, the capital assets remaining estimated useful lives and salvage values were reconsidered. Additional depreciation of \$19,633 was recognized for capital assets for the year ended June 30, 2012, based on assets that would be abandoned or otherwise not make the transition into the new area or renovated part of facility. The loss results from a reduction in the estimated useful life of these assets and the related acceleration of depreciation expense. The total loss was being recognized over the eighteen-month period from acceptance of the project to estimated completion. The loss is included in depreciation and amortization expense in the accompanying statement of revenues, expenses and changes in net position.

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital provides tail coverage to certain employed physicians practicing at the Hospital upon termination of the physician's contract. The Hospital is liable for any medical liability claims as of the effective date of the physician's contract for which it is self-insured. As of June 30, 2013, there is no claim exposure to the Hospital due to no physician contracts being terminated.

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2013 and 2012

The term notes are subject to mandatory sinking fund payments prior to maturing serially through June 1, 2020 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital. The notes maturing on or after June 1, 2014 were subject to redemption by the Hospital, prior to their stated maturity in whole or in part on June 1, 2013 or any date thereafter at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The Hospital redeemed the notes on June 1, 2013 and issued new Series 2013 bonds.

The Hospital completed the early redemption of the 2005 notes to obtain an economic gain (difference between the present values of the old debt and new debt service payments) of \$146,274.

- (B) Noninterest-bearing loan due December 16, 2020; payable \$36,000 annually, collateralized by net revenues of the Hospital.
- (C) Hospital Revenue Bonds, Series 2010A, originally aggregating \$7,565,000. Total bonds mature serially through 2026 bearing interest at 1.55% to 5.10%, collateralized by net revenues of the Hospital.
- (D) Taxable Hospital Revenue Bonds, Series 2010B (Recovery Zone Economic Development Bonds – Direct Payout), originally aggregating \$5,575,000. Total bonds mature serially starting in 2027 through 2031 bearing interest at 7.15% to 8.25%. The Hospital is eligible for subsidy payments of 45% of the amount of interest payments. Collateralized by net revenues of the Hospital.
- (E) Hospital Revenue Refunding Bonds, Series 2013, originally aggregating \$2,210,000. Total bonds mature serially through 2020 bearing interest at 0.95% to 2.65%, collateralized by net revenues of the Hospital.

Revenue Notes Payable - Series 2005

The Series 2005 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$0 at June 30, 2013 and 2012. The bonds were redeemed in 2013.

Revenue Bonds Payable - Series 2010

The Series 2010 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$800,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$814,908 and \$805,827 at June 30, 2013 and 2012, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

Revenue Refunding Bonds Payable – Series 2013

The Series 2013 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$370,008 at June 30, 2013. The Hospital is also required to establish sinking funds and meet certain other covenants.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

The debt service requirements for the Hospital Revenue Notes and Bonds Series 2010 and Series 2013 as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 1,367,960	\$ 575,000	\$ 792,960
2015	1,363,629	580,000	783,629
2016	1,362,238	590,000	772,238
2017	1,363,353	605,000	758,353
2018	1,367,193	625,000	742,193
2019-2023	7,016,288	3,685,000	3,331,288
2024-2028	7,139,120	4,885,000	2,254,120
2029-2031	3,922,156	3,485,000	437,156
	<u>\$ 24,901,937</u>	<u>\$ 15,030,000</u>	<u>\$ 9,871,937</u>

The debt service requirements as of June 30, 2013 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2014	\$ 36,000	\$ 36,000
2015	36,000	36,000
2016	36,000	36,000
2017	36,000	36,000
2018	36,000	36,000
2019-2021	108,000	108,000
	<u>\$ 288,000</u>	<u>\$ 288,000</u>

Note 8: Restricted and Designated Net Position

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

	2013	2012
Debt service	\$ 774,881	\$ 811,200
Specific operating activities		
Hospice	17,787	35,598
Other	12,701	6,910
Total restricted expendable net position	<u>\$ 805,369</u>	<u>\$ 853,708</u>

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Note 9: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. 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 for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 5.78% and 5.38% of their annual covered salaries and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$616,657, \$578,844 and \$494,833, respectively, equal to the required contributions for each year.

