

Monroe County Hospital

Auditor's Report and Financial Statements

June 30, 2013 and 2012

Monroe County Hospital
June 30, 2013 and 2012

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Independent Auditor's Report on Financial Statements and Supplementary Information

Board of Trustees
Monroe County Hospital
Albia, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Monroe County 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 Monroe County 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 of the financial statements, in 2013 the Hospital reporting entity changed to include the Monroe County Health Care Foundation as part of its combined financial statements.

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 basic 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 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 December 6, 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 do not 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

Kansas City, Missouri
December 6, 2013

Monroe County 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 Monroe County 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 \$2,527,092 or 94% and increased between 2012 and 2011 by \$733,285 or 37%.
- The Hospital's net position decreased \$976,959 or 15% in 2013 and increased \$851,129 or 15% in 2012.
- The Hospital reported operating loss in 2013 of \$1,652,139 and an operating income in 2012 of \$101,114.
- Net nonoperating revenues decreased by \$74,835 or 10% in 2013 compared to 2012 and increased by \$195,957 or 35% in 2012 compared to 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 and all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position decreased by \$976,959 or 15% in 2013 over 2012 and increased by \$851,129 or 15% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2013	2012	2011
		<i>(As Restated)</i>	<i>(As Restated)</i>
Assets			
Patient accounts receivable, net	\$ 2,743,491	\$ 2,332,129	\$ 2,081,277
Other current assets	2,367,194	3,522,343	3,203,974
Capital assets, net	6,752,994	6,281,995	5,628,915
Other noncurrent assets	855,094	1,605,504	879,513
	<u>\$ 12,718,773</u>	<u>\$ 13,741,971</u>	<u>\$ 11,793,679</u>
Liabilities			
Current liabilities	\$ 3,756,876	\$ 3,236,509	\$ 2,775,179
Long-term debt	3,344,972	3,911,578	3,275,745
	<u>7,101,848</u>	<u>7,148,087</u>	<u>6,050,924</u>
Net Position			
Net investment in capital assets	2,819,113	1,833,123	2,133,755
Restricted			
Expendable	477,978	1,063,164	478,230
Nonexpendable	179,880	179,880	179,800
Unrestricted	2,139,954	3,517,717	2,950,970
	<u>5,616,925</u>	<u>6,593,884</u>	<u>5,742,755</u>
Total net position	<u>\$ 12,718,773</u>	<u>\$ 13,741,971</u>	<u>\$ 11,793,679</u>
Total liabilities and net position	<u>\$ 12,718,773</u>	<u>\$ 13,741,971</u>	<u>\$ 11,793,679</u>

In 2013, a significant change in the Hospital's assets was the increase in net patient accounts receivable of \$411,362. The increase was due to the implementation of the electronic medical records system implemented during 2013. The Hospital also had a significant increase in Capital assets. This is related to additions of hardware related to the implementation of an Electronic Health Records (EHR) information system.

In 2013, a significant change in the Hospital's liabilities was the increase in accounts payable related to limited cash flow available due to the implementation of an EHR information system.

In 2012, a significant change in the Hospital's assets was the increase in net patient accounts receivable of \$250,852. The increase was due to a 6% rate increase effective July 1, 2011, and an increase of total Outpatient volume. The Hospital also had a significant increase in Capital assets and Other noncurrent assets. This is related to upgrades to the facilities HVAC system as well as the addition of hardware related to the implementation of an EHR information system.

In 2012, a significant change in the Hospital's liabilities was the increase related to the new loan to finance the EHR. The Hospital implemented the EHR in February 2013 and expects to pay off the loan upon receiving Medicare and Medicaid Meaningful Use incentive payments in fiscal year 2014.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position decreased by \$976,959 or 15% compared to the increase by \$851,129 or 15% in 2012 as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
		(As Restated)	(As Restated)
Operating Revenues			
Net patient service revenue	\$ 14,703,411	\$ 15,547,140	\$ 14,517,686
Other operating revenues	183,031	271,608	189,909
Total operating revenues	<u>14,886,442</u>	<u>15,818,748</u>	<u>14,707,595</u>
Operating Expenses			
Salaries and wages and employee benefits	9,123,957	8,957,860	8,465,457
Medical professional fees	2,611,967	2,379,954	2,077,229
Depreciation	877,572	705,160	674,534
Other operating expenses	<u>3,925,085</u>	<u>3,674,660</u>	<u>3,696,147</u>
Total operating expenses	<u>16,538,581</u>	<u>15,717,634</u>	<u>14,913,367</u>
Operating Income (Loss)	<u>(1,652,139)</u>	<u>101,114</u>	<u>(205,772)</u>
Nonoperating Revenues (Expenses)			
Property taxes	740,062	668,056	652,358
Interest expense	(193,277)	(206,317)	(205,016)
Interest income	15,079	3,889	36,524
Non-capital grants and gifts	<u>113,316</u>	<u>284,387</u>	<u>70,192</u>
Total nonoperating revenues	<u>675,180</u>	<u>750,015</u>	<u>554,058</u>
Excess (Deficiency) of Revenues and Expenses Before Capital Contributions	(976,959)	851,129	348,286
Capital Contributions	<u>-</u>	<u>-</u>	<u>13,440</u>
Increase (Decrease) in Net Position	<u>\$ (976,959)</u>	<u>\$ 851,129</u>	<u>\$ 361,726</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 and 2011, the Hospital reported an operating loss. In 2012, the Hospital reported an operating income. This is consistent with the Hospital's recent operating history, except for 2013 which incurred additional losses due to expenses related to the implementation of an EHR system, as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss for 2013 was \$1,652,139, a decrease of \$1,753,253 compared to operating income of \$101,114 in 2012. The primary components of the change in operations were:

- Net patient service revenue decreased \$843,729 or 5% over 2012 primarily due to a decrease in volume in both the Hospital and Clinic.
- An increase in the Hospital's professional fees of \$232,013 or 10%. This increase is related to adding 24/7 provider coverage in the ER.

