Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

FINANCIAL REPORT

June 30, 2013

C O N T E N T S

	Page
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-11
FINANCIAL STATEMENTS	
Balance sheets	12-13
Statements of revenues, expenses, and changes in net position	14
Statements of cash flows	15-16
Statements of financial position	17
Statements of activities	18
Statements of cash flows	19
Notes to financial statements	20-33
REQUIRED SUPPLEMENTARY INFORMATION	34
Schedule of funding progress for the retiree health plan	35
Budgetary comparison schedule	36
SUPPLEMENTARY INFORMATION	37
Age analysis of patient receivables	38
Analysis of allowance for uncollectibles	38
Inventories	39
Insurance coverage	40
Patient service revenue	41-42
Provisions for contractual and other adjustments	43
Other revenue	43
Nursing service expenses	44-45
Other professional service expenses	46-48
General service expenses	49
Fiscal and administrative service and unassigned expenses	50
Comparative statistics	51-52
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*	53-54
SCHEDULE OF FINDINGS	55

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OFFICIALS
June 30, 2013

Before January 2013

Board of Trustees	**Expiration of term**
Tim Zeutenhorst, Chairman	January, 2016
Randy Jacobsma, Vice Chairman	January, 2016
Brenda Richardson, Secretary	January, 2014
Jerry Henrich	January, 2016
Gary Vande Vegte (Resigned effective December 31, 2012)	January, 2014
Shirley Van Wechel	January, 2016
Russ Adams	January, 2014

Chief Executive Officer

Martin W. Guthmiller

Director, Financial Services

Dina A. Baas

After January 2013

Board of Trustees	**Expiration of term**
Tim Zeutenhorst, Chairman	January, 2016
Randy Jacobsma, Vice Chairman	January, 2016
Brenda Richardson, Secretary	January, 2014
Jerry Henrich	January, 2016
Chris Immeker (appointment effective January 1, 2013)	January, 2014
Shirley Van Wechel	January, 2016
Russ Adams	January, 2014

Chief Executive Officer

Martin W. Guthmiller

Director, Financial Services

Dina A. Baas

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Municipal Hospital, d/b/a Orange City Area Health System, a component unit of the City of Orange City, Iowa, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Municipal Hospital, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

1601 22nd Street, Suite 400, West Des Moines, Iowa 50266-1453 Telephone: (515) 225-8400 Fax: (515) 225-0149
www.denman-cpa.com e-mail: firm@denman-cpa.com

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 6-11, schedule of funding progress for the retiree health plan on page 35, and budgetary comparison schedule on page 36 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 the 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange City Municipal Hospital and Orange City Area Health Foundation's basic financial statements. Other supplementary information included on pages 38-52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 26, 2013

Orange City Municipal Hospital
d/b/a Orange City Area Health System
Management's Discussion and Analysis

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2013, 2012 and 2011. Please read it in conjunction with the Health System's financial statements, which follow this section.

Financial Highlights

- Total assets increased by $3,144,311 from FY 2012 or 5.6% to $59,339,419.
- Total assets whose use is limited decreased by $6,153,756 from FY 2012 or 51.2%.
- Total net position increased by $2,828,344 from FY 2012, primarily due to an increase in net patient service revenue and contributions.
- Total long-term debt decreased by $744,579 from FY 2012.
- Net patient service revenue increased by $1,062,473 from FY 2012, due to an increase in both inpatient and outpatient services.
- Expenses increased by $1,941,660 from FY 2012, which is due to a net increase in other professional services and employee benefit costs.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Area Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of Orange City Area Health System report information of the Health System using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of the Health System's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Health System's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

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 Health System operations over the past year and can be used to determine whether the Health System has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Orange City Area Health System's Net Position

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of Orange City Area Health System and the changes in them. Orange City Area Health System's net position – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

A summary of Orange City Area Health System's balance sheets at June 30, 2013, 2012 and 2011 are presented in Table 1.