Note 10: Network Administration and Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services along with other services to the Hospital. Total fees of \$761,492 and \$684,191 were incurred for the years ended June 30, 2013 and 2012, respectively.

Note 11: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2014.

Future minimum lease payments at June 30, 2013 were:

2014	\$ 116,740
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Rental expense for all operating leases was \$298,064 and \$288,801 for the years ended June 30, 2013 and 2012, respectively.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2013 and 2012

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2013:

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>
Amount to be raised by taxation	\$ 1,870,116	\$ -	\$ 1,870,116	\$ 1,870,098
Other revenues/receipts	<u>16,291,097</u>	<u>2,237,634</u>	<u>18,528,731</u>	<u>16,595,296</u>
	18,161,213	2,237,634	20,398,847	18,465,394
Expenses/disbursements	<u>17,774,161</u>	<u>50,640</u>	<u>17,824,801</u>	<u>18,936,508</u>
	387,052	2,186,994	2,574,046	(471,114)
Balance, beginning of year	<u>14,938,406</u>	<u>(2,450,384)</u>	<u>12,488,022</u>	<u>12,488,022</u>
Balance, end of year	<u><u>\$ 15,325,458</u></u>	<u><u>\$ (263,390)</u></u>	<u><u>\$ 15,062,068</u></u>	<u><u>\$ 12,016,908</u></u>

Note 13: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Supplementary Information

Madison County Memorial Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2013 and 2012

	2013				2012			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 2,359,842	\$ 1,402,170	\$ 957,672	\$ -	\$ 1,735,322	\$ 1,378,435	\$ 356,887	\$ -
Swing-bed	854,400	-	-	854,400	648,480	-	-	648,480
	<u>3,214,242</u>	<u>1,402,170</u>	<u>957,672</u>	<u>854,400</u>	<u>2,383,802</u>	<u>1,378,435</u>	<u>356,887</u>	<u>648,480</u>
Nursing Services								
Operating and recovery rooms	1,188,169	10,318	1,177,851	-	1,491,245	91,240	1,398,926	1,079
Emergency room	3,637,241	72,754	3,564,487	-	3,451,539	90,666	3,360,873	-
	<u>4,825,410</u>	<u>83,072</u>	<u>4,742,338</u>	<u>-</u>	<u>4,942,784</u>	<u>181,906</u>	<u>4,759,799</u>	<u>1,079</u>
Other Professional Services								
Laboratory	4,626,659	418,090	4,139,454	69,115	4,126,329	334,559	3,750,462	41,308
Central services and supplies	802,319	65,387	664,400	72,532	1,147,254	141,275	939,949	66,030
Blood administration	90,884	26,006	62,466	2,412	97,050	28,211	66,464	2,375
Electrocardiology	166,043	9,500	156,163	380	144,222	7,795	136,254	173
Echocardiio/Vascular	461,885	32,942	427,394	1,549	393,840	49,379	340,718	3,743
Stress test	74,535	-	74,535	-	77,459	-	77,459	-
Radiology	1,744,128	107,540	1,628,942	7,646	2,174,859	110,360	2,052,901	11,598
MRI	901,605	3,742	897,863	-	651,310	12,336	630,530	8,444
Mammography	211,047	-	211,047	-	186,979	-	186,979	-
CT	2,201,316	267,785	1,919,271	14,260	2,069,644	191,211	1,863,848	14,585
Chronic disease management	397,884	-	397,410	474	300,715	135	300,580	-
Nuclear medicine	202,581	1,656	200,925	-	376,697	2,925	373,772	-
Pharmacy	3,055,559	490,073	2,239,673	325,813	2,916,867	447,626	2,259,018	210,223
Intravenous therapy	383,476	176,417	146,492	60,567	253,238	115,261	125,147	12,830
Anesthesiology	328,620	5,309	323,311	-	426,183	33,300	392,796	87
Respiratory therapy	132,276	102,982	1,208	28,086	178,572	136,816	1,856	39,900
Physical therapy	645,631	23,744	499,528	122,359	566,264	34,686	426,473	105,105
Occupational therapy	177,266	9,604	111,597	56,065	144,919	14,639	82,986	47,294
Speech therapy	15,704	5,424	8,355	1,925	24,580	5,150	16,999	2,431
Social services	-	-	-	-	732	366	366	-

