

ELLSWORTH MUNICIPAL HOSPITAL
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2013 AND 2012

**ELLSWORTH MUNICIPAL HOSPITAL
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YEARS ENDED JUNE 30, 2013 AND 2012**

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**ELLSWORTH MUNICIPAL HOSPITAL
BOARD OF TRUSTEES
YEAR ENDED JUNE 30, 2013**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Steve Howard	Chairperson	December 31, 2016
Diana Ruhl	Vice Chairperson	December 31, 2016
Amanda Wood	Secretary	December 31, 2014
Francis Fritz	Treasurer	December 31, 2014
Mike Stensland	Member	December 31, 2016
HOSPITAL OFFICIALS		
Cherelle Montanye - Ireland	Chief Executive Officer	
Michael White	Chief Financial Officer	

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

Report on the Financial Statements

We have audited, the accompanying financial statements of Ellsworth Municipal Hospital, an enterprise fund of the City of Iowa Falls, Iowa, and its discretely presented component unit, Ellsworth Municipal Hospital Foundation, which comprise the related statements of net position and balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 audits 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 auditors' 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth Municipal Hospital and its discretely presented component unit as of June 30, 2013 and 2012 and the results of its operations, changes in its net position and its cash flows for the years ended June 30, 2013 and 2012 in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-10 and budgetary schedule comparison of expenses on page 38 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Ellsworth Municipal Hospital as a whole. The supplementary information on pages 39 through 46 is presented for the purpose 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Trustees and Hospital Officials listing which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees
Ellsworth Municipal Hospital

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013 on our consideration of Ellsworth Municipal Hospital and its discretely presented component unit's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ellsworth Municipal Hospital and its discretely presented component unit's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
December 5, 2013

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

The Management's Discussion and Analysis offers the readers of Ellsworth Municipal Hospital's (the Hospital) financial statements an overview and analysis of the Hospital's financial activities for the fiscal years ended June 30, 2013 and 2012. We encourage readers to consider the information presented here in conjunction with the financial statements and notes, which begin on page 10.

USING THIS ANNUAL REPORT

The June 30, 2013 and 2012 financial reports include the following audited financial statements:

- Statement of Net Position
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Cash Flows
- Notes to Financial Statements

FINANCIAL HIGHLIGHTS

- The Hospital's total assets increased in each of the last two years with a \$28,152,264 or 168% increase in 2013 and a \$1,171,598 or 7.5% increase in 2012.
- The Hospital's net position increased in each of the last two years with a \$1,676,883 or 12.4% increase in 2013 and an \$1,195,843 or 9.7% increase in 2012.
- The Hospital reported an operating loss of \$2,389,026 in 2013 and operating income of \$372,921 in 2012. Operating income in 2013 decreased by \$2,761,947 over the income reported in 2012. Operating income in 2012 increased by \$438,416 compared to 2011.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Ellsworth Municipal Hospital's financial statements report information on the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assesses the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Ellsworth Municipal Hospital does not receive any funding from the City of Iowa Falls. Revenues and expenses are reported on an accrual basis, which means that revenues and expenses are recorded in the periods in which they are incurred.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL

The information from the statement of net position, statements of revenues, expenses and changes in net position, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net position of the Hospital and the changes in them. Increases or decreases in net position are one indicator of whether or not the Hospital's financial health is improving. Other non-financial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payers, as well as changes in Hardin County's economic environment and the surrounding areas.

Table 1: Assets, Liabilities, and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets:			
Current Assets	\$ 6,629,518	\$ 7,097,934	\$ 5,949,820
Noncurrent Assets	20,828,737	2,197,940	2,811,293
Property, Plant, and Equipment, Net	16,165,461	6,333,571	6,127,605
Other Assets	<u>1,282,218</u>	<u>1,124,225</u>	<u>693,354</u>
Total Assets	<u>\$ 44,905,934</u>	<u>\$ 16,753,670</u>	<u>\$ 15,582,072</u>
Liabilities:			
Current Liabilities	\$ 4,263,577	\$ 2,560,180	\$ 2,109,085
Long-Term Debt	<u>25,444,881</u>	<u>672,897</u>	<u>1,148,237</u>
Total Liabilities	29,708,458	3,233,077	3,257,322
Net Position:			
Invested in Capital Assets Net of Related Debt	5,628,155	5,186,094	4,495,155
Restricted:			
Expendable for Capital Improvements	1,531,075	964,112	935,679
By Bond Indentures	18,382,017	308,452	308,452
Unrestricted	<u>(10,343,771)</u>	<u>7,061,935</u>	<u>6,585,464</u>
Total Net Position	<u>15,197,476</u>	<u>13,520,593</u>	<u>12,324,750</u>
Total Liabilities and Net Position	<u>\$ 44,905,934</u>	<u>\$ 16,753,670</u>	<u>\$ 15,582,072</u>

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

A significant change in the Hospital's assets in 2013 are the noncurrent assets; an increase of \$18,630,797 or 847.6%; current assets; an decrease of \$468,416 or 6.6%, and capital assets, net; an increase of \$9,831,890 or 155.2%.

In 2013, the Hospital's net position increased by \$1,676,883 or 12.4%, as shown in Table 2. This increase is made up of changes in net position invested in capital assets net of related debt and unrestricted net position.

Table 2: Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	2011
Operating Revenue:			
Net Patient Service Revenue	\$ 19,635,395	\$ 19,180,339	\$ 18,652,917
Other Revenues	566,516	781,396	659,642
Total Operating Revenues	<u>20,201,911</u>	<u>19,961,735</u>	<u>19,312,559</u>
Operating Expenses:			
Salaries and Wages	9,479,792	9,101,329	8,360,435
Employee Benefits	2,557,807	2,397,786	2,214,849
Supplies and Miscellaneous	7,361,873	7,128,896	7,772,369
Depreciation and Amortization	708,296	889,059	953,321
Interest Expense	42,791	71,744	77,080
Project Related Expenses	2,440,378	-	-
Total Operating Expenses	<u>22,590,937</u>	<u>19,588,814</u>	<u>19,378,054</u>
Operating Income (Loss)	(2,389,026)	372,921	(65,495)
Nonoperating Revenue	<u>500,474</u>	<u>361,891</u>	<u>364,908</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Contributions	(1,888,552)	734,812	299,413
Capital Grants and Contributions	<u>3,565,435</u>	<u>461,031</u>	<u>530,117</u>
Increase in Net Position	1,676,883	1,195,843	829,530
Net Position, Beginning of Year	<u>13,520,593</u>	<u>12,324,750</u>	<u>11,495,220</u>
Net Position, End of Year	<u><u>\$ 15,197,476</u></u>	<u><u>\$ 13,520,593</u></u>	<u><u>\$ 12,324,750</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Net patient service revenue made up 97% in 2013, 96% in 2012 and 97% in 2011 of Ellsworth Municipal Hospital's total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third-party payors. Table 3 below shows the contractual adjustments that were recognized:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Patient Service Revenues	\$ 38,515,080	\$ 35,541,810	\$ 32,525,449
Contractual Adjustments and Provisions for Bad Debt	<u>18,879,685</u>	<u>16,361,471</u>	<u>13,781,285</u>
Net Patient Service Revenue	<u>\$ 19,635,395</u>	<u>\$ 19,180,339</u>	<u>\$ 18,744,164</u>
Contractual Adjustments as a Percent of Revenues	<u>49.02%</u>	<u>46.03%</u>	<u>42.37%</u>

Total operating expenses increased \$3,002,122, or 15.33%, in 2013 and increased \$210,760, or 1.09%, in 2012. The operating expenses are broken out by department on the Schedules of Operating Expenses; please see pages 38-39 of the audited financial statements for this information.

Operating Loss was \$2,389,026, or 12% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2013 compared to income of \$372,921 or 1.9%, in 2012.