Table 1: Assets, Liabilities, and Net Position (in Thousands)

	2013	2012	2011
Assets:			
Current assets	$13,007	$14,006	$13,018
Assets whose use is limited, net of current	4,866	11,035	9,436
Capital assets, net	41,296	30,979	30,258
Other assets	170	175	278
Total assets	$59,339	$56,195	$52,990
Liabilities:			
Long-term debt outstanding	$22,607	$23,351	$23,966
Other current and noncurrent liabilities	6,804	5,744	4,527
Total liabilities	$29,411	$29,095	$28,493
Net position:			
Net investment in capital assets	$17,934	$ 6,952	$ 5,570
Restricted	2,932	2,917	2,904
Unrestricted	9,062	17,231	16,023
Total net position	$29,928	$27,100	$24,497

Decrease in current assets is due to a decrease in cash and cash equivalents and patient receivables. The increase in net capital assets is due to construction in progress on a new senior living facility. Other current liabilities increased as a result of construction payables and related retainages. Table 4, and note 5 of the financial statements, document the net capital activity and ending balances of capital assets for 2013.

Operating Results and Changes in Orange City Area Health System's Net position

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2013, 2012 and 2011. In 2013, net position increased by $2,828,344 over the prior year. As you can see, this increase was attributable to a significant increase in contributions along with operating income exceeding operating expenses and nonoperating losses.

Table 2: Operating Results and Changes in Net position (in Thousands)

	2013	2012	2011
Operating Revenues:			
Net patient service revenue	$38,515	$37,452	$33,976
Other operating revenue	2,171	2,040	1,957
Total operating revenue	40,686	39,492	35,933
Operating Expenses:			
Salaries and benefits	22,549	21,793	19,239
Provision for depreciation and amortization	2,661	2,532	2,814
Other operating expenses	13,498	12,440	11,957
Total operating expenses	38,708	36,765	34,010
Operating income	1,978	2,727	1,923
Nonoperating gains (losses):			
Investment income	136	180	217
Interest expense	(1,256)	(1,285)	(1,312)
Other nonoperating gains (losses), net	(31)	1	(2)
Total nonoperating gains (losses)	(1,151)	(1,104)	(1,097)
Excess of revenues over expenses before contributions	827	1,623	826
Contributions	2,001	980	53
Change in net position	2,828	2,603	879
Total net position, beginning	27,100	24,497	23,618
Total net position, ending	$29,928	$27,100	$24,497

Operating and Financial Performance

The following summarizes Orange City Area Health System's statement of revenue, expenses and changes in net position between June 30, 2013, 2012 and 2011.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Hospital discharges for fiscal year 2013 were 1,000 compared to 960 in fiscal year 2012. Average length of stay decreased slightly. Patient days decreased from 3,844 to 3,723 in 2013. In 2013, gross inpatient charges decreased from $7,219,884 to $7,176,654 in 2013. Gross outpatient charges increased from $37,430,720 to $38,580,178 in 2013.

Price Increase: As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2013. Daily room rates increased by 2.5%, while outpatient charges were adjusted by up to 5.0%, resulting in a 2.25% aggregate price increase.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were $12,710,792 in 2013 compared to $12,444,281 in 2012. This represents 25% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2013, 2012 and 2011.

Table 3: Payor Mix

	Year ended June 30,		
	2013	2012	2011
Medicare	49.4%	47.2%	40.5%
Wellmark	19.0%	23.5%	27.0%
Medicaid	6.8%	5.0%	5.8%
Commercial Insurance	21.9%	21.8%	24.7%
Self Pay	2.9%	2.5%	2.0%
Total	100.0%	100.0%	100.0%

Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, increased from 20,823 resident days in 2012 to 20,837 resident days in 2013. In addition, the Hospital leases office space located in the downtown campus to various organizations.

Expenses

Fifty-seven percent of Orange City Area Health System's expenses are attributed to salaries and benefits. Total salaries and benefits increased by approximately $700,000, from $21.8 million to $22.5 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2013, Orange City Area Health System had approximately $41.3 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2013, 2012 and 2011.