Madison County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2013 and 2012

	<u>2013</u>				<u>2012</u>			
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing-Bed</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing-Bed</u>
Health Trust Physicians Clinic	\$ 3,551,453	\$ 196,368	\$ 3,322,738	\$ 32,347	\$ 3,318,484	\$ 172,137	\$ 3,126,409	\$ 19,938
Earlham Medical Clinic	386,439	-	386,439	-	345,816	-	345,816	-
Outpatient Clinic	182,707	1,572	181,565	(430)	188,808	215	187,961	632
Chemotherapy	37,562	-	37,562	-	4,392	-	4,392	-
Sleep study	100,843	-	100,843	-	75,674	-	75,674	-
Dietitian patient revenue	1,682	-	1,682	-	775	-	775	-
Middle River Hospice	1,939,681	-	1,939,681	-	1,965,857	-	1,965,857	-
	<u>22,819,785</u>	<u>1,944,141</u>	<u>20,080,544</u>	<u>795,100</u>	<u>22,157,519</u>	<u>1,838,382</u>	<u>19,732,441</u>	<u>586,696</u>
Gross Patient Service Revenue	30,859,437	<u>\$ 3,429,383</u>	<u>\$ 25,780,554</u>	<u>\$ 1,649,500</u>	29,484,105	<u>\$ 3,398,723</u>	<u>\$ 24,849,127</u>	<u>\$ 1,236,255</u>
Contractual Adjustments	(14,402,918)				(13,069,636)			
Electronic Health Records								
Incentive Program Revenue	<u>125,955</u>				<u>807,400</u>			
Net Patient Service Revenue								
before Provision for								
Uncollectible Accounts	16,582,474				17,221,869			
Provision for Uncollectible Accounts	<u>(792,316)</u>				<u>(804,204)</u>			
Net Patient Service Revenue	<u>\$ 15,790,158</u>				<u>\$ 16,417,665</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2013 and 2012

	2013	2012
Cafeteria	\$ 49,142	\$ 44,151
Medical records	9,046	10,039
Other	23,736	49,993
Gain (loss) on disposal of property and equipment	374	(14,040)
Health Trust Physicians Clinic other revenue	29,575	50,100
	\$ 111,873	\$ 140,243

Madison County Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
				<i>(As Restated)</i>	<i>(As Restated)</i>	<i>(As Restated)</i>
Nursing Services						
Medical and surgical	\$ 1,020,863	\$ 913,118	\$ 107,745	\$ 1,206,883	\$ 955,092	\$ 251,791
Emergency room	959,385	394,912	564,473	978,405	437,246	541,159
Operating and recovery rooms	314,838	222,848	91,990	332,504	264,523	67,981
Nursing administration	151,057	147,421	3,636	116,754	114,433	2,321
	<u>2,446,143</u>	<u>1,678,299</u>	<u>767,844</u>	<u>2,634,546</u>	<u>1,771,294</u>	<u>863,252</u>
Other Professional Services						
Laboratory	616,415	253,730	362,685	565,614	254,626	310,988
Central services and supplies	187,412	76,524	110,888	228,671	77,386	151,285
Blood administration	34,668	-	34,668	39,258	-	39,258
Electrocardiology	3,552	3,317	235	3,116	2,922	194
Echocardiio/Vascular	112,172	-	112,172	111,981	6	111,975
Stress test	12,665	9,595	3,070	15,260	13,471	1,789
Radiology	304,142	235,894	68,248	434,344	245,648	188,696
MRI	74,220	374	73,846	63,354	421	62,933
Mammography	31,004	14,457	16,547	21,019	16,308	4,711
CT	262,254	16,424	245,830	194,889	16,079	178,810
Chronic disease management	173,440	150,890	22,550	136,650	121,112	15,538
Nuclear medicine	33,586	331	33,255	85,107	385	84,722
Pharmacy	743,040	37,223	705,817	732,195	38,052	694,143
Intravenous solutions	14,962	-	14,962	11,920	-	11,920
Anesthesiology	257,612	243,579	14,033	280,320	246,197	34,123
Respiratory therapy	27,376	-	27,376	30,274	-	30,274
Physical therapy	203,454	13,426	190,028	233,195	1,206	231,989
Occupational therapy	63,899	1,658	62,241	59,658	26	59,632
Speech therapy	9,226	102	9,124	12,848	12	12,836
Health Trust Physicians Clinic	2,224,748	1,895,737	329,011	2,254,905	1,849,880	405,025
Earlham Medical Clinic	257,398	224,380	33,018	257,177	232,951	24,226
Outpatient Clinic	152,209	102,392	49,817	150,214	106,255	43,959
Chemotherapy	3,818	3,111	707	1,362	974	388