Other Operating Revenue decreased by \$214,880, or 27.5%, in 2013 and increased \$121,754 or 18.5%. Table 4 shows the detail for this line item.

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Rent	\$ 128,915	\$ 128,915	\$ 125,160
Cafeteria	65,487	62,003	63,825
Foundation Services	14,812	59,239	63,076
Health Program	69,968	77,845	58,110
Lab Fees	22,471	25,992	50,598
Grants	15,429	34,758	37,477
Purchase Discounts and Rebates	36,996	50,655	36,358
Management Fees	35,638	35,852	34,600
Clinic Fees	42,193	36,495	31,369
Contributions for Operations	31,133	21,768	28,877
Therapy Services	18,005	14,397	24,271
Housekeeping Services	18,802	18,573	20,748
Healthy Hearts	10,888	14,524	13,730
Miscellaneous Pharmacy Sales	8,987	7,360	13,262
Vending Machines	1,791	3,962	7,733
Medical Records Transcripts	2,110	2,703	2,887
Laundry	670	432	437
Other	42,221	185,923	47,124
Total Other Revenues	<u>\$ 566,516</u>	<u>\$ 781,396</u>	<u>\$ 659,642</u>

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Hospital Statistical Data

Table 5 reflects Ellsworth Municipal Hospital's statistical data. Acute Patient Days decreased in 2013, by 599 days, or (25.8%), in 2013, compared to the decrease of 365 days, or (13.57%), in 2012 and an increase of 127 days, or 4.96%, in 2011. Swing Bed Days decreased by 36 days, or (20%) in 2013, increased by 10 days, or 5.99%, in 2012 and increased by 57 days, or 4.35% in 2011.

Table 5: Statistical Data

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Patient Days:			
Acute -			
Adult, Pediatric, and OB	1,725	2,324	2,496
Swing Bed	1,367	1,405	1,368
Newborn	163	159	167
Totals	<u>3,255</u>	<u>3,888</u>	<u>4,031</u>
Admissions:			
Acute (Adult, Pediatric, OB and Intensive Care)	765	737	880
Swing Bed	141	177	167
Newborn	83	77	79
Totals	<u>989</u>	<u>991</u>	<u>1,126</u>
Discharges (Including Deaths):			
Acute (Adults, Pediatric, OB and Intensive Care)	516	739	881
Swing Bed	160	181	168
Newborn	83	79	77
Totals	<u>759</u>	<u>999</u>	<u>1,126</u>
Average Length of Stay:			
Acute	3	3	3
Swing Bed	9	8	8
Beds:			
Acute and Other	25	25	25
Occupancy Percentage:			
Acute, Based on 25 Beds in			
2013, 2012 and 2011, Respectively	18.9 %	25.5 %	27.4 %

Ellsworth Municipal Hospital's Cash Flows

Ellsworth Municipal Hospital's cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

**ELLSWORTH MUNICIPAL HOSPITAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2013 AND 2012**

FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL (CONTINUED)

Capital Assets

At June 30, 2013, Ellsworth Municipal Hospital had \$16,165,461 invested in capital assets, net of accumulated depreciation. In 2013, the Hospital expended \$9,170,509 to purchase property and equipment. In 2012 and 2011, the Hospital purchased property and equipment costing \$1,093,036 and \$954,035, respectively.

Long-Term Debt

Table 6 shows a summary of Ellsworth Municipal Hospital's long-term debt outstanding.

As of June 30, 2013, the Hospital had \$25,608,603 in revenue notes and capital lease obligations outstanding. During the fiscal year, the City of Iowa Falls issued Revenue and Government Obligation (G.O.) bonds for the purpose of constructing a new hospital facility. Total cost of the project is estimated to be \$30,000,000. The city authorized \$2,000,000 in G.O. bonds and \$3,000,000 in Revenue bonds. Management also sought support from the Hardin County Board of Supervisors for the issuance of \$20,000,000 in G.O. bonds on behalf of the hospital facility project. After a public vote with over 60% approving the issuance, the issuance of these bonds was authorized. The Hospital Revenue bonds were issued in October 2012. The Hospital debt issuances – revenue bonds – cannot be issued without approval from the City of Iowa Falls.

	2013	2012	2011
2012 Revenue Bonds	\$ 25,311,157	\$ -	\$ -
1998 Revenue Bonds	-	741,784	991,614
Notes Payable	83,285	151,217	220,573
USDA Loans	44,286	140,489	231,787
Capital Lease	169,875	113,987	188,476
Total Long-Term Debt	<u>\$ 25,608,603</u>	<u>\$ 1,147,477</u>	<u>\$ 1,632,450</u>

ECONOMIC FACTORS

Ellsworth Municipal Hospital continues to improve its operational and financial performance. During the Fiscal year 2013, we are highlighting the following items:

Contacting the Hospital's Management

This financial report is designed to present the public with a general overview of the Hospital's finances and operating activities. If you have questions or need additional information, please contact Administration at Ellsworth Municipal Hospital at 110, Rocksylvaniana Ave., Iowa Falls, Iowa 50126.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF NET POSITION
JUNE 30, 2013 AND 2012**

ASSETS	2013	2012
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,614,971	\$ 2,871,903
Current Portion of Noncurrent Cash and Investments	215,488	687,388
Patient Receivables, Less Allowance for Uncollectible Accounts (2013 - \$895,782 and 2012 - \$837,827)	3,061,218	2,745,726
Accounts Receivable - Other	235,810	143,030
Inventories	435,645	403,480
Prepaid Expenses	66,386	246,407
Total Current Assets	6,629,518	7,097,934
NONCURRENT CASH AND INVESTMENTS		
Internally Designated for Capital Acquisitions	706,389	904,302
Internally Designated for Health Benefits	209,256	21,074
Restricted by Contributors for Capital Improvements	1,531,075	964,112
Restricted by Bond Indenture	18,382,017	308,452
Noncurrent Cash and Investments	20,828,737	2,197,940
CAPITAL ASSETS, NET	16,165,461	6,333,571
OTHER ASSETS		
Investments in Affiliated Organizations	1,282,218	1,118,424
Unamortized Bond Issue Costs	-	5,801
Total Other Assets	1,282,218	1,124,225
Total Assets	\$ 44,905,934	\$ 16,753,670

See accompanying Notes to Financial Statements.

LIABILITIES AND NET POSITION	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Current Maturities of Long-Term Debt	\$ 163,722	\$ 474,580
Accounts Payable - Trade	359,561	320,413
Accounts Payable - Construction	2,221,139	102,082
Estimated Health Claims Payable	158,656	-
Accrued Payroll and Related Withholdings	1,113,940	1,108,385
Third-Party Payor Settlement Payable	30,911	554,720
Other Liabilities	215,648	-
Total Current Liabilities	<u>4,263,577</u>	<u>2,560,180</u>
LONG-TERM DEBT, Less Current Maturities		
Long-Term Debt	25,311,157	637,495
Obligations Under Capital Lease	133,724	35,402
Total Long-Term Debt	<u>25,444,881</u>	<u>672,897</u>
Total Liabilities	29,708,458	3,233,077
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net Investment in Capital Assets	5,628,155	5,186,094
Restricted:		
Expendable for Capital Improvements	1,531,075	964,112
By Bond Indentures	18,382,017	308,452
Unrestricted	<u>(10,343,771)</u>	<u>7,061,935</u>
Total Net Position	<u>15,197,476</u>	<u>13,520,593</u>
Total Liabilities and Net Position	<u>\$ 44,905,934</u>	<u>\$ 16,753,670</u>

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
BALANCE SHEETS
JUNE 30, 2013 AND 2012**