The operating income for 2012 was \$101,114 an increase of \$306,886 compared to 2011. The primary components of the change in operations were:

- Net patient service revenue increased \$1,029,454 or 7% over 2011 primarily due to an increase in Outpatient volume in both the Hospital and Physicians clinic.
- An increase in salaries, wages and employee benefits for the Hospital's employees of \$492,403 or 6%. The increase is due to annual salary adjustments of 4% and an increase in employee health insurance premium expense of 8% and the increased contributions required by IPERS.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital grants and gifts. Nonoperating revenues decreased by \$74,835 or 10% in 2013 compared to 2012. Nonoperating revenues increased by \$195,957 or 35% in 2012 compared to 2011. There were significant changes in 2013 or 2012, due to increases and decreases in noncapital gifts and grants.

Contributions

- The Hospital received contributions of \$113,316 in 2013, a decrease of \$171,071 from 2012.
- The Hospital received contributions of \$284,387 in 2012, an increase of \$214,195 from 2011.

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 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2013, the Hospital had \$6.8 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Hospital acquired capital assets costing \$1,359,439.

At the end of 2012, the Hospital had \$6.3 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2012, the Hospital acquired capital assets costing \$1,354,630.

Debt

At June 30, 2013 and 2012, the Hospital had \$4,083,361 and \$4,547,880, respectively, in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued new debt of \$149,014 in 2013 for a new lease. The Hospital has also borrowed against a line of credit in 2013 in the amount of \$98,356. The Hospital issued new debt in 2012 of \$1,360,367 for an electronic health records project.

Factors Bearing on Monroe County 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 641.932.2134.

Monroe County Hospital
Balance Sheets
June 30, 2013 and 2012

Assets

	2013	2012
		(As Restated)
Current Assets		
Cash and cash equivalents	\$ 131,103	\$ 2,070,066
Certificates of deposit	478,217	309,956
Assets held under bond indenture agreement	36,073	36,315
Patient accounts receivable, net of allowance; 2013 - \$604,768, 2012 - \$490,496	2,743,491	2,332,129
Property taxes receivable	816,361	739,086
Estimated amounts due from third-party payers	509,000	-
Other receivables	44,309	9,335
Supplies	342,525	357,585
Prepaid expenses	9,606	-
	5,110,685	5,854,472
Noncurrent Cash, Deposits and Investments		
Internally designated for capital acquisitions	2,300	2,300
Externally restricted		
Held under bond indenture agreement	455,783	451,110
Held under debt agreement for EHR	-	587,887
Investments held by the Foundation	62,919	62,919
By donors	179,880	179,880
Certificate of deposit	-	163,813
	700,882	1,447,909
Capital Assets, Net of Accumulated Depreciation	6,752,994	6,281,995
Other Assets		
Deferred financing costs, net of amortization; 2013 - \$163,001, 2012 - \$144,361	108,761	127,401
Other	27,411	12,154
Other Foundation assets	18,040	18,040
	154,212	157,595
Total Assets	\$ 12,718,773	\$ 13,741,971

Liabilities and Net Position

	<u>2013</u>	<u>2012</u> (As Restated)
Current Liabilities		
Current maturities of long-term debt	\$ 738,389	\$ 636,302
Line of credit	98,356	-
Accounts payable	1,103,111	610,657
Accrued vacation	449,210	565,907
Accrued payroll and related liabilities	545,887	396,045
Accrued interest	13,878	12,148
Deferred revenue for property taxes	808,045	739,086
Estimated amounts due to third-party payers	-	276,364
	<hr/>	<hr/>
Total current liabilities	3,756,876	3,236,509
Long-term Debt		
	<hr/>	<hr/>
Total liabilities	3,344,972	3,911,578
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	2,819,113	1,833,123
Restricted – expendable for debt service and EHR	477,978	1,063,164
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	2,139,954	3,517,717
	<hr/>	<hr/>
Total net position	5,616,925	6,593,884
	<hr/>	<hr/>
Total Liabilities and Net Position	<u>\$ 12,718,773</u>	<u>\$ 13,741,971</u>

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

	2013	2012
		(As Restated)
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 15,454,579	\$ 16,242,149
Provision for uncollectible accounts	(751,168)	(695,009)
Net patient service revenue	14,703,411	15,547,140
Other	183,031	271,608
Total operating revenues	14,886,442	15,818,748
Operating Expenses		
Salaries and wages	7,047,263	7,033,455
Employee benefits	2,076,694	1,924,405
Medical professional fees	2,611,967	2,379,954
Supplies and expenses	1,589,326	1,491,507
General services	744,087	717,331
Administrative services	1,493,497	1,376,077
Depreciation	877,572	705,160
Insurance	98,175	89,745
Total operating expenses	16,538,581	15,717,634
Operating Income (Loss)	(1,652,139)	101,114
Nonoperating Revenues (Expenses)		
Property taxes	740,062	668,056
Interest expense	(193,277)	(206,317)
Investment income	15,079	3,889
Noncapital grants and gifts	113,316	284,387
Total nonoperating revenues	675,180	750,015
Excess (Deficiency) of Revenues Over Expenses, Before Capital Contributions	(976,959)	851,129
Capital Contributions	-	-
Change in Net Position	(976,959)	851,129
Net Position, Beginning of Year	6,593,884	5,742,755
Net Position, End of Year	\$ 5,616,925	\$ 6,593,884