Table 4: Capital Assets (in Thousands)

	2013	2012	2011
Land	$ 912	$ 942	$ 942
Land improvements	2,298	2,346	2,332
Buildings	17,297	17,653	17,653
Fixed equipment	23,183	23,415	23,375
Major moveable equipment	8,288	12,704	12,433
Construction in progress	15,476	3,248	346
Total	67,454	60,308	57,081
Less accumulated depreciation and amortization	(26,158)	(29,329)	(26,823)
Net capital assets	$41,296	$30,979	$30,258

Long -Term Debt

At June 30, 2013, Orange City Area Health System had $23 million in long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 8 to the Financial Statements.

Performance Compared to Budget

The following table compares fiscal year 2013 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	Budget	Actual	Dollar Variance	Percent Variance
Gross patient service revenue	$51,561	$51,375	$(186)	.36%
Contractual adjustments	(12,040)	(12,208)	(168)	1.40%
Provision for bad debts	(735)	(501)	234	31.84%
Charity care	(278)	(151)	127	45.68%
Net patient service revenue	38,508	38,515	7	.02%
Other operating revenue	1,812	2,171	359	19.81%
Total operating revenue	40,320	40,686	366	.91%
Operating expenses	37,732	38,708	976	2.59%
Operating income (loss)	2,588	1,978	(610)	23.57%
Income from investments	165	136	(29)	17.58%
Other nonoperating, including contributions	(56)	714	770	1,375.00%
Excess of revenues over expenses	$ 2,697	$ 2,828	$131	4.86%

Economic and Other Factors and Next Year's Budget

Orange City Area Health System's Board and management considered many factors when setting the fiscal year 2013 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- Commercial insurance and health network reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Contribution receivable collections
- Rising costs of employee benefits

Contacting Orange City Area Health System's Finance Department

Orange City Area Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Area Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Area Health System, 1000 Lincoln Circle SE, Orange City, IA 51041.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
BALANCE SHEETS

ASSETS	June 30 2013	June 30 2012
CURRENT ASSETS		
Cash and cash equivalents	$ 6,978,368	$ 7,689,726
Assets whose use is limited, required for current liabilities	1,000,418	984,901
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2013 $2,150,000; 2012 $2,210,000	4,470,124	4,782,973
Estimated third-party payor settlements	100,000	–
Reinsurance receivable	–	31,050
Inventories	402,130	424,082
Prepaid expenses	56,304	93,100
Total current assets	13,007,344	14,005,832
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	1,726	2,392,344
Certificates of deposit	1,954,026	5,861,916
U.S. Government agency securities	7,803	8,905
Accrued interest receivable	11,796	24,272
	1,975,351	8,287,437
Designated by board for deferred compensation		
Mutual funds	958,443	815,850
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	1,001,379	2,910,401
Certificates of deposit	1,924,539	–
	2,925,918	2,910,401
Restricted by donors for specific purpose		
Cash	6,602	6,382
Total assets whose use is limited	5,866,314	12,020,070
Less assets whose use is limited and that are required for current liabilities	1,000,418	984,901
Noncurrent assets whose use is limited	4,865,896	11,035,169
CAPITAL ASSETS	67,454,050	60,307,729
Less accumulated depreciation	26,158,098	29,329,049
Total capital assets	41,295,952	30,978,680
OTHER ASSETS		
Unamortized financing costs	60,133	63,216
Other	110,094	112,211
Total other assets	170,227	175,427
Totals	$59,339,419	$56,195,108

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	June 30 2013	June 30 2012
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 755,001	$ 675,000
Accounts payable		
Trade	1,434,267	1,184,768
Construction	1,071,091	734,944
Accrued payroll and vacation pay	1,840,056	1,416,918
Payroll taxes	127,601	33,905
Accrued interest payable	412,703	422,258
Estimated third-party payor settlements	100,000	340,000
Deposits	55,000	71,973
Total current liabilities	5,795,719	4,879,766
LONG-TERM DEBT		
Hospital revenue capital loan notes	23,361,772	24,026,350
Less current maturities	755,001	675,000
Total long-term debt	22,606,771	23,351,350
OTHER LIABILITIES		
Deferred compensation liability	958,443	815,850
Other post-employment benefits	50,000	48,000
Total other liabilities	1,008,443	863,850
Total liabilities	29,410,933	29,094,966
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net investment in capital assets	17,934,180	6,952,330
Restricted	2,932,520	2,916,783
Unrestricted	9,061,786	17,231,029
Total net position	29,928,486	27,100,142
Totals	$59,339,419	$56,195,108