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 459,286	\$ 2,198,396
Pledges Receivable - Current Portion	183,137	53,633
Interest Receivable	277	22,289
Total Current Assets	642,700	2,274,318
NONCURRENT ASSETS		
Investments	153,300	621,499
Beneficial Interest in Net Assets of Community Foundation	29,414	14,981
Pledges Receivable - Less Current Portion, Net	1,520,954	2,624,969
Land	322,137	322,137
Total Noncurrent Assets	2,025,805	3,583,586
Total Assets	\$ 2,668,505	\$ 5,857,904
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Due to Ellsworth Municipal Hospital	\$ 145,457	\$ 126,821
NET ASSETS		
Unrestricted	159,937	187,220
Temporarily Restricted	2,333,697	5,528,882
Permanently Restricted	29,414	14,981
Net Assets	2,523,048	5,731,083
Total Liabilities and Net Assets	\$ 2,668,505	\$ 5,857,904

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
OPERATING REVENUES		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$1,422,656 in 2013 and \$1,327,163 in 2012)	\$ 19,635,395	\$ 19,180,339
Other Revenues	566,516	781,396
Total Operating Revenues	20,201,911	19,961,735
OPERATING EXPENSES		
Salaries and Wages	9,479,792	9,101,329
Employee Benefits	2,557,807	2,397,786
Supplies and Miscellaneous	7,361,873	7,128,896
Depreciation and Amortization	708,296	889,059
Interest Expense	42,791	71,744
Accelerated Depreciation	1,597,698	-
Bond Issue Costs	842,680	-
Total Operating Expenses	22,590,937	19,588,814
OPERATING INCOME (LOSS)	(2,389,026)	372,921
NONOPERATING REVENUES		
Investment Income	52,140	73,791
Net Gain on Affiliated Organizations	441,754	288,100
Gain on Disposal of Capital Assets	6,580	-
Nonoperating Revenues, Net	500,474	361,891
EXCESS (DEFICIT) OF REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS	(1,888,552)	734,812
CAPITAL CONTRIBUTIONS	3,565,435	461,031
INCREASE IN NET POSITION	1,676,883	1,195,843
Net Position - Beginning of the Year	13,520,593	12,324,750
NET POSITION - END OF THE YEAR	\$ 15,197,476	\$ 13,520,593

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Patients and Third-Party Payors	\$ 18,796,094	\$ 19,820,108
Cash Paid to Employees	(11,873,388)	(11,578,858)
Cash Paid to Suppliers	(8,551,118)	(7,319,136)
Other Receipts and Payments, Net	2,065,633	723,499
Net Cash Provided by Operating Activities	<u>437,221</u>	<u>1,645,613</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of Capital Assets	(9,170,508)	(1,093,036)
Proceeds from issuance of Long-Term Debt	25,311,157	-
Principal Payments on Long-Term Debt	(995,849)	(484,973)
Bond Issue Costs on Long-Term Debt	(842,680)	-
Interest Payments on Long-Term Debt	(732,910)	(71,744)
Capital Grants and Contributions	3,565,435	461,031
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>17,134,645</u>	<u>(1,188,722)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) Decrease in Noncurrent Cash and Investments	(18,640,528)	610,957
(Increase) Decrease in the Current Portion of Noncurrent Cash and Investments	481,631	(687,388)
(Increase) Decrease in Investments in Affiliated Organizations	277,959	(144,760)
Interest Income	52,140	76,187
Net Cash Used by Investing Activities	<u>(17,828,798)</u>	<u>(145,004)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(256,932)	311,887
Cash and Cash Equivalents - Beginning of Year	<u>2,871,903</u>	<u>2,560,016</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 2,614,971</u>	<u>\$ 2,871,903</u>

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (2,389,026)	\$ 372,921
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,305,994	889,059
Issuance cost expense	842,680	-
Interest Expense Considered Capital and Related Financing Activity	42,791	71,744
(Increase) Decrease in:		
Patient Receivables	(315,492)	(103,951)
Accounts Receivable - Other	(92,780)	(57,897)
Inventories	(32,165)	(31,519)
Prepaid Expenses	180,021	(144,472)
Increase (Decrease) in:		
Accounts Payable	254,796	(14,249)
Accrued Expenses	5,555	(79,743)
Accrued Health Claims Payable	158,656	-
Third-Party Payor Settlement Payable	(523,809)	743,720
Net Cash Provided by Operating Activities	\$ 437,221	\$ 1,645,613
 NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capitalized Interest	\$ 684,315	\$ -
Capital Assets included in Accounts Payable	\$ 2,221,139	\$ 101,307

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL FOUNDATION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Net Assets	\$ (3,208,035)	\$ 4,820,104
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in Unrealized Gains and Losses on Investments	(1,625)	2,651
Change in Beneficial Interest in Net Assets of Community Foundation	(14,433)	(4,055)
Changes in Assets and Liabilities:		
Accrued Interest Receivable	22,012	(8,518)
Pledges Receivable	974,511	(2,461,602)
Due to Ellsworth Municipal Hospital	18,636	95,473
Net Cash Provided (Used) by Operating Activities	(2,208,934)	2,444,053
 CASH FLOWS FROM CAPITAL AND FINANCING ACTIVITIES		
Acquisition of Capital Assets	-	(322,137)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	517,698	41,154
Contributions to Investments	(47,218)	-
Purchase of Certificates of Deposit	(656)	(24,499)
Net Cash Provided by Investing Activities	469,824	16,655
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,739,110)	2,138,571
 Cash and Cash Equivalents - Beginning of Year	2,198,396	59,825
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 459,286	\$ 2,198,396

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Hospital is the municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the Code of Iowa. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls. Ellsworth Municipal Hospital provides healthcare services in accordance with a Management Agreement which is discussed in Note 15.

Tax Exempt Status

Ellsworth Municipal Hospital is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

Ellsworth Municipal Hospital believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hospital would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Reporting Entity

For financial reporting purposes, Ellsworth Municipal Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Ellsworth Municipal Hospital has no component units which meet the Government Accounting Standards Board criteria.

Ellsworth Municipal Hospital Foundation (the Foundation) is a not-for-profit entity legally separate from Ellsworth Municipal Hospital. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discrete presentation due to the nature and significance of its relationship with the Hospital.

Measurement Focus and Basis of Accounting

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

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Ellsworth Municipal Hospital's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position (previously referred to as net assets) displays the Hospital's assets and liabilities, with the difference reported as net position.

Net position is reported in the following categories/components:

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

Restricted Net Position

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted net position is available for use, generally it is the Health Center's policy to use restricted net position first.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, demand deposit accounts, and savings accounts.

Accounts Receivable

Ellsworth Municipal Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are individually analyzed for collectability. Amounts for which no payments have been received are written off using management's judgment on a per account basis. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At June 30, 2013 and 2012, the allowance for uncollectible accounts was approximately \$896,000 and \$838,000, respectively.

Inventories

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

Noncurrent Cash and Investments

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also includes assets held by the bank for use in an ongoing construction project.

Capital Assets

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures greater than \$5,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Bond Issue Costs and Expenses

Bond issue costs were amortized over the life of the bonds using the straight-line method until the adoption of GASB 65, *Items Previously Reported as Assets and Liabilities* which was adopted in the current year. Prior year amortization expense was \$1,989 for the year ended June 30, 2012. During the year ended June 30, 2013, the Hospital implemented the GASB Statement 65. As a result the Hospital fully amortized the remaining unamortized debt issue costs of \$5,801 related to the 1998 Hospital Revenue Bonds rather than adjusted through a prior period adjustment due to materiality.

Compensated Absences

Hospital employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid leave payouts is recorded as accrued expenses on the balance sheet based on pay rates that are in effect at June 30, 2013 and 2012.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare cost reports through June 30, 2011 have been settled by the intermediary.