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

	2013	2012
		(As Restated)
Operating Activities		
Receipts from and on behalf of patients	\$ 13,506,685	\$ 15,138,652
Payments to and on behalf of employees	(9,090,812)	(8,774,453)
Payments to suppliers and contractors	(6,083,893)	(6,090,863)
Other receipts, net	172,163	289,037
Net cash provided by (used in) operating activities	(1,495,857)	562,373
Noncapital Financing Activities		
Property taxes	740,062	668,056
Noncapital grants and gifts	113,316	284,387
Net cash provided by noncapital financing activities	853,378	952,443
Capital and Related Financing Activities		
Proceeds from capital debt	98,356	1,360,367
Principal paid on capital debt and leases	(619,497)	(451,534)
Interest paid on capital debt and leases	(191,547)	(195,457)
Proceeds from sale of capital assets	3,000	9,609
Purchase of capital assets	(1,180,933)	(1,335,756)
Net cash used in capital and related financing activities	(1,890,621)	(612,771)
Investing Activities		
Investment income on deposits	15,129	3,889
Increase in deposits	(9,121)	(172,649)
Net cash provided by (used in) investing activities	6,008	(168,760)
Increase (Decrease) in Cash and Cash Equivalents	(2,527,092)	733,285
Cash and Cash Equivalents, Beginning of Year	2,696,568	1,963,283
Cash and Cash Equivalents, End of Year	\$ 169,476	\$ 2,696,568

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

	2013	2012
		(As Restated)
Reconciliation of Cash and Cash		
Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 131,103	\$ 2,070,066
Assets held under bond indenture agreement	36,073	36,315
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	2,300	2,300
Externally restricted - expendable for debt service and EHR	-	587,887
	<u>\$ 169,476</u>	<u>\$ 2,696,568</u>
 Reconciliation of Operating Income (Loss) to		
Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (1,652,139)	\$ 101,114
Depreciation and amortization	902,126	731,464
Loss on sale of capital assets	7,868	3,998
Changes in operating assets and liabilities		
Patient accounts receivable, net	(411,362)	(250,852)
Supplies	15,060	(130,938)
Estimated amounts due from and to third-party payers	(785,364)	(157,636)
Accounts payable and accrued expenses	487,791	240,630
Other assets and liabilities	(59,837)	24,593
	<u>\$ (1,495,857)</u>	<u>\$ 562,373</u>
 Supplemental Cash Flows Information		
Capital assets included in accounts payable	\$ 57,885	\$ 28,393
Capital assets acquired under capital leases	149,014	-

Monroe County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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

Nature of Operations

Monroe County 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 Monroe County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Monroe County area.

Blended component unit. The Hospital is the sole member of the Monroe County Health Care Foundation (Foundation), a legally separate not-for-profit corporation. The Foundation was formed to solicit and receive contributions along with related activities which carry out the mission of the Hospital. The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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 savings and money market accounts.

Monroe County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

Property Taxes

The Hospital received approximately 5% and 4% in 2013 and 2012, respectively, of its financial support from property tax revenues, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; 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

Investments in real estate investment trusts are carried at fair value. Fair value is determined using quoted market prices.

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

Patient Accounts Receivable

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.

Monroe County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

Capital Assets

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

Land improvements	2 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest capitalized as part of the electronic health records project was \$22,956 and \$14,400 for the years ended June 30, 2013 and 2012, respectively.

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the straight-line method.

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off. 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 four 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 required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets, or restricted net position.

Monroe County 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.

Contributions

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

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 \$469,962 and \$142,335 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 factor, 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

Monroe County Hospital

Notes to Financial Statements

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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.

The Hospital has recognized the incentive payments received for qualified EHR technology expenditures during 2013 and 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services. The Hospital recorded revenue of \$130,000 and \$130,600, 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, related to Medicaid.

Subsequent to June 30, 2013, the Hospital has attested for meaningful use for Medicare and received \$1,217,805.

Reclassifications

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

Change of Reporting Entity

In 2013, the reporting entity changed to include the Monroe County Health Care Foundation. This change resulted in the Foundation being included in the financial statements of the Hospital as a blended component unit and resulted in the following restatements.

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

	As Previously Reported 2012	Foundation Reporting Entity Change	As Restated 2012
Balance Sheet Items Affected			
Cash and cash equivalents	\$ 2,002,548	\$ 67,518	\$ 2,070,066
Other receivables	8,092	1,243	9,335
Supplies	355,753	1,832	357,585
Total current assets	5,783,879	70,593	5,854,472
Investments held by the Foundation	-	62,919	62,919
Certificate of deposit	-	163,813	163,813
Other Foundation assets	-	18,040	18,040
Total assets	13,426,606	315,365	13,741,971
Unrestricted	3,202,352	315,365	3,517,717
Total net position	6,278,519	315,365	6,593,884
Statement of Revenues, Expenses and Changes in Net Position Items Affected			
Administrative services	1,325,070	51,007	1,376,077
Total operating expenses	15,666,627	51,007	15,717,634
Interest income	16,279	(12,390)	3,889
Noncapital grants and gifts	54,885	229,502	284,387
Total nonoperating revenues	532,903	217,112	750,015
Excess of revenues over expenses	685,024	166,105	851,129
Net position, beginning of year	5,593,495	149,260	5,742,755
Increase in net position	685,024	166,105	851,129
Net position, end of year	6,278,519	315,365	6,593,884
Statement of Cash Flows			
Payments to suppliers and contractors	(6,025,834)	(65,029)	(6,090,863)
Net cash provided by (used in) operating activities	627,402	(65,029)	562,373
Noncapital grants and gifts	54,885	229,502	284,387
Net cash provided by noncapital financing activity	722,941	229,502	952,443
Investments income	16,279	(12,390)	3,889
Increase in deposits	(10,987)	(161,662)	(172,649)
Net cash provided by (used in) investing activities	5,292	(174,052)	(168,760)
Increase (decrease) in cash and cash equivalents	742,864	(9,579)	733,285
Cash and cash equivalents beginning of year	1,886,186	77,097	1,963,283
Cash and cash equivalents end of year	2,629,050	67,518	2,696,568
Reconciliation of Cash and Cash Equivalents to the Balance Sheets			
Cash and cash equivalents in current assets	2,002,548	67,518	2,070,066

Monroe County Hospital

Notes to Financial Statements

June 30, 2013 and 2012

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 were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

The Hospital has been notified by the Medicare Administrative Contractor that Medicare cost reports have been reopened for 2008 through 2012 to re-evaluate 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 been recouped by the MAC; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 51% and 53% 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 Interest 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.

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

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2013 and 2012. The Foundation had investments of \$62,919 in both 2013 and 2012 in real estate investment trusts.