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2013	**2012**
NET PATIENT SERVICE REVENUE, net of provisions for bad debts 2013 $500,842; 2012 $604,991	$38,515,124	$37,452,651
OTHER REVENUE	2,170,871	2,039,793
Total revenue	40,685,995	39,492,444
EXPENSES		
Nursing service	9,711,374	9,350,769
Other professional service	16,129,150	15,578,448
General service	1,956,480	1,907,373
Fiscal and administrative service and unassigned expenses	8,249,856	7,397,229
Provision for depreciation	2,660,653	2,532,034
Total expenses	38,707,513	36,765,853
Operating income	1,978,482	2,726,591
NONOPERATING GAINS (LOSSES)		
Investment income	136,155	180,386
Interest and amortization expense	(1,256,393)	(1,284,798)
Nonoperating income from auxiliary activity, net	220	631
Loss on disposal of capital assets	(31,157)	–
Total nonoperating gains (losses)	(1,151,175)	(1,103,781)
Excess of revenues over expenses before contributions	827,307	1,622,810
CONTRIBUTIONS	2,001,037	979,887
Change in net position	2,828,344	2,602,697
TOTAL NET POSITION		
Beginning	27,100,142	24,497,445
Ending	$29,928,486	$27,100,142

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	$38,487,973	$37,164,066
Cash paid to suppliers for goods and services	(13,478,325)	(12,664,762)
Cash paid to employees for services	(21,720,412)	(20,938,220)
Other operating revenue received	2,166,023	2,084,973
Net cash provided by operating activities	5,455,259	5,646,057
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating income from auxiliary activities, net	220	631
Net cash provided by noncapital financing activities	220	631
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(12,696,412)	(2,626,252)
Proceeds from sale of capital assets	23,476	–
Proceeds from issuance of long-term debt	–	50,001
Principal paid on long-term debt	(675,000)	(722,000)
Restricted contributions	2,001,037	979,887
Interest paid on long-term debt	(1,252,443)	(1,280,328)
Net cash (used in) capital and related financing activities	(12,599,342)	(3,598,692)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(2,489,787)	(3,851,890)
Proceeds from maturities of certificates of deposit	4,473,139	4,446,320
Proceeds from maturity of U.S. Government Securities	1,102	1,202
Interest received	148,631	185,635
Net cash provided by investing activities	2,133,085	781,260
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,010,778)	2,829,256
CASH AND CASH EQUIVALENTS		
Beginning	12,998,853	10,169,597
Ending	$ 7,988,075	$12,998,853

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2013	**2012**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 1,978,482	$ 2,726,591
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	2,660,653	2,532,034
Education assistance advances forgiven	–	23,730
Physician advances, net of refunds	(20,000)	(5,000)
Physician advances forgiven	41,042	42,500
Changes in assets and liabilities		
(Increase) decrease in patient receivables	312,849	(578,585)
Increase (decrease) in estimated third-party payor settlements	(340,000)	290,000
Decrease in other receivables, net of nonoperating activities	12,125	7,437
Decrease in inventories	21,952	86,361
(Increase) decrease in prepaid expenses	36,796	(6,135)
Increase in accounts payable, net of amounts for capital assets	249,499	279,100
Increase in other post-employment benefits	2,000	8,000
Increase in accrued payroll and vacation pay	423,138	215,526
Increase in payroll taxes	93,696	5,525
Increase (decrease) in deposits	(16,973)	18,973
Net cash provided by operating activities	$ 5,455,259	$ 5,646,057
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS		
Per balance sheets		
Current assets, cash and cash equivalents	$ 6,978,368	$ 7,689,726
Assets whose use is limited		
Designated by board for plant replacement and expansion	1,726	2,392,344
Restricted for payment of revenue notes and interest	1,001,379	2,910,401
Restricted by donors for specific purpose	6,602	6,382
Total per statements of cash flows	$ 7,988,075	$12,998,853