Contributions

From time to time the Hospital receives contributions from individuals and private organizations. Revenue 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 or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Operating Revenues and Expenses

Ellsworth Municipal Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care

Ellsworth Municipal Hospital provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, an adjustment has been recorded to offset the revenue recorded. Charity care provided during the years ended June 30, 2013 and 2012 was \$339,015 and \$321,669, respectively.

Electronic Health Record Incentive Payments

As discussed in Note 4, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Hospital recognized the revenue ratably over the reporting period starting at the point when management was reasonably assured the Health Center met all meaningful use objectives and any other specific grant requirements that were applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

Change in Accounting Standards

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, supersedes GASB 20. GASB 20 gave governments the choice to elect to follow only GASB's authoritative literature, or to follow FASB and AICPA pronouncements that did not conflict with GASB pronouncements.

Upon adoption of GASB 62, all governmental accounting guidance is codified into the GASB literature.

The hospital adopted GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which renames the residual amounts from "net assets" to "net position". The financial statements include the statement of net position, which reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position.

GASB 65, *Items Previously Reported as Assets and Liabilities* reclassifies and recognizes certain items that were formerly reported as assets and liabilities as one of four financial statement elements; 1) Deferred outflows of resources, 2) Outflows of resources, 3) Deferred inflows of resources and 4) Inflows of resources. Concepts Statement No. 4 requires that deferred outflows and deferred inflows be recognized only in those instances specifically identified in GASB pronouncements. Statement No. 65 provides that guidance.

Deficit Net Position

The hospital had a negative net position on June 30, 2013 in the amount of \$10,343,771. The negative net position is due to an excess of debt financing as compared to capitalization of the current new hospital construction. Additional capital assets related to the completion of the new hospital in fiscal year ending June 30, 2014 is expected to eliminate the deficit.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on the overall net position of the Hospital.

Subsequent Events

The Hospital has evaluated subsequent events through December 5, 2013, the date which the financial statements were available to be issued.

NOTE 2 DESIGNATED NET POSITION

Of the (\$10,332,410) and \$7,061,935 of unrestricted net position at June 30, 2013 and 2012, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2013	2012
For Capital Acquisitions	\$ 706,389	\$ 904,302
For Health Benefits	209,256	21,074
Total Designated Net Position	\$ 915,645	\$ 925,376

NOTE 3 NET PATIENT SERVICE REVENUE

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

Medicare

Ellsworth Municipal Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2011.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE3 NET PATIENT SERVICE REVENUE (CONTINUED)

Medicaid

Ellsworth Municipal Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2010.

Other

Ellsworth Municipal Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenues and contractual adjustments is as follows:

	<u>2013</u>	<u>2012</u>
Total Patient Service Revenues	\$ 38,515,080	\$ 35,541,810
Contractual Adjustments:		
Medicare	11,333,994	8,857,160
Medicaid	1,822,724	1,693,149
Provision for Bad Debt	1,422,656	1,327,163
Other	4,300,311	4,483,999
Total Deductions	<u>18,879,685</u>	<u>16,361,471</u>
Net Patient Service Revenues	<u>\$ 19,635,395</u>	<u>\$ 19,180,339</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the Hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Hospital must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by $\frac{1}{4}$, $\frac{1}{2}$, and $\frac{3}{4}$.

The Hospital demonstrated meaningful use to the 90-day period ended June 29, 2011 and received their first tentative incentive payment of \$104,000 in May 2012. This amount is recognized as other operating revenue in the statements of revenues, expenses, and changes in net position for the fiscal year ended June 30, 2012. The final amount of this payment will be determined based on information from the Hospitals' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES

Ellsworth Municipal Hospital has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost report indicated the Hospital owed the agencies approximately \$31,000 at June 30, 2013 and \$555,000 at June 30, 2012.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 6 UNCONDITIONAL PROMISES TO GIVE

Ellsworth Municipal Hospital Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5.0%. Prior years rates were not computed.

The following is a summary of unconditional promises to give as of June 30, 2013 and 2012:

	2013	2012
Less than One Year	\$ 183,137	\$ 53,633
One to Five Years	2,276,113	3,380,128
	2,459,250	3,433,761
Less: Discount	(457,759)	(457,759)
Less: Allowance for Uncollectible Promises to Give	(297,400)	(297,400)
Unconditional Promises to Give, Net	\$ 1,704,091	\$ 2,678,602

NOTE 7 FAIR VALUE MEASUREMENTS

The Foundation has determined the fair value of certain assets and liabilities recognized or disclosed at fair value in the financial statements in accordance with the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 provides a framework for measuring fair value under U.S. generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1 – Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the related asset or liability and are corroborated by market data.

Level 3 – Unobservable inputs that are not corroborated by market data related to the asset or liability.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2013 and 2012:

	Quoted Prices in Active Markets (Level 1)	Other Inputs Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2013			
Assets:			
Investments in Mutual Funds	\$ 92,176	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	29,414
Total Assets	<u>\$ 92,176</u>	<u>\$ -</u>	<u>\$ 29,414</u>
June 30, 2012			
Assets:			
Investments in Mutual Funds	\$ 42,677	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	14,981
Total Assets	<u>\$ 42,677</u>	<u>\$ -</u>	<u>\$ 14,981</u>

The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses. The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses, during the years ended June 30, 2013 and 2012 were classified as follows in the statement of activities and changes in net assets:

<u>Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)</u>		
	2013	2012
Balance at July 1	\$ 14,981	\$ 10,926
Total Gains or Losses (Realized/Unrealized)		
Transfers to the Foundation	4,152	759
Excess of Revenues Over Expenses	10,281	3,296
Balance at June 30,	<u>\$ 29,414</u>	<u>\$ 14,981</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 8 PATIENT RECEIVABLES

Patient receivables reported as current assets by the Hospital at June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Receivable from Patients and Their Insurance Carriers	\$ 1,752,378	\$ 1,934,986
Receivable from Medicare	1,961,367	1,431,892
Receivable from Medicaid	<u>243,255</u>	<u>216,675</u>
Total Patient Receivables	3,957,000	3,583,553
Less: Allowance for Doubtful Accounts	<u>(895,782)</u>	<u>(837,827)</u>
Patient Receivables, Net	<u><u>\$ 3,061,218</u></u>	<u><u>\$ 2,745,726</u></u>

NOTE 9 DEPOSITS AND INVESTMENTS

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

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

Deposits and investments consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Checking and Savings Accounts	\$ 2,614,971	\$ 2,871,903
Certificates of Deposit	2,673,070	2,885,328
Deposits	7,061,421	-
Federal Home Loan Bank	3,046,257	-
Federal National Mortgage Association	4,397,233	-
Federal Home Loan Mortgage Corp	2,753,533	-
Federal Farm Credit Bank	1,099,846	-
Interest Receivable	<u>12,865</u>	<u>15,364</u>
	<u><u>\$ 23,659,196</u></u>	<u><u>\$ 5,757,231</u></u>

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 2,614,971	\$ 2,871,903
Current Portion of Assets Limited as to Use	215,488	687,388
Assets Limited as to Use or Restricted	<u>20,828,737</u>	<u>2,197,940</u>
Total Deposits	<u><u>\$ 23,659,196</u></u>	<u><u>\$ 5,757,231</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 9 INVESTMENTS (CONTINUED)

- Federal Home Loan Bank: Consists of discount notes and notes with interest rates of 0.875% to 5.375% maturing from 2014 to 2021 and have AAA ratings by Standard & Poor's.
- Federal National Mortgage Association: Consists of discount notes and notes with interest rates of 1.5% to 4.375% maturing from 2013 to 2021 and have AAA ratings by Standard & Poor's.
- Federal Home Loan Mortgage Corp: Consists of a discount notes with interest rates of 2.00% - 3.00% maturing in 2016 and has an AAA rating by Standard & Poor's.
- Federal Agricultural Mortgage Corp: 2011 balances consisted of discount notes with interest rates ranging from 2.25% to 3.0% which originally matured in the years 2018 – 2021 and have an AAA rating by Standard & Poor's. These were called during 2012.
- Federal Farm Credit Bank: Consists of discount notes with interest rates ranging from 1.80% to 6.03% and have AAA ratings by Standard & Poor's.