Summary of Carrying Values

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

	<u>2013</u>	<u>2012</u>
Carrying value		
Deposits	\$ 1,283,356	\$ 3,801,327
Investments held by the foundation	62,919	62,919
	<u>\$ 1,346,275</u>	<u>\$ 3,864,246</u>
Cash and cash equivalents	\$ 131,103	\$ 2,070,066
Certificate of deposit	478,217	309,956
Assets held under bond indenture agreement	36,073	36,315
Noncurrent cash, deposits and investments	700,882	1,447,909
	<u>\$ 1,346,275</u>	<u>\$ 3,864,246</u>

Investment Income

Investment income for the years ended June 30, 2013 and 2012, amounted to \$15,079 and \$3,889, respectively.

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

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	\$ 1,271,817	\$ 732,586
Medicaid	193,027	184,200
Other third-party payers	979,484	1,057,590
Patients	903,931	848,249
	3,348,259	2,822,625
Less allowance for uncollectible accounts	604,768	490,496
	\$ 2,743,491	\$ 2,332,129

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	\$ 47,600	\$ -	\$ -	\$ -	\$ 47,600
Land improvements	745,730	22,592	1,533	-	766,789
Buildings and leasehold improvements	6,517,256	9,292	134,332	-	6,392,216
Fixed equipment	4,862,971	136,054	60,887	-	4,938,138
Major movable equipment	6,197,710	1,183,349	303,744	812,538	7,889,853
Construction in progress	821,886	8,152	-	(812,538)	17,500
	19,193,153	1,359,439	500,496	-	20,052,096
Less accumulated depreciation					
Land improvements	660,199	14,753	1,533	-	673,419
Buildings and leasehold improvements	3,610,229	175,321	134,333	-	3,651,217
Fixed equipment	3,796,953	139,155	60,887	-	3,875,221
Major movable equipment	4,843,777	548,343	292,875	-	5,099,245
	12,911,158	877,572	489,628	-	13,299,102
Capital assets, net	\$ 6,281,995	\$ 481,867	\$ 10,868	\$ -	\$ 6,752,994

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2012					
Land	\$ 62,600	\$ -	\$ 15,000	\$ -	\$ 47,600
Land improvements	745,730	-	-	-	745,730
Buildings and leasehold improvements	6,481,007	6,800	-	29,449	6,517,256
Fixed equipment	4,630,206	24,482	-	208,283	4,862,971
Major movable equipment	5,879,218	289,179	-	29,313	6,197,710
Construction in progress	54,762	1,034,169	-	(267,045)	821,886
	<u>17,853,523</u>	<u>1,354,630</u>	<u>15,000</u>	<u>-</u>	<u>19,193,153</u>
Less accumulated depreciation					
Land improvements	640,779	17,839	-	1,581	660,199
Buildings and leasehold improvements	3,374,424	187,060	-	48,745	3,610,229
Fixed equipment	3,661,263	146,660	-	(10,970)	3,796,953
Major movable equipment	4,548,142	353,601	-	(57,966)	4,843,777
	<u>12,224,608</u>	<u>705,160</u>	<u>-</u>	<u>(18,610)</u>	<u>12,911,158</u>
Capital assets, net	<u>\$ 5,628,915</u>	<u>\$ 649,470</u>	<u>\$ 15,000</u>	<u>\$ 18,610</u>	<u>\$ 6,281,995</u>

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.

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

Note 7: Line of Credit

In 2013, the Hospital entered into a \$500,000 revolving bank line of credit expiring June 30, 2014 for the purchase of capital assets. At June 30, 2013, there was \$98,356 borrowed against this line. The line is collateralized by inventory, equipment, accounts (including but not limited to all health-care insurance receivables), and investments, etc. as defined in the Commercial Security Agreement. The interest rate on the line is 4.6% and is payable quarterly. The line was paid off in November 2013.

Note 8: Long-term Obligations

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

	2013				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue refunding bonds, Series 2007 (A)	\$ 3,125,000	\$ -	\$ (290,000)	\$ 2,835,000	\$ 300,000
Capital lease obligations (B)	199,516	149,014	(94,055)	254,525	150,779
Note payable to bank (C)	1,251,941	-	(235,442)	1,016,499	287,610
Less unamortized bond discount	(28,577)	-	5,914	(22,663)	-
Total long-term debt	<u>\$ 4,547,880</u>	<u>\$ 149,014</u>	<u>\$ (613,583)</u>	<u>\$ 4,083,361</u>	<u>\$ 738,389</u>
	2012				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Hospital revenue refunding bonds, Series 2007 (A)	\$ 3,400,000	\$ -	\$ (275,000)	\$ 3,125,000	\$ 290,000
Capital lease obligations (B)	267,624	-	(68,108)	199,516	89,101
Note payable to bank (C)	-	1,360,367	(108,426)	1,251,941	257,201
Less unamortized bond discount	(35,096)	-	6,519	(28,577)	-
Total long-term debt	<u>\$ 3,632,528</u>	<u>\$ 1,360,367</u>	<u>\$ (445,015)</u>	<u>\$ 4,547,880</u>	<u>\$ 636,302</u>

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

- (A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating \$4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.30% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.

The Series 2007 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of \$435,785.

The Series 2007 indenture agreement also requires certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service Reserve Fund are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

As of June 30, 2013, the Hospital was not in compliance with the following debt covenant:

Maintaining a Coverage Ratio of 1.25. The Hospital will be required to hire a Management Consultant within 30 days following the delivery of the June 30, 2013 audit report, to make a written report evaluating the performance of the Hospital and to recommend corrective measures.

- (B) At rates of imputed interest of 3.5% to 5.0%, maturing through 2016 and collateralized by leased equipment. Equipment under capital leases is as follows:

	2013	2012
Equipment	\$ 513,347	\$ 351,275
Less accumulated depreciation	184,714	118,604
	\$ 328,633	\$ 232,671

- (C) Due January 29, 2017; principal and interest payable monthly in the amount of \$24,565; interest rate is 2.99%. The note is for the electronic health records project and secured by the related assets for the project.