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF FINANCIAL POSITION

	June 30	
ASSETS	**2013**	**2012**
Cash	$ 180,943	$ 565,174
Certificates of deposit	20,998	20,840
Capital campaign contributions receivable, net of discount 2013 $58,300; 2012 $135,117 and allowance 2013 and 2012 $85,000	634,027	1,463,907
Property and equipment	232,391	232,391
Total assets	$1,068,359	$2,282,311
LIABILITIES AND NET ASSETS		
LIABILITIES	$ –	$ –
NET ASSETS		
Unrestricted	345,654	348,084
Temporarily restricted	722,705	1,934,227
Total net assets	1,068,359	2,282,311
Total liabilities and net assets	$1,068,359	$2,282,311

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF ACTIVITIES

	Year ended June 30, 2013			Year ended June 30, 2012		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
SUPPORT AND REVENUE						
Contributions	$ 80,136	$ 30,003	$ 110,139	$ 36,269	$2,713,611	$2,749,880
Special events	20,900	–	20,900	22,300	–	22,300
Interest income	514	–	514	849	–	849
Net assets released from restrictions	1,241,525	(1,241,525)	–	1,002,818	(1,002,818)	–
Total support and revenue	1,343,075	(1,211,522)	131,553	1,062,236	1,710,793	2,773,029
EXPENSES						
Contributions and scholarship	1,341,980	–	1,341,980	981,987	–	981,987
Supporting services						
Management and general						
Uncollectible campaign contributions	–	–	–	85,000	–	85,000
Total management and general	–	–	–	85,000	–	85,000
Fundraising event	3,525	–	3,525	7,534	–	7,534
Other	–	–	–	5,165	–	5,165
Total expenses	1,345,505	–	1,345,505	1,079,686	–	1,079,686
CHANGE IN NET ASSETS	(2,430)	(1,211,522)	(1,213,952)	(17,450)	1,710,793	1,693,343
NET ASSETS, beginning of year	348,084	1,934,227	2,282,311	365,534	223,434	588,968
NET ASSETS, end of year	$ 345,654	$ 722,705	$1,068,359	$ 348,084	$1,934,227	$2,282,311

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Municipal Hospital)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2013	**2012**
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$(1,213,952)	$1,693,343
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Increase) decrease in capital campaign contributions receivable	829,880	(1,336,013)
Net cash provided by (used in) operating activities	(384,072)	357,330
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(159)	(217)
NET INCREASE (DECREASE) IN CASH	(384,231)	357,113
CASH		
Beginning	565,174	208,061
Ending	$ 180,943	$ 565,174

See Notes to Financial Statements.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hospital is the municipal hospital of the City of Orange City, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has 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. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2013 and 2012, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation. The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *Financial Accounting Standards Board Accounting Standards Codification*. Under this Topic, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had $722,705 of temporarily restricted net assets at June 30, 2013. These net assets are to be used for the benefit of the Hospital, primarily for the replacement nursing home campaign, or scholarships for eligible Hospital employees.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2013.

Accounting Estimates and Assumptions

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

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

Type	Method
Interest-earning investment contracts	
Nonnegotiable certificates of deposit	Cost
Open-end mutual funds	
Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company)	Amortized cost
Publicly traded mutual funds	Fair value based on quoted market prices
Debt securities	
Negotiable certificates of deposit and U.S. Government Agency Securities	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded as additions at fair value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

Inventories

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

Contributions Receivable

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Foundation's Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the revenue notes that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position

Restricted net position consists of funds restricted on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position

Unrestricted net position has no externally imposed restrictions on use.