As of June 30, 2013 and 2012, accrued interest of \$88,230 and \$0, respectively, is included in Assets Limited to Use or Restricted in the previous schedules.

For the years ended June 30, 2013 and 2012, investment returns are as follows:

	<u>2013</u>	<u>2012</u>
Interest and Dividend Income	\$ 22,443	\$ -
Realized and Unrealized Loss on Investments	(32,148)	-
Total	<u>\$ (9,705)</u>	<u>\$ -</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 CAPITAL ASSETS

Summaries of capital assets for the years ended June 30, 2013 and 2012 are as follows:

	Balance July 1, 2012	Additions	Retirements / Transfers	Balance June 30, 2013
CAPITAL ASSETS				
Land and Land Improvements	\$ 691,757	\$ -	\$ -	\$ 691,757
Building	5,079,058	-	-	5,079,058
Fixed Equipment	6,978,837	-	-	6,978,837
Major Movable Equipment	4,899,025	324,278	(182,089)	5,041,214
Construction in Progress	1,152,974	11,852,113	-	13,005,087
Totals	18,801,651	<u>\$ 12,176,391</u>	<u>\$ (182,089)</u>	30,795,953
ACCUMULATED DEPRECIATION				
Land Improvements	460,248	\$ 15,888	\$ -	476,136
Building	3,078,190	1,014,380	-	4,092,570
Fixed Equipment	5,010,215	1,004,645	-	6,014,860
Major Movable Equipment	3,919,427	265,280	(137,781)	4,046,926
Totals	12,468,080	<u>\$ 2,300,193</u>	<u>\$ (137,781)</u>	14,630,492
CAPITAL ASSETS, NET	<u>\$ 6,333,571</u>			<u>\$ 16,165,461</u>
	Balance July 1, 2011	Additions	Retirements / Transfers	Balance June 30, 2012
CAPITAL ASSETS				
Land and Land Improvements	\$ 691,757	\$ -	\$ -	\$ 691,757
Building	5,055,527	-	23,531	5,079,058
Fixed Equipment	6,942,077	-	36,760	6,978,837
Major Movable Equipment	4,578,685	320,340	-	4,899,025
Construction in Progress	440,569	772,696	(60,291)	1,152,974
Totals	17,708,615	<u>\$ 1,093,036</u>	<u>\$ -</u>	18,801,651
ACCUMULATED DEPRECIATION				
Land Improvements	453,745	\$ 6,503	\$ -	460,248
Building	2,926,524	151,666	-	3,078,190
Fixed Equipment	4,725,768	284,447	-	5,010,215
Major Movable Equipment	3,474,973	444,454	-	3,919,427
Totals	11,581,010	<u>\$ 887,070</u>	<u>\$ -</u>	12,468,080
CAPITAL ASSETS, NET	<u>\$ 6,127,605</u>			<u>\$ 6,333,571</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 10 CAPITAL ASSETS (CONTINUED)

Construction in Progress at year-end consists of costs related to the building of a new hospital. The construction of a new facility is estimated to cost \$30 million according to current architectural drawings, which is being financed from the \$25 million in Hospital Revenue Bonds issued in October of 2012, with the remainder expected from the capital campaign held through August of 2012. The project is expected to be completed during fiscal 2014.

Based on the anticipated move-in date of April of 2014 to the newly constructed hospital, the hospital made the determination to accelerate the associated building and fixed equipment depreciation expense for the current year. Using the move out date of April of 2014, the hospital re-evaluated their depreciation timeframe; this resulted in an additional depreciation expense of approximately \$1,598,000 for the fiscal year ending June 30, 2013.

NOTE 11 LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt for 2013 and 2012 is as follows:

	Balance June 30, 2012	Additions	Payments	Balance June 30, 2013	Amounts Due Within One Year
2012 Revenue Bonds	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000	\$ -
1998 Revenue Bonds	741,784	-	741,784	-	-
Notes Payable:					
Iowa Falls State Bank	91,183	-	29,683	61,500	35,546
Ackley Bank	60,034	-	38,249	21,785	21,785
USDA Loan	140,489	-	96,203	44,286	44,286
Total Notes and Loans	1,033,490	25,000,000	905,919	25,127,571	101,617
Net Unamortized Premium on Bonds	-	311,157	-	311,157	-
Capital Lease Obligation	113,987	145,818	89,930	169,875	62,105
Total Long-Term Debt	<u>\$ 1,147,477</u>	<u>\$ 25,456,975</u>	<u>\$ 995,849</u>	<u>\$ 25,608,603</u>	<u>\$ 163,722</u>
	Balance June 30, 2011	Additions	Payments	Balance June 30, 2012	Amounts Due Within One Year
1998 Revenue Bonds	\$ 991,614	\$ -	\$ 249,830	\$ 741,784	\$ 231,405
Notes Payable:					
Iowa Falls State Bank	116,487	-	25,304	91,183	30,053
Cedar Rapids Bank & Trust	9,633	-	9,633	-	-
Ackley Bank	94,453	-	34,419	60,034	38,251
USDA Loan	231,787	-	91,298	140,489	96,290
Total Notes and Loans	1,443,974	-	410,484	1,033,490	395,999
Capital Lease Obligation	188,476	-	74,489	113,987	78,581
Total Long-Term Debt	<u>\$ 1,632,450</u>	<u>\$ -</u>	<u>\$ 484,973</u>	<u>\$ 1,147,477</u>	<u>\$ 474,580</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 LONG-TERM DEBT (CONTINUED)

2012 Hospital Revenue Bonds Payable

Hospital Revenue Bonds, Series 2012 (Ellsworth Municipal Hospital Project) payable to Ackley State Bank and Green Belt Bank and Trust were issued October 1, 2012, in accordance with Chapter 384 of the Code of Iowa. The bond issuance advance refunded the 1998 Hospital Revenue bonds which was paid in full and is providing funds for the purchase of land and for the construction of a new hospital facility on the purchased land. Interest only payments are due through June of 2015. The Hospital has pledged future revenues, net of specified operating expenses, to repay the bonds. The Hospital is required to meet certain financial covenants related to the revenue bonds payable. The bonds are payable solely from revenue from the operations of the Hospital and are payable through 2032.

The 2012 Hospital Revenue Bonds consist of the following:

<u>Description</u>	<u>2013</u>	<u>2012</u>
Variable Rate (.550% - 2.80%) R-1 Bond, Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	\$ 2,000,000	\$ -
Variable Rate (2.50% - 3.25%) R-2 Bond, Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	20,000,000	-
Fixed Rate (5.00%) R-3 Bond (Green Belt Bank & Trust), Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	1,500,000	-
Fixed Rate (5.00%) R-4 Bond (Ackley State Bank), Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	<u>1,500,000</u>	<u>-</u>
Total	<u>\$ 25,000,000</u>	<u>\$ -</u>

The bond resolution of the Series 2012 bonds requires the establishment of the following Bond Funds:

Project Fund – into which the Hospital was to initially deposit the bond funds, whereas withdrawals from the fund are limited to written draw requests signed by authorized representatives.

Debt Service Reserve Fund – into which the Hospital was initially required to deposit an amount equal to the sum of \$1,861,515.

Capitalized Interest Fund – into which the Hospital was required to pay monthly interest fees into the fund and transfer funds to the Interest fund to the extent funds were made available.