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

Scheduled principal and interest payments on the Hospital revenue bonds Series 2007 as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 432,875	\$ 300,000	\$ 132,875
2015	434,375	315,000	119,375
2016	435,043	330,000	105,043
2017	434,863	345,000	89,863
2018	433,820	360,000	73,820
2019-2022	<u>1,301,115</u>	<u>1,185,000</u>	<u>116,115</u>
	<u>\$ 3,472,091</u>	<u>\$ 2,835,000</u>	<u>\$ 637,091</u>

Scheduled principal and interest payments on the Note Payable to Bank as of June 30, 2013, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2014	\$ 316,542	\$ 287,610	\$ 28,932
2015	294,782	274,789	19,993
2016	294,781	284,028	10,753
2017	<u>171,955</u>	<u>170,072</u>	<u>1,883</u>
	<u>\$ 1,078,060</u>	<u>\$ 1,016,499</u>	<u>\$ 61,561</u>

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

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2013:

<u>Year Ending June 30,</u>	<u>Amount</u>
2014	\$ 157,265
2015	71,651
2016	34,954
Total minimum lease payments	<u>263,870</u>
Less amount representing interest	9,345
Less current amounts	<u>150,779</u>
 Present value of future minimum lease payments	 <u><u>\$ 103,746</u></u>

Note 9: Restricted Net Position

At June 30, 2013 and 2012, restricted expendable net assets of \$477,978 and \$1,063,164, respectively, were available for debt service reserve, purchase of electronic health records assets and sinking funds related to indenture agreements.

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After the time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

Note 10: Condensed Combining Information

The following tables include condensed information for the Hospital and its component unit as of June 30, 2013 and 2012.

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

Condensed Balance Sheets

	June 30, 2013			
	Monroe County Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 4,924,401	\$ 186,284	\$ -	\$ 5,110,685
Capital assets	6,752,994	-	-	6,752,994
Other assets	774,135	260,839	(179,880)	855,094
	<u>12,451,530</u>	<u>447,123</u>	<u>(179,880)</u>	<u>12,718,773</u>
Total assets	<u>\$ 12,451,530</u>	<u>\$ 447,123</u>	<u>\$ (179,880)</u>	<u>\$ 12,718,773</u>
Liabilities and Net Position				
Current liabilities	\$ 3,756,876	\$ -	\$ -	\$ 3,756,876
Noncurrent liabilities	3,344,972	-	-	3,344,972
	<u>7,101,848</u>	<u>-</u>	<u>-</u>	<u>7,101,848</u>
Total liabilities	<u>7,101,848</u>	<u>-</u>	<u>-</u>	<u>7,101,848</u>
Net Position				
Net investment in capital assets	2,819,113	-	-	2,819,113
Unrestricted	1,872,711	267,243	-	2,139,954
Restricted-expendable for debt service and EHR	477,978	-	-	477,978
Restricted-nonexpendable endowment	179,880	179,880	(179,880)	179,880
	<u>5,349,682</u>	<u>447,123</u>	<u>(179,880)</u>	<u>5,616,925</u>
Total net position	<u>5,349,682</u>	<u>447,123</u>	<u>(179,880)</u>	<u>5,616,925</u>
Total liabilities and net position	<u>\$ 12,451,530</u>	<u>\$ 447,123</u>	<u>\$ (179,880)</u>	<u>\$ 12,718,773</u>

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

	June 30, 2012			
	Monroe			
	County Hospital	Foundation	Eliminations	Total
Assets				
Current assets	\$ 5,783,879	\$ 70,593	\$ -	\$ 5,854,472
Capital assets	6,281,995	-	-	6,281,995
Other assets	1,360,732	424,652	(179,880)	1,605,504
	<u>\$ 13,426,606</u>	<u>\$ 495,245</u>	<u>\$ (179,880)</u>	<u>\$ 13,741,971</u>
Liabilities and Net Position				
Current liabilities	\$ 3,236,509	\$ -	\$ -	\$ 3,236,509
Noncurrent liabilities	3,911,578	-	-	3,911,578
	<u>7,148,087</u>	<u>-</u>	<u>-</u>	<u>7,148,087</u>
Net Position				
Net investment in capital assets	1,833,123	-	-	1,833,123
Unrestricted	3,202,352	315,365	-	3,517,717
Restricted-expendable for debt service and EHR	1,063,164	-	-	1,063,164
Restricted-nonexpendable endowment	179,880	179,880	(179,880)	179,880
	<u>6,278,519</u>	<u>495,245</u>	<u>(179,880)</u>	<u>6,593,884</u>
	<u>\$ 13,426,606</u>	<u>\$ 495,245</u>	<u>\$ (179,880)</u>	<u>\$ 13,741,971</u>

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

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2013			
	Monroe County Hospital	Foundation	Eliminations	Total
Operating Revenue				
Net patient service revenue	\$ 14,703,411	\$ -	\$ -	\$ 14,703,411
Other	183,031	-	-	183,031
Total operating revenues	<u>14,886,442</u>	<u>-</u>	<u>-</u>	<u>14,886,442</u>
Operating Expenses				
Other operating expenses	15,614,450	134,588	(88,029)	15,661,009
Depreciation and amortization	877,572	-	-	877,572
Total operating expenses	<u>16,492,022</u>	<u>134,588</u>	<u>(88,029)</u>	<u>16,538,581</u>
Operating Income (Loss)	<u>(1,605,580)</u>	<u>(134,588)</u>	<u>88,029</u>	<u>(1,652,139)</u>
Nonoperating Revenues (Expenses)				
Investment income	9,945	5,134	-	15,079
Interest expense	(193,277)	-	-	(193,277)
Property tax revenue	740,062	-	-	740,062
Noncapital contributions	32,213	81,332	(229)	113,316
Total nonoperating revenues	<u>588,943</u>	<u>86,466</u>	<u>(229)</u>	<u>675,180</u>
Excess (Deficiency) of Revenues Over Expenses, Before Capital Contributions	(1,016,637)	(48,122)	87,800	(976,959)
Capital Contributions	<u>87,800</u>	<u>-</u>	<u>(87,800)</u>	<u>-</u>
Change in Net Position	(928,837)	(48,122)	-	(976,959)
Net Position, Beginning of Year	<u>6,278,519</u>	<u>495,245</u>	<u>(179,880)</u>	<u>6,593,884</u>
Net Position, End of Year	<u>\$ 5,349,682</u>	<u>\$ 447,123</u>	<u>\$ (179,880)</u>	<u>\$ 5,616,925</u>