Madison County Memorial Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
				<i>(As Restated)</i>	<i>(As Restated)</i>	<i>(As Restated)</i>
Sleep study	\$ 28,920	\$ 1,342	\$ 27,578	\$ 19,525	\$ 575	\$ 18,950
Middle River Hospice	551,562	323,353	228,209	607,458	328,729	278,729
Medical records	247,085	154,832	92,253	227,915	145,059	82,856
Social services	21,504	21,464	40	32,622	32,269	353
Observation care	101,782	101,782	-	70,012	70,012	-
	<u>6,754,125</u>	<u>3,885,917</u>	<u>2,868,208</u>	<u>6,880,863</u>	<u>3,800,561</u>	<u>3,080,302</u>
General Services						
Operation of plant	567,430	151,425	416,005	625,429	175,344	450,085
Dietary	307,922	206,151	101,771	308,026	204,378	103,648
Housekeeping	195,703	139,507	56,196	182,010	130,786	51,224
	<u>1,071,055</u>	<u>497,083</u>	<u>573,972</u>	<u>1,115,465</u>	<u>510,508</u>	<u>604,957</u>
Administrative Services	<u>2,528,841</u>	<u>1,165,920</u>	<u>1,362,921</u>	<u>2,628,993</u>	<u>1,250,216</u>	<u>1,378,777</u>
Employee Benefits	<u>2,100,877</u>		<u>2,100,877</u>	<u>2,129,019</u>		<u>2,129,019</u>
Depreciation	<u>1,768,941</u>		<u>1,768,941</u>	<u>1,572,099</u>		<u>1,572,099</u>
Insurance	<u>162,998</u>		<u>162,998</u>	<u>179,708</u>		<u>179,708</u>
	<u>\$ 16,832,980</u>	<u>\$ 7,227,219</u>	<u>\$ 9,605,761</u>	<u>\$ 17,140,693</u>	<u>\$ 7,332,579</u>	<u>\$ 9,808,114</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2013 and 2012

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2013	2012	2013	2012
Days Since Discharge				
0 – 60	\$ 2,726,816	\$ 2,580,029	71%	73%
61 – 120	626,767	437,286	16%	12%
121 – 180	237,256	313,881	6%	9%
181 – 365	180,298	186,517	5%	5%
366 and over	89,999	41,365	2%	1%
	<u>3,861,136</u>	<u>3,559,078</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	1,257,900	1,209,400		
Allowance for uncollectible accounts	<u>640,200</u>	<u>582,200</u>		
	<u>1,898,100</u>	<u>1,791,600</u>		
	<u>\$ 1,963,036</u>	<u>\$ 1,767,478</u>		

Allowance for Uncollectible Accounts

	2013	2012
Balance, beginning of year	\$ 582,200	\$ 726,658
Provision for year	792,316	804,204
Recoveries of accounts previously written off	<u>147,462</u>	<u>228,188</u>
	1,521,978	1,759,050
Less accounts written off	<u>881,778</u>	<u>1,176,850</u>
Balance, end of year	<u>\$ 640,200</u>	<u>\$ 582,200</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expenses
June 30, 2013 and 2012

Supplies

	2013	2012
General	\$ 164,162	\$ 184,403
Pharmacy	128,843	141,324
Other	7,170	6,322
	\$ 300,175	\$ 332,049

Prepaid Expenses

	2013	2012
Insurance	\$ 66,929	\$ 62,353
Maintenance and other	172,672	198,197
	\$ 239,601	\$ 260,550

Madison County Memorial Hospital
Schedule of Activity for Assets Limited
as to Use for Construction and
Capital Loan Note Related Accounts
Year Ended June 30, 2013