Interest Fund – into which the Hospital is to deposit funds to pay interest on the revenue bonds and is to be maintained throughout the life of the bond.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 LONG-TERM DEBT (CONTINUED)

1998 Hospital Revenue Bonds Payable

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter. Monthly deposits into a sinking fund are required for payment of interest and principal. A debt service reserve fund, which is to be maintained at a minimum of \$284,725, is fully funded. The Hospital is required to meet certain financial covenants related to the revenue bonds payable. Funds obtained from the 2012 Hospital Revenue Bonds paid the bonds in full as of October 2012.

Notes Payable

Hospital Note Payable from the Iowa Falls State Bank was issued April 26, 2010 with monthly payments of principal and interest of \$2,800 through April 2015 with an interest rate of 5.15%.

Hospital Note Payable from the Cedar Rapids Bank and Trust had monthly payments of principal and interest of \$1,956 and was paid in full for the year ended June 30, 2012.

Hospital Note Payable from Liberty Bank was issued November 30, 2010 with monthly payments of principal and interest of \$3,361 through December 2013. During the year ended June 30, 2012, Liberty Bank became Ackley State Bank with no change in the terms of the note payable. An interest rate of 5.05% remains charged on the note.

USDA Loan

A USDA letter of credit was entered into June 27, 2008 and requires monthly payments of principal and interest of \$8,218 through December 2013. An interest rate of 2.49% is charged on the loan.

Obligations Under Capital Lease

The Hospital, through the City of Iowa Falls, leases certain equipment under a capital lease arrangement. The lease has a term of five years with an effective interest rate of 5.18%, and requires monthly payments of \$6,716.

A new lease was entered into in fiscal year 2013 for ultrasound equipment and has a lease term of five years, with an effective interest rate of 5.15% and requires monthly payments of \$2,750.

The total cost of the leased equipment under the capital lease obligation is \$354,948. Amortization of the equipment was \$56,907 and \$46,848, and accumulated amortization was \$142,431 and \$85,524 for the years ended June 30, 2013 and 2012, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 LONG-TERM DEBT (CONTINUED)

Obligations Under Capital Lease (Continued)

The aggregate future principal and interest payment requirements for the next five years for long-term debt are as follows:

<u>Year Ending June 30.</u>	<u>Long-Term Debt</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 101,617	\$ 762,173	\$ 62,105	\$ 6,501
2015	1,125,954	759,974	28,107	4,893
2016	1,130,000	731,310	29,589	3,411
2017	1,160,000	701,340	31,150	1,850
2018	1,190,000	670,690	18,924	326
2019-2023	6,405,000	2,758,802	-	-
2024-2028	7,230,000	1,533,528	-	-
2029-2032	6,785,000	478,627	-	-
Total	<u>\$ 25,127,571</u>	<u>\$ 8,396,444</u>	<u>\$ 169,875</u>	<u>\$ 16,981</u>

Operating Leases - Equipment

The Hospital, through the City of Iowa Falls, leases certain equipment under operating lease arrangement. Future operating lease obligations relating to equipment through 2017 are below.

<u>Year Ending June 30.</u>	<u>Operating Leases</u>
2014	\$ 245,838
2015	173,472
2016	170,472
2017	140,156
2018	137,400

Operating Leases - Rental Agreements

The Hospital has entered into a rental agreement effective March 2009 and ending March 2024. The rental agreement is for the clinic building in Ackley, and includes a requirement to pay annual property taxes. The following schedule represents the commitment for future rent payments:

<u>Year Ending June 30.</u>	<u>Amount</u>
2014	\$ 139,394
2015	139,394
2016	139,394
2017	139,394
2018	139,394
2019 - 2023	696,970
2024 - 2025	171,192
Total Rent Payments	<u>\$ 1,393,940</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 11 LONG-TERM DEBT (CONTINUED)

Operating Leases - Rental Agreements (Continued)

Total lease expense for the years ended June 30, 2013 and 2012, for all operating leases; including both equipment and clinic building rental was \$370,349 and \$382,197, respectively.

NOTE 12 PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.78% of their annual salary and the Hospital is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were approximately \$749,000, \$675,000, and \$561,000, respectively, equal to the required contributions for each year.

NOTE 13 INVESTMENTS IN AFFILIATED ORGANIZATIONS

The Hospital has investments in two organizations, both of which are accounted for on the equity method. The following is a summary of these investments:

Iowa Falls Clinic

The Hospital is in a joint venture agreement with Mercy Medical Center – North Iowa to operate the Iowa Falls Clinic (the Clinic). The Clinic provides, develops, and coordinates all manner of clinical medical services to residents, visitors, and employees of Hardin County and the surrounding area.

The Hospital is a 50% owner of this Clinic and shares income or losses from clinic operations. The Hospital's share of income, \$428,370 in 2013 and \$258,429 in 2012, have been included in nonoperating revenues. The Hospital received an equity distribution of \$200,000 and \$150,000 in the years ended June 30, 2013 and 2012, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 13 INVESTMENTS IN AFFILIATED ORGANIZATIONS (CONTINUED)

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2013 and 2012 was \$1,112,649 and \$1,140,126, respectively. As of June 30, 2013, the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$68,419 for these services. As of June 30, 2012, the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$146,379 for these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Assets	<u>\$ 2,344,981</u>	<u>\$ 1,950,310</u>
Current Liabilities	\$ 193,601	\$ 273,891
Unrestricted Net Assets	2,151,380	1,676,419
Total Liabilities and Net Assets	<u>\$ 2,344,981</u>	<u>\$ 1,950,310</u>
Net Revenues	<u>\$ 4,215,954</u>	<u>\$ 3,764,775</u>
Net Gain	<u>\$ 474,961</u>	<u>\$ 207,528</u>

Greenbelt Home Care

The Hospital has a 30% interest in a joint venture of Greenbelt Home Care and shares any income or loss in this percentage. The Hospital has contributed \$106,890 of capital to this joint venture, loaned \$3,507 and forgave a loan in the amount of \$27,143 for a 10% increase in the partnership interest during the year ending June 30, 2006. The Hospital's share of the joint ventures gains are \$13,900 in 2013 and \$29,671 in 2012 and have been included in nonoperating revenues.

NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED FOUNDATION NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2013 and 2012, represent funds that are restricted by donors for the following purposes:

	<u>2013</u>	<u>2012</u>
Construction of a New Hospital Facility	<u>\$ 2,333,697</u>	<u>\$ 5,528,882</u>

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

**NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED FOUNDATION NET ASSETS
(CONTINUED)**

Permanently Restricted Net Assets

Permanently restricted net assets at June 30, 2013 and 2012, represents contributions received by a third party for the benefit of Ellsworth Municipal Hospital, which are permanently restricted as:

	2013	2012
Beneficial Interest in Net Assets of Community Foundation	\$ 29,414	\$ 14,981

The Community Foundation Endowment consists of donor-restricted funds designated for the Foundation. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 15 RELATED ORGANIZATION

Master Affiliation Agreement

The Hospital has a Master Affiliation Agreement with Mercy Medical Center- North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa Region. As a part of this Master Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Hospital. Amounts paid to MMC-NI for the provision of these services amounted to \$585,362 and \$619,477 for the years ended June 30, 2013 and 2012, respectively.

The Hospital has a contractual arrangement with MMC-NI, under which MMC-NI provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital. Expenses for the administrative and management services received were \$451,232 and \$502,791 for the years ended June 30, 2013 and 2012, respectively.

Due to MMC-NI

As of June 30, 2013 and 2012, the Hospital records reflect a due to MMC-NI of \$154,793 and \$156,712, respectively, which is recorded in Accounts Payable for the various services related to these agreements.

**ELLSWORTH MUNICIPAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012**

NOTE 15 RELATED ORGANIZATION (CONTINUED)

Ellsworth Municipal Hospital Foundation

The Foundation was organized under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital. As of June 30, 2013 and 2012 the Foundation had a payable to the Hospital in the amount of \$145,457 and \$126,821, respectively, which is recorded with other receivables on the statement of net position of the Hospital. The Foundation made contributions to the Hospital during the years ended June 30, 2013 and 2012 of \$3,567,446 and \$464,289, respectively.