When the Hospital has both restricted and unrestricted resources available to finance a particular program or project, it is the Hospital’s policy to use restricted resources before unrestricted resources..

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT amount to be cash equivalents.

Statements of Revenues, Expenses, and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

Patient service revenue is reported at the Hospital's established rates. 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.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Costs of Borrowing

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method.

Credit Risk

The Foundation had amounts on deposit with a financial institution in excess of FDIC insurance limits at various times throughout the year.

Income Taxes

The Foundation follows the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the *FASB Accounting Standards Codification*. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns, for tax years 2009 and after, which are open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through September 26, 2013, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2013, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C 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; warrants or improvement certificates of a drainage district; and common stocks.

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2013, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	Maturities	
Investments		
Edward D. Jones & Co., money market funds	Daily	$ 1,087
Negotiable certificates of deposit	08/15/13 - 01/23/15	3,878,565
U.S. Government agency securities	11/15/28 - 11/01/31	7,803
Mutual funds	Daily	958,443
Iowa Public Agency Investment Trust	Daily	1,001,379
Totals		$5,847,277

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. However, this does not apply to the Series 2012 Capital loan note. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of $1,925,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

	Year ended June 30, 2013			Year ended June 30, 2012		
	Reserve Fund	Sinking Fund	Total	Reserve Fund	Sinking Fund	Total
BALANCE, beginning	$1,925,500	$ 984,901	$2,910,401	$1,925,500	$ 972,959	$2,898,459
Transfers from current assets cash and cash equivalents	–	1,942,888	1,942,888	–	1,942,126	1,942,126
Interest income	–	71	71	–	143	143
Payment of notes and interest	–	(1,927,442)	(1,927,442)	–	(1,930,327)	(1,930,327)
BALANCE, ending	$1,925,500	$1,000,418	$2,925,918	$1,925,500	$ 984,901	$2,910,401

NOTE 4 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	June 30	
	2013	2012
Receivable from patients	$1,620,062	$1,703,290
Receivable from insurance carriers	2,485,918	2,878,231
Receivable from Medicare	2,069,462	2,011,710
Receivable from Medicaid	444,682	399,742
Total patient receivables	6,620,124	6,992,973
Less allowances for contractual and other adjustments	(2,150,000)	(2,210,000)
Totals	$4,470,124	$4,782,973

NOTE 5 CAPITAL ASSETS

A summary of changes in the Hospital's capital assets for the year ended June 30, 2013 and 2012 follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Land	$ 942,036	$ –	$ (30,000)	$ 912,036
Land improvements	2,345,509	5,934	(53,634)	2,297,809
Buildings	17,652,859	91,017	(446,984)	17,296,892
Fixed equipment	23,415,248	–	(232,351)	23,182,897
Major movable equipment	12,703,675	724,356	(5,139,607)	8,288,424
Construction in progress	3,248,402	12,227,590	–	15,475,992
Totals	60,307,729	13,048,897	(5,902,576)	67,454,050
Less accumulated depreciation and amortization	(29,329,049)	(2,660,653)	5,831,604	(26,158,098)
Net capital assets	$30,978,680	$10,388,244	$ (70,972)	$41,295,952

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Land	$ 942,036	$ –	$ –	$ 942,036
Land improvements	2,332,209	13,300	–	2,345,509
Buildings	17,652,859	–	–	17,652,859
Fixed equipment	23,375,182	40,066	–	23,415,248
Major movable equipment	12,432,812	297,418	(26,555)	12,703,675
Construction in progress	346,307	2,902,095	–	3,248,402
Totals	57,081,405	3,252,879	(26,555)	60,307,729
Less accumulated depreciation and amortization	(26,823,570)	(2,532,034)	26,555	(29,329,049)
Net capital assets	$30,257,835	$ 720,845	$ –	$30,978,680

Construction in progress at June 30, 2013 consisted primarily of costs incurred for the design and construction costs associated with the building of an 85,000 square foot, 83 bed replacement senior living facility. The total cost of this replacement nursing home facility is estimated at approximately $19,000,000 and is expected to be completed during October 2013. This project is being funded through a combination of bank financing, private capital campaign contributions, and reserves of the Hospital. As of June 30, 2013, an outstanding obligation of approximately $1,500,000 remains on related signed construction contracts, which includes retention of $615,000.