	Balance			Balance
	June 30, 2012	Additions	Deductions	June 30, 2013
Held under capital loan note agreements				
Sinking Fund (2005)	\$ 34,158	\$ 258,469	\$ 292,627	\$ -
Debt Service Reserve Fund (2005)	370,000	370,000	740,000	-
Bond Reserve Fund (2010)	805,827	9,081	-	814,908
Proceeds 2010A Bond	377,432	9	377,441	-
2010A Bond Interest & Principal	184,145	593,866	588,360	189,651
2010B Bond Interest & Principal	20,067	439,222	437,788	21,501
2010B Bond Interest Subsidy	16,417	189,863	191,291	14,989
Proceeds 2013 Bond	-	2,509,294	2,509,273	21
2013 Bond Interest & Principal	-	82,933	62,824	20,109
Bond Reserve Fund (2013)	-	370,008	-	370,008
	<u>\$ 1,808,046</u>	<u>\$ 4,822,745</u>	<u>\$ 5,199,604</u>	<u>\$ 1,431,187</u>

Other Supplementary Information

Madison County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2013

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2014
Tom Collins	Vice Chairman	2016
Beverlee Bell	Secretary/Treasurer	2016
Rich Corkrean	Member	2018
Bob Waldron	Member	2014
Cathy Simon	Member	2014
Dick Weidman	Member	2018
Hospital Officials		
Marcia Hendricks	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2013 and 2012

	2013	2012
Patient Days (Exclusive of Swing-bed)		
Medicare	860	808
Medicaid	20	18
Private and other	212	311
	1,092	1,137
Medicare and Medicaid Percent	80.6%	72.6%
Percent of Occupancy (Acute)	12%	12%
Discharges (Exclusive of Swing-bed)		
Medicare	222	219
Medicaid	12	7
Private and other	68	103
	302	329
Average Length of Stay in Days	3.6	3.5

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2013

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2014

Blanket building and contents	\$ 33,831,424
Loss of income and extra expense	9,641,981
Personal property in-transit	250,000
Personal property at a temporary storage site	250,000
Nuclear hazard	5,000,000
Valuable papers	1,030,000
Accounts receivable	412,000
EDP Media/Software	515,000
Earthquake	5,000,000
Depositors forgery	250,000

Policy No. 7324-54-55, expiring January 1, 2014

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	25,000

ProAssurance

Comprehensive hospital liability, expiring January 1, 2014

Hospital professional liability, Policy No. CH332	1,000,000/3,000,000
General liability, Policy No. CH332	1,000,000/3,000,000
Employee benefits, Policy No. CH332	1,000,000/3,000,000
Excess liability, expiring January 1, 2014	
Excess medical liability, Policy No. CH333	4,000,000/4,000,000
Umbrella liability, Policy No. CH333	4,000,000/4,000,000

Chubb – Federal Insurance Company

Policy No. 6802-0186, expiring January 1, 2014

Directors' and officers' liability	4,000,000/4,000,000
Employee Practices Liability	4,000,000/4,000,000

Chubb – Federal Insurance Company

Policy No. 8223-2759, expiring January 1, 2014

Cyber liability	1,000,000
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Travelers

Policy No. 105890785, expiring February 1, 2014

Crime/ Employee Theft	1,000,000
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**Independent Auditor's Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Madison County Memorial Hospital, which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 25, 2013, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance

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*.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2013. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

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

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2013 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

No transactions were found that we believe should have been approved in the trustee minutes but were not.

Deposits and Investments

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

Unclaimed Property

The Hospital is required to evaluate the need to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Other Matter

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

BKD, LLP

Kansas City, Missouri
November 25, 2013

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2013

Reference Number	Finding	Questioned Costs
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No matters are reportable.

Board of Trustees and Management
Madison County Memorial Hospital
Winterset, Iowa

During our audit of the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2013, we observed the following matters and offer these comments and suggestions. The matters discussed herein are not considered to be material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting.

Medicare Reimbursement

Certain provisions of the Federal Government's Budget Control Act of 2011 went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The American Taxpayer Relief Act of 2012 postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The estimated annual impact of sequestration for the Hospital is \$150,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Affordable Care Act

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

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

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

Electronic Health Records Meaningful Use Audits

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

Critical Access Hospital Status

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

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

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

New GASB Standards

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

- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* – Effective for the Hospital's fiscal year end June 30, 2015

This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
November 25, 2013