NOTE 16 COMMITMENTS AND CONTINGENCIES

Hospital Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

Self-Funded Employee Health Insurance Plan

Starting in January of 2013, the Hospital elected to self-insure their employee health insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

REQUIRED SUPPLEMENTARY INFORMATION

**ELLSWORTH MUNICIPAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2013**

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2013 (Hospital only, excluding Foundation):

	Total per Hospital Statements	Budget	Amount Over Budget
Expenses	<u>\$ 22,590,937</u>	<u>\$ 20,308,696</u>	<u>\$ 2,282,241</u>

This budgetary comparison is presented as Required Supplementary Information in accordance with *Government Auditing Standards*. In accordance with the Code of Iowa, the board of trustees annually adopts a budget which is filed with the City Clerk of Iowa Falls to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. For the year ended June 30, 2013, the Hospital's expenditures exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF PATIENT SERVICE REVENUES
YEARS ENDED JUNE 30, 2013 AND 2012**

	Total	
	2013	2012
PATIENT CARE SERVICES		
Medical and Surgical	\$ 2,796,809	\$ 2,387,731
Intensive Care Unit	13,862	4,140
Swing Bed	950,657	969,210
Nursery	115,721	109,145
Total	<u>3,877,049</u>	<u>3,470,226</u>
OTHER PROFESSIONAL SERVICES		
Operating Room	2,063,168	2,107,504
Recovery Room	57,338	55,392
Labor and Delivery Room	140,786	130,280
Anesthesiology	941,122	735,414
Radiology	6,239,940	6,196,805
Laboratory	7,230,177	6,554,878
Respiratory Therapy	901,301	937,803
Cardiac Rehabilitation	201,561	174,030
Physical Therapy	1,133,923	1,177,047
Occupational Therapy	388,591	410,069
Speech Therapy	159,457	215,775
Electrocardiology	511,079	402,854
Medical and Surgical Supplies	1,318,213	1,081,498
Pharmacy	4,273,362	3,372,478
Emergency Room	4,486,004	4,030,487
Surgical Clinic	735,057	711,890
Psychiatrist	185,063	164,541
Clinic	3,754,270	3,623,087
Psychiatric Counseling	228,361	278,163
Diabetic Education	28,273	33,258
Total	<u>34,977,046</u>	<u>32,393,253</u>
Charity Care	<u>(339,015)</u>	<u>(321,669)</u>
Total Patient Service Revenues	38,515,080	35,541,810
Adjustments to Patient Services Revenues	<u>(18,879,685)</u>	<u>(16,361,471)</u>
Net Patient Service Revenues	<u>\$ 19,635,395</u>	<u>\$ 19,180,339</u>

Inpatient		Outpatient	
2013	2012	2013	2012
\$ 1,582,819	\$ 1,828,070	\$ 1,213,990	\$ 559,661
13,862	4,140	-	-
950,657	969,210	-	-
115,721	109,145	-	-
<u>2,663,059</u>	<u>2,910,565</u>	<u>1,213,990</u>	<u>559,661</u>
278,605	231,362	1,784,563	1,876,142
11,115	12,790	46,223	42,602
137,978	129,380	2,808	900
207,371	152,284	733,751	583,130
334,905	583,402	5,905,035	5,613,403
1,061,911	1,200,067	6,168,266	5,354,811
307,235	523,119	594,066	414,684
1,240	1,709	200,321	172,321
302,849	349,335	831,074	827,712
241,129	278,867	147,462	131,202
18,720	31,840	140,737	183,935
44,773	44,699	466,306	358,155
178,386	175,229	1,139,827	906,269
1,319,810	1,276,705	2,953,552	2,095,773
60,832	94,371	4,425,172	3,936,116
-	-	735,057	711,890
-	-	185,063	164,541
-	-	3,754,270	3,623,087
-	1,939	228,361	276,224
-	-	28,273	33,258
<u>4,506,859</u>	<u>5,087,098</u>	<u>30,470,187</u>	<u>27,306,155</u>
<u>\$ 7,169,918</u>	<u>\$ 7,997,663</u>	<u>\$ 31,684,177</u>	<u>\$ 27,865,816</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES
AND OTHER REVENUES
YEARS ENDED JUNE 30, 2013 AND 2012**

	<u>2013</u>	<u>2012</u>
ADJUSTMENTS TO PATIENT SERVICE REVENUES		
Contractual Adjustments - Medicare	\$ 11,333,994	\$ 8,857,160
Contractual Adjustments - Medicaid	1,822,724	1,693,149
Provision for Bad Debt	1,422,656	1,327,163
Other Allowances and Adjustments	<u>4,300,311</u>	<u>4,483,999</u>
 Total Adjustments	 <u>\$ 18,879,685</u>	 <u>\$ 16,361,471</u>
OTHER REVENUES		
Guest Meals	\$ 65,487	\$ 62,003
Transition Grant/Telemedicine Grant	15,429	34,758
Medical Record Transcripts	2,110	2,703
Vending Machines	1,791	3,962
Purchase Discounts and Rebates	36,996	50,655
Miscellaneous Pharmacy Sales	8,987	7,360
Laundry	670	432
Health Program	69,968	77,845
Physical Therapy Service	18,005	14,397
Clinic Fees	42,193	36,495
Rent Income	128,915	128,915
Lab Fees	22,471	25,992
Management Fees	35,638	35,852
Other	<u>117,856</u>	<u>300,027</u>
 Total Other Revenues	 <u>\$ 566,516</u>	 <u>\$ 781,396</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

	Total	
	2013	2012
Employee Benefits	\$ 2,557,807	\$ 2,397,786
Administrative and General	2,462,271	2,333,330
Central Supply	31,265	19,062
Operation of Plant	547,978	603,351
Laundry and Linen	59,174	34,904
Housekeeping	185,383	173,362
Social Services	-	(12)
Nursing Administration	221,864	255,185
Dietary	367,251	355,015
Medical Records	305,126	294,003
Psychiatric Care	-	-
Adults and Pediatrics	1,946,331	1,844,802
Nursery	62,573	65,085
Operating and Recovery Room	769,029	663,888
Labor and Delivery Room	83,869	58,255
Anesthesiology	33,502	12,415
Nonphysician Anesthetists	334,434	345,556
Radiology	1,220,738	1,216,314
Laboratory	1,079,430	985,934
Respiratory Therapy	138,214	82,290
Physical Therapy	365,553	361,497
Occupational Therapy	131,726	124,939
Speech Pathology	78,958	78,808
Electrocardiology	49,564	24,896
Medical and Surgical Supplies	340,128	295,922
Pharmacy and Intravenous Therapy	944,467	831,873
Cardiac Rehabilitation	92,292	90,873
Clinics	2,550,675	2,587,142
Marketing and Community Health Promotions	370,838	529,784
Diabetic Education	44,325	44,932
Partial Hospital Psychiatric	21	-
Outreach Clinic	32,552	29,893
Surgical Clinic	500,020	528,750
Psychiatric Counseling	128,339	139,937
Chemical Dependency	-	56
Emergency	1,354,252	1,204,816
Enterostomal Therapy	9,523	13,368
Depreciation and Amortization Expense	3,148,674	889,059
Interest Expense	42,791	71,744
Total Expenses	\$ 22,590,937	\$ 19,588,814