NOTE 5 CAPITAL ASSETS (continued)

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2013 and 2012 follows:

	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Land	$ 232,391	$ –	$ –	$ 232,391

	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
Land	$ 232,391	$ –	$ –	$ 232,391

NOTE 6 CONTRIBUTIONS RECEIVABLE AND MAJOR DONOR

At June 30, 2013 the Foundation's contributions receivable consisted of contributions pledged for the replacement nursing home facility.

A summary of the activity in contributions receivable for the year ended June 30, 2013 is as follows:

Beginning contributions receivable	$1,463,907
Contributions made during the year	8,615
Payments received	(915,312)
Decrease in discount of future payments receivable	76,817
Ending contributions receivable	$ 634,027

Contributions receivable at June 30, 2013, are expected to be received during the years ending June 30, as follows: 2014 $259,000; 2015 $259,000; 2016 $116,027.

The Foundation considers major donors to be those donor's that pledged over 10% of the Foundation's total contributions during the capital campaign. One donor was considered to be a major donor during the year ended June 30, 2012. This donor pledged $500,000 during the year ended June 30, 2012, and the related capital campaign contributions received from this donor totaled $250,000 during each of the years ended June 30, 2013 and 2012.

NOTE 7 RELATED PARTY CONTRIBUTION

Included within contributions on the accompanying statements of revenues, expenses, and changes in net position for the year ended June 30, 2013 is $682,595 of revenue received from the City of Orange City specifically to fund costs associated with the replacement nursing home facility. The Hospital will not be required to repay these proceeds to the City of Orange City.

NOTE 8 LONG-TERM DEBT

The City Council of Orange City adopted a resolution authorizing the issuance of $6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 3.80% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2013 is $5,020,000.

The City Council of Orange City adopted a resolution authorizing the issuance of $19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2013 is $18,495,000.

The City Council of Orange City adopted a resolution authorizing the issuance of $6,000,000 of Hospital Revenue Capital Loan Notes Series 2012 dated June 13, 2012, to finance the constructing and equipping an 83 bed senior living facility. The notes call for interest only payments, calculated at an initial interest rate of 3.5%, commencing on September 1, 2012, and on each March 1 and September 1 thereafter until semiannual principal and interest payments are required. Principal and interest payments will be required on the earlier date of March 1, 2014 or six months following substantial completion of the facility. Principal payments shall be made in accordance with a twenty-five year, straight-line amortization, payment schedule through September 1, 2038, the maturity date of the notes. The notes contain an interest reset provision beginning on June 1, 2019, and on June 1 every five years subsequent thereto, in which the interest rate will be adjusted to a product of 3% above the constant maturity of the United States 5-year Treasury Note as published by the Wall Street Journal, multiplied by .65%, subject to an interest rate cap of 9.5% and a floor of 3.5%. The notes may be called for redemption by the issuer and paid before maturity on any date, in whole or in part, and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to date of call. With the exception of the initial advance of $50,001, the Hospital shall expend $9,000,000 on the senior living facility project from sums other than proceeds of the Series 2012 Notes prior to any advance under these Notes. The balance outstanding at June 30, 2013 is $50,001.

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2039. As of June 30, 2013 the remaining principal and interest on the Series 2012, 2008 and 2007 was $38,409,738, net of unamortized discount of $203,229. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2013 and 2012:

	Year ended June 30	
	2013	**2012**
Change in net position	$2,828,344	$2,602,697
Provision for depreciation	2,660,653	2,532,034
Interest and amortization expense	1,256,393	1,284,798
Pledged net revenues	$6,745,390	$6,419,529
Principal and interest requirements		
Capital Loan Notes, Series 2007	$ 691,165	$ 693,050
Capital Loan Notes, Series 2008	1,236,278	1,237,278
Subordinate Capital Loan Note, Series 2006	–	72,000
Totals	$1,927,443	$2,002,328