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

	Year Ended June 30, 2012			
	Monroe County Hospital	Foundation	Eliminations	Total
Operating Revenue				
Net patient service revenue	\$ 15,547,140	\$ -	\$ -	\$ 15,547,140
Other	271,608	-	-	271,608
Total operating revenues	<u>15,818,748</u>	<u>-</u>	<u>-</u>	<u>15,818,748</u>
Operating Expenses				
Other operating expenses	14,961,467	68,140	(17,133)	15,012,474
Depreciation and amortization	705,160	-	-	705,160
Total operating expenses	<u>15,666,627</u>	<u>68,140</u>	<u>(17,133)</u>	<u>15,717,634</u>
Operating Income (Loss)	<u>152,121</u>	<u>(68,140)</u>	<u>17,133</u>	<u>101,114</u>
Nonoperating Revenues (Expenses)				
Investment income	16,279	(12,390)	-	3,889
Interest expense	(206,317)	-	-	(206,317)
Property tax revenue	668,056	-	-	668,056
Noncapital contributions	54,885	246,635	(17,133)	284,387
Total nonoperating revenues	<u>532,903</u>	<u>234,245</u>	<u>(17,133)</u>	<u>750,015</u>
Change in Net Position	685,024	166,105	-	851,129
Net Position, Beginning of Year	<u>5,593,495</u>	<u>329,140</u>	<u>(179,880)</u>	<u>5,742,755</u>
Net Position, End of Year	<u>\$ 6,278,519</u>	<u>\$ 495,245</u>	<u>\$ (179,880)</u>	<u>\$ 6,593,884</u>

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

Condensed Statements of Cash Flows

	Year Ended June 30, 2013			
	Monroe County Hospital	Foundation	Eliminations	Total
Net Cash Used in Operating Activities	\$ (1,353,432)	\$ (142,425)	\$ -	\$ (1,495,857)
Net Cash Provided by Noncapital Financing Activity	772,047	81,331	-	853,378
Net Cash Used in Capital and Related Financing Activities	(1,890,621)	-	-	(1,890,621)
Net Cash Provided by Investing Activities	<u>2,599</u>	<u>3,409</u>	<u>-</u>	<u>6,008</u>
Change in Cash and Cash Equivalents	(2,469,407)	(57,685)	-	(2,527,092)
Cash and Cash Equivalents, Beginning of Year	<u>2,629,050</u>	<u>67,518</u>	<u>-</u>	<u>2,696,568</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 159,643</u></u>	<u><u>\$ 9,833</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 169,476</u></u>

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

	Year Ended June 30, 2012			
	Monroe County Hospital	Foundation	Eliminations	Total
Net Cash Provided by (Used in) Operating Activities	\$ 627,402	\$ (65,029)	\$ -	\$ 562,373
Net Cash Provided by Noncapital Financing Activity	722,941	229,502	-	952,443
Net Cash Used in Capital and Related Financing Activities	(612,771)	-	-	(612,771)
Net Cash Provided by (Used in) Investing Activities	5,292	(174,052)	-	(168,760)
Change in Cash and Cash Equivalents	742,864	(9,579)	-	733,285
Cash and Cash Equivalents, Beginning of Year	1,886,186	77,097	-	1,963,283
Cash and Cash Equivalents, End of Year	\$ 2,629,050	\$ 67,518	\$ -	\$ 2,696,568

Note 11: Contingencies

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Management records an estimate of the amount of ultimate expected loss, if any, for each. No such amounts were recorded at June 30, 2013 or 2012. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: Pension Plan

Plan Description

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

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

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 the plan for 2013, 2012 and 2011 were \$693,668, \$511,533 and \$451,815, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.67% of annual covered salary for 2013.

Note 13: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of \$593,894 and \$488,284 were incurred for the years ended June 30, 2013 and 2012, respectively.

Note 14: 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 a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the Hospital, for the year ended June 30, 2013:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 740,062	\$ -	\$ 740,062	\$ 739,087
Other revenues/receipts	<u>15,016,400</u>	<u>(1,196,726)</u>	<u>13,819,674</u>	<u>17,229,358</u>
Total revenues/receipts	15,756,462	(1,196,726)	14,559,736	17,968,445
Expenses/disbursements	<u>16,685,299</u>	<u>(502,851)</u>	<u>16,182,448</u>	<u>17,770,138</u>
Change in net position	(928,837)	(693,875)	(1,622,712)	198,307
Balance, beginning of year	<u>6,278,519</u>	<u>(834,853)</u>	<u>5,443,666</u>	<u>5,443,666</u>
Balance, end of year	<u><u>\$ 5,349,682</u></u>	<u><u>\$ (1,528,728)</u></u>	<u><u>\$ 3,820,954</u></u>	<u><u>\$ 5,641,973</u></u>

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

Note 15: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2018. Future minimum lease payments at June 30, 2013 were:

2014	\$ 139,992
2015	118,668
2016	118,668
2017	118,668
2018	<u>118,668</u>
Future minimum lease payments	<u><u>\$ 614,664</u></u>

Rent expense for the material operating leases was \$145,458 and \$138,084 for the years ended June 30, 2013 and 2012, respectively.

Note 16: 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.