Salaries		Other	
2013	2012	2013	2012
\$ -	\$ -	\$ 2,557,807	\$ 2,397,786
1,021,871	932,972	1,440,400	1,400,358
13,342	1,565	17,923	17,497
129,587	158,554	418,391	444,797
24,215	27,589	34,959	7,315
157,359	149,961	28,024	23,401
-	(12)	-	-
134,314	119,407	87,550	135,778
234,839	232,092	132,412	122,923
279,401	273,600	25,725	20,403
-	-	-	-
1,709,020	1,621,918	237,311	222,884
58,668	58,507	3,905	6,578
397,582	386,317	371,447	277,571
63,079	49,130	20,790	9,125
-	-	33,502	12,415
333,714	323,761	720	21,795
377,763	375,408	842,975	840,906
487,276	434,307	592,154	551,627
81,731	39,229	56,483	43,061
347,957	342,133	17,596	19,364
118,791	120,177	12,935	4,762
73,795	73,924	5,163	4,884
10,737	5,277	38,827	19,619
-	-	340,128	295,922
202,632	209,086	741,835	622,787
85,229	86,111	7,063	4,762
1,321,975	1,283,997	1,228,700	1,303,145
179,345	216,171	191,493	313,613
43,555	41,258	770	3,674
-	-	21	-
23,632	25,763	8,920	4,130
448,363	476,204	51,657	52,546
119,738	140,764	8,601	(827)
-	-	-	56
1,000,282	896,159	353,970	308,657
-	-	9,523	13,368
-	-	3,148,674	889,059
-	-	42,791	71,744
<u>\$ 9,479,792</u>	<u>\$ 9,101,329</u>	<u>\$ 13,111,145</u>	<u>\$ 10,487,485</u>

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2013 AND 2012**

Age of Accounts (by Date of Discharge)	2013		2012	
	Amount	Percent	Amount	Percent
1-30 days (Includes Patients in Hospital June 30)	\$ 3,121,707	55.96 %	\$ 2,650,542	54.79 %
31-60 Days	598,335	10.73	560,019	11.58
61-90 Days	370,950	6.65	258,290	5.34
91 Days and Over	1,486,142	26.66	1,367,826	28.29
Total Accounts Receivable	<u>5,577,134</u>	<u>100.00 %</u>	<u>4,836,677</u>	<u>100.00 %</u>

ALLOWANCES

Contractual -

Medicare 938,607 677,013

Medicaid 138,396 111,847

Commercial 543,131 464,264

Doubtful Accounts 895,782 837,827

Net Accounts Receivable \$ 3,061,218 \$ 2,745,726

Net Patient Service Revenue
per Calendar Day (Excluding
Provision for Bad Debts)

\$ 57,693

\$ 56,185

Days of Net Patient Service Revenue
in Accounts Receivable at Year-End

53

49

Analysis of Allowance for Doubtful Accounts

	2013		2012	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 837,827		\$ 667,880	
Add:				
Provision for Doubtful Accounts	1,422,656	7.42 %	1,327,163	6.92 %
Recoveries Previously Written Off	<u>208,276</u>	1.09	<u>251,608</u>	1.31
	2,468,759		2,246,651	
Deduct:				
Accounts Written Off	<u>(1,572,977)</u>	(8.20)	<u>(1,408,824)</u>	(7.35)
Ending Balance	<u>\$ 895,782</u>		<u>\$ 837,827</u>	

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF INVENTORIES AND PREPAID EXPENSES
YEARS ENDED JUNE 30, 2013 AND 2012**

	2013	2012
INVENTORIES		
Central Stores	\$ 47,842	\$ 41,425
Pharmacy	280,970	242,043
Dietary	11,995	10,072
Operating Room and Central Sterile Supply	72,790	82,785
Laboratory	22,048	27,155
Total Inventories	\$ 435,645	\$ 403,480
PREPAID EXPENSES		
Insurance	\$ 15,728	\$ 173,326
Service Contracts	39,927	58,179
Dues	10,731	12,934
Other	-	1,968
Total Prepaid Expenses	\$ 66,386	\$ 246,407

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF BOND INVESTMENT TRANSACTIONS
YEAR ENDED JUNE 30, 2013**

	Balance July 1, 2012	Additions	(Retirements)	Balance June 30, 2013
Debt Service Reserve Fund				
2012 Hospital Revenue Bonds	\$ -	\$ 1,847,364	\$ -	\$ 1,847,364
1998 Hospital Revenue Bonds	284,725	-	(284,725)	-
Interest Fund				
2012 Hospital Revenue Bonds	-	760,366	-	760,366
Project Fund				
2012 Hospital Revenue Bonds	-	15,774,287	-	15,774,287
Revenue Bond Sinking Fund				
1998 Hospital Revenue Bonds	<u>23,727</u>	<u>-</u>	<u>(23,727)</u>	<u>-</u>
Totals	<u>\$ 308,452</u>	<u>\$ 18,382,017</u>	<u>\$ (308,452)</u>	<u>\$ 18,382,017</u>



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital, as of and for the year ended June 30, 2013 and its discretely presented component unit, Ellsworth Municipal Hospital Foundation, as of June 30, 2013, and have issued our report thereon dated December 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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 or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity'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 listed as items 2013-1 and 2013-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Ellsworth Municipal 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, non-compliance 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*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Finding and Responses.

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

Responses to Findings

Ellsworth Municipal Hospital's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Ellsworth Municipal Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
December 5, 2013

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to Financial Statements:

Significant Deficiencies:

2013-1 Segregation of Duties

Criteria: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition: Certain employees perform duties that are incompatible.

Cause: A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, Ellsworth Municipal Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response: Management agrees with the finding and has reviewed the operating procedures of the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Conclusion: Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements (Continued):

2013-2 Preparation of Financial Statements

Criteria: A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition: Ellsworth Municipal Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

Cause: We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

Effect: The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of the Hospital's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Recommendation: We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

Response: This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion: Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting:

II-A-13 Official Depository Banks

A resolution of official depository banks has not been approved by the governing board.

Recommendation: Pass an annual resolution naming the official depositories of the hospital.

Response: We will pass an annual resolution naming the official depositories of the hospital.

Conclusion: Response is accepted.

II-B-13 Certified Budget

Hospital expenditures during the year ended June 30, 2013 exceeded the budgeted amount in the business type activities due to additional expenditures for the new hospital facility project. Chapter 384.20 of the code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation: the budget should be amended in accordance with Chapter 384.18 of the code of Iowa before disbursements were allowed to exceed the budget.

Response: We will amend in the future, if applicable.

Conclusion: Response accepted.

II-C-13 Questionable Expenditures

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

II-D-13 Travel Expense

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

II-E-13 Business Transactions

No business transactions between the Hospital and Hospital officials and/or employees were noted.

II-F-13 Board Minutes

Board minutes were examined and appeared to give an accurate account of business transacted by the board.

**ELLSWORTH MUNICIPAL HOSPITAL
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2013**

Part II: Other Findings Related to Required Statutory Reporting (continued):

II-G-13 Deposits and Investments

We reviewed the Hospital's investment procedures and noted all investments to be in compliance with the state statutes regarding investments. We noted the hospital does not have a current investment policy in accordance with

Recommendation: Pass an annual resolution naming the official depositories of the hospital.

Response: We will pass an annual resolution naming the official depositories of the hospital.

Conclusion: Response accepted.



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**INDEPENDENT AUDITORS' REPORT
ON DEBT AGREEMENT COVENANTS**

Board of Trustees
Ellsworth Municipal Hospital
Iowa Falls, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ellsworth Municipal Hospital as of June 30, 2013, and have issued our report thereon dated December 5, 2013.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital was not in compliance with any of the terms, covenants, provisions, or conditions of Section Fifteen "Patient rates and Charges" of the loan agreement dated October 1, 2012, relating to the issue of Hospital Revenue Bonds with Ackley State Bank and Green Belt Bank and Trust, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the board of trustees, management of Ellsworth Municipal Hospital, and the City of Iowa Falls, Iowa and is not intended to be and should not be used by anyone other than these specified parties.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
December 5, 2013