Supplementary Information

Monroe County Hospital
Schedules of Patient Service Revenues- Hospital
Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Acute nursing care	\$ 1,655,595	\$ 1,655,595		\$ 1,515,089	\$ 1,515,089	
Extended care	59,160	59,160		123,960	123,960	
Skilled care	320,421	320,421		415,246	415,246	
	<u>2,035,176</u>	<u>2,035,176</u>		<u>2,054,295</u>	<u>2,054,295</u>	
Nursing Services						
Operating room	1,588,141	359,316	\$ 1,228,825	1,685,652	380,232	\$ 1,305,420
Recovery room	197,795	22,781	175,014	64,224	19,757	44,467
Emergency room	2,638,548	36,602	2,601,946	2,334,310	41,370	2,292,940
	<u>4,424,484</u>	<u>418,699</u>	<u>4,005,785</u>	<u>4,084,186</u>	<u>441,359</u>	<u>3,642,827</u>
Other Professional Services						
Central services and supplies	84,762		84,762	11,648		11,648
Hospice	785,421		785,421	940,474		940,474
Ambulance	1,242,397	20,642	1,221,755	1,194,039	35,264	1,158,775
Laboratory	3,868,845	379,002	3,489,843	3,740,844	400,993	3,339,851
Radiology	1,015,223	55,528	959,695	1,052,799	73,799	979,000
Electrocardiology	203,071	26,706	176,365	236,031	19,226	216,805
Respiratory therapy	557,033	355,754	201,279	603,480	453,636	149,844
Pharmacy	2,579,509	976,435	1,603,074	3,283,763	1,364,186	1,919,577
Anesthesiology	370,545	56,452	314,093	355,909	55,085	300,824
Physical therapy	968,756	146,800	821,956	944,311	143,177	801,134
Speech therapy	86,229	13,161	73,068	6,121	6,121	-
CT scan and MRI	3,298,571	267,174	3,031,397	3,048,058	238,829	2,809,229
Cardiac rehab	138,562		138,562	143,330		143,330
Occupational therapy	197,916	103,075	94,841	196,770	87,967	108,803
Outpatient clinic	705,310		705,310	751,786		751,786
Physician clinic	3,414,458		3,414,458	3,295,612		3,295,612
	<u>19,516,608</u>	<u>2,400,729</u>	<u>17,115,879</u>	<u>19,804,975</u>	<u>2,878,283</u>	<u>16,926,692</u>
Gross Patient Service Revenue	25,976,268	\$ 4,854,604	\$ 21,121,664	25,943,456	\$ 5,373,937	\$ 20,569,519
Contractual Adjustments	(10,651,689)			(9,831,907)		
Electronic Health Records Program Incentive Revenue	130,000			130,600		
Net Patient Service Revenue before Provision for Uncollectible Accounts	15,454,579			16,242,149		
Provision for Uncollectible Accounts	(751,168)			(695,009)		
Net Patient Service Revenue	<u>\$ 14,703,411</u>			<u>\$ 15,547,140</u>		

Monroe County Hospital
Schedules of Other Revenues- Hospital
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cafeteria	\$ 44,225	\$ 49,414
Medical records	317	912
Rent	37,759	47,114
Insurance proceeds	-	89,281
Other	<u>100,730</u>	<u>84,887</u>
	<u>\$ 183,031</u>	<u>\$ 271,608</u>

Monroe County Hospital

Schedules of Operating Expenses- Hospital

Years Ended June 30, 2013 and 2012

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,075,820	\$ 978,373	\$ 97,447	\$ 1,232,506	\$ 1,102,777	\$ 129,729
Emergency room	1,343,860	585,885	757,975	1,082,860	550,592	532,268
Operating and recovery rooms	782,651	375,577	407,074	564,554	295,972	268,582
Nursing administration	131,604		131,604	89,613	46,886	42,727
	<u>3,333,935</u>	<u>1,939,835</u>	<u>1,394,100</u>	<u>2,969,533</u>	<u>1,996,227</u>	<u>973,306</u>
Other Professional Services						
Laboratory	575,578	258,870	316,708	617,223	258,613	358,610
Radiology	377,371	310,105	67,266	366,928	308,503	58,425
Respiratory therapy	132,245	75,185	57,060	127,065	79,597	47,468
Pharmacy	732,206	133,814	598,392	735,807	128,717	607,090
Anesthesiology	138,606		138,606	136,611		136,611
Physical therapy	435,407		435,407	450,512		450,512
Speech pathology	55,895		55,895	3,979		3,979
CT scan	202,976		202,976	234,799		234,799
Ultrasound	91,671	58,122	33,549	89,734	58,745	30,989
Mammography	9,855		9,855	18,939		18,939
MRI	63,750		63,750	72,229		72,229
Nuclear scanning	26,283		26,283	14,285		14,285
Cardiac rehab	54,288	52,010	2,278	59,122	55,290	3,832
Occupational therapy	99,675		99,675	119,893		119,893
Medical records	182,924	153,662	29,262	169,819	114,963	54,856
Outpatient clinic	178,187	29,050	149,137	260,978	53,425	207,553
Physician clinic	2,375,386	1,998,522	376,864	2,275,304	1,960,313	314,991
Infection control				1,781		1,781
Hospice	326,952	235,542	91,410	350,502	240,854	109,648
Ambulance	315,697	262,877	52,820	322,409	270,744	51,665
	<u>6,374,952</u>	<u>3,567,759</u>	<u>2,807,193</u>	<u>6,427,919</u>	<u>3,529,764</u>	<u>2,898,155</u>
General Services						
Operation of plant	607,807	152,755	455,052	611,908	154,562	457,346
Dietary	439,936	259,600	180,336	440,025	250,890	189,135
Environmental services	209,632	164,134	45,498	199,551	150,122	49,429
Housekeeping	63,201		63,201	72,384	50,963	21,421
	<u>1,320,576</u>	<u>576,489</u>	<u>744,087</u>	<u>1,323,868</u>	<u>606,537</u>	<u>717,331</u>
Administrative Services	2,410,118	963,180	1,446,938	2,225,997	900,927	1,325,070
Employee Benefits	2,076,694		2,076,694	1,924,405		1,924,405
Depreciation	877,572		877,572	705,160		705,160
Insurance	98,175		98,175	89,745		89,745
	<u>\$ 16,492,022</u>	<u>\$ 7,047,263</u>	<u>\$ 9,444,759</u>	<u>\$ 15,666,627</u>	<u>\$ 7,033,455</u>	<u>\$ 8,633,172</u>

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

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2013	2012	2013	2012
Days Since Discharge or date of service				
0 – 30	\$ 2,306,155	\$ 2,104,473	43%	52%
31 – 60	946,983	841,934	18%	21%
61 – 90	783,994	432,599	14%	10%
91 – 120	512,040	180,467	9%	4%
121 and over	885,546	526,331	16%	13%
	<u>5,434,718</u>	<u>4,085,804</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	2,086,459	1,263,179		
Allowance for uncollectible accounts	<u>604,768</u>	<u>490,496</u>		
	<u>2,691,227</u>	<u>1,753,675</u>		
	<u>\$ 2,743,491</u>	<u>\$ 2,332,129</u>		

Allowance for Uncollectible Accounts

	2013	2012
Balance, beginning of year	\$ 490,496	\$ 473,338
Provision for year	751,168	695,009
Recoveries of accounts previously written off	<u>265,336</u>	<u>67,134</u>
	1,507,000	1,235,481
Less accounts written off	<u>902,232</u>	<u>744,985</u>
Balance, end of year	<u>\$ 604,768</u>	<u>\$ 490,496</u>

Monroe County Hospital
Schedules of Supplies and Prepaid Expenses- Hospital
Years Ended June 30, 2013 and 2012

Supplies

	2013	2012
General	\$ 176,640	\$ 179,430
Pharmacy	163,551	176,323
	\$ 340,191	\$ 355,753

Prepaid Expenses

	2013	2012
Insurance	\$ 9,606	\$ -

Other Supplementary Information

Monroe County Hospital
Schedule of Officials
June 30, 2013

Name	Title	Term Expires December 31
Board of Trustees		
Marilee Scieszinski	Chair	2014
Lorraine Starcevic	Vice Chair	2016
Lana Kaldenberg	Secretary	2014
Tim Shehan	Member	2016
Matt Foster	Member	2016
Jason Summers	Member	2018
Joseph Bates	Member	2018

Hospital Officials

Todd Willert*	Chief Executive Officer
Heather Cain	Chief Financial Officer

* Hired subsequent to June 30, 2013

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

	2013	2012
Patient Days (Exclusive of Swing-bed)		
Medicare	682	718
Medicaid	47	62
Private and other	243	295
	972	1,075
Medicare and Medicaid Percent	75.0%	72.6%
Percent of Occupancy (Acute)	10.7%	11.8%
Discharges (Exclusive of Swing-bed)		
Medicare	216	229
Medicaid	13	14
Private and other	76	106
	305	349
Average Length of Stay in Days	3.2	3.1

**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
Monroe County Hospital
Albia, 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 Monroe County 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 December 6, 2013, which contained an "Emphasis of Matter" paragraph regarding a change in reporting entity.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses and, therefore, there can be no assurance that all material weaknesses have been identified. However, as discussed in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 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. 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. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2013-001 and 2013-002 to be a material weaknesses.

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.

Publication of Bills Allowed

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed..." We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

Management's Response to Findings

The Hospital's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management'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.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated December 6, 2013.

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
December 6, 2013

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

Reference Number	Finding
2013-001	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Significant audit adjustments due to unreconciled accounts were proposed to management related to cash, accounts receivable, accounts receivable allowances, accounts payable and depreciation expense. There was also a lack of system generated reports to support the financial statements prior to closing from the new information system.</p> <p>Context—Management’s financial statement preparation procedures were not sufficient such that misstatements were not identified and corrected in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified and corrected before issuing financial statements.</p> <p>Recommendation—Management should ensure accounts are reconciled and reviewed for financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

Monroe County Hospital
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2013

Reference Number	Finding
2013-002	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Segregation of duties issues relating to the Hospital’s Foundation accounting personnel. As the operations are controlled by one individual there is an opportunity for misappropriation of assets through inappropriate expenditures or theft of contributions received.</p> <p>Context—Management does not have the appropriate controls in place to monitor and review the activity recorded by the Foundation accountant.</p> <p>Effect—Misstatements in the financial statements could occur with no detection.</p> <p>Cause—Monitoring and review procedures are not sufficient such that misappropriation would be preempted or identified in a timely manner.</p> <p>Recommendation—Management should implement appropriate monitoring and review processes over the Foundation accounting procedures and preparation of financial statements.</p> <p>Views of Responsible Officials and Planned Corrective Actions— Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

Board of Trustees and Management
Monroe County Hospital
Albia, Iowa

In planning and performing our audit of the financial statements of Monroe County Hospital as of and for the year ended June 30, 2013, 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, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies and material weaknesses.

Material Weaknesses

Refer to the 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*.

Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. Segregation of duties issues were noted in the following areas:

Payroll

- The Accounts Payable Clerk has the ability to handle signed payroll checks, adjust the expense accounts and reconcile bank balances to the general ledger.

Revenues and Cash Receipts

- The Business Office Manager, Cash Receipts Clerk and Billing Clerk have the ability to receive cash, adjust patient accounts for payments received and change the patient billing files.

Audit Journal Entries

During the course of performing the audit, we identified adjustments including a passed adjustment and proposed journal entries to the financial statements affecting the Hospital's long-term debt, accrued liabilities and capital assets. These items were not previously identified by management's internal controls.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Medicare Reimbursement

Certain provisions of the Federal Government's *Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The estimated annual impact of sequestration for the Hospital is approximately \$130,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

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 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 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.

340B Drug Pricing Program Integrity Initiative

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, includes the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers began in February 2012 and may include closer scrutiny of nonprofit hospital contracts to provide indigent care and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

We recommend the Hospital review its compliance with the program and its continued eligibility to participate in the program.

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. As the Hospital continues implementing EHR, we recommend the Hospital evaluate and retain appropriate 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.

New GASB Standards

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

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

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

BKD, LLP

Kansas City, Missouri
December 6, 2013