NOTE 8 LONG-TERM DEBT (continued)

The following summarizes the maturities of long-term debt:

	Revenue notes payable		
	Principal	Interest	Total
Year ending June 30			
2014	$ 755,001	$ 1,222,888	$ 1,977,889
2015	735,000	1,197,573	1,932,573
2016	770,000	1,158,318	1,928,318
2017	805,000	1,122,938	1,927,938
2018	845,000	1,085,253	1,930,253
2019 - 2023	4,875,000	4,760,918	9,635,918
2024 - 2028	6,365,000	3,269,338	9,634,338
2029 - 2033	8,415,000	1,230,740	9,645,740
Total	23,565,001	15,047,966	38,612,967
Less unamortized discount	(203,229)	–	(203,229)
Totals	$23,361,772	$15,047,966	$38,409,738

Long-term debt activity for the years ended June 30, 2013 and 2012 follows:

	Beginning balance	Additions	Reductions	Ending balance	Amounts due within one year
2013					
Hospital revenue notes	$24,240,001	$ –	$ 675,000	$23,565,001	$ 755,001
2012					
Hospital revenue notes	$24,840,000	$ 50,001	$ 650,000	$24,240,001	$ 675,000
Subordinate Hospital Revenue Capital Loan Note	72,000	–	72,000	–	–
Totals	$24,912,000	$ 50,001	$ 722,000	$24,240,001	$ 675,000

NOTE 9 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2013, plan members were 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 contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were $1,416,281, $1,262,932 and $1,064,491, respectively, equal to the required contributions for each year.

NOTE 10 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $50,000 per person and approximately $3,483,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2013 and 2012 was $2,936,575 and $2,396,679, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of $958,443 and $815,850 to reflect the fair value of these program assets as of June 30, 2013 and 2012, respectively, and related liability to participants.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 238 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plan is self-insured and is administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2013, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	$ 16,783
Interest on net OPEB obligation	484
Adjustment to annual required contribution	(15,267)
Annual OPEB cost	2,000
Contributions made	–
Increase in net OPEB obligation	2,000
Net OPEB obligation, beginning of year	48,000
Net OPEB obligation, end of year	$ 50,000

The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2013.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (continued)

For the year ended June 30, 2013, the Hospital contributed $-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013, 2012 and 2011 are summarized as follows:

Fiscal year ended	Annual OPEB cost	Percentage of annual OPEB cost contributed	Net OPEB obligation
June 30, 2013	$ 2,000	0%	$ 50,000
June 30, 2012	$ 8,000	0%	$ 48,000
June 30, 2011	$ 8,320	0%	$ 40,000

As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2014, the actuarial accrued liability was approximately $173,500 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of $173,500. As of June 30, 2013, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2013 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 1% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 3%. The medical trend rate is reduced 1% each year until reaching the 3% ultimate trend rate.

Mortality rates are based on the RP-2000 Combined Mortality Rates, applied on a gender-specific basis. Termination rates used in the actuarial valuation are based upon national termination studies performed by the Society of Actuaries. They were adjusted to reflect the recent lower termination rates experienced by the Hospital. Retirement rates used in the actuarial valuation were developed based upon recent Hospital experience.

Projected weighted average claim costs of the medical plan are approximately $831 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 12 MALPRACTICE CLAIMS

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are $1,000,000 per claim and $3,000,000 in the aggregate for institutional claims and $1,000,000 per claim and $3,000,000 in the aggregate for physician claims.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2013 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 13 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

Other

The Hospital also has payment agreements with Wellmark and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

NOTE 14 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2013 and 2012.

	2013	2012
Charges foregone, based on established rates	$ 149,564	$ 136,351
Equivalent percentage of charity care patients to all patients served	0.3%	0.3%

NOTE 15 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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

NOTE 16 LEASE COMMITMENTS AND SPACE LEASED TO OTHERS

The Hospital leases CT system medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of $8,417, beginning in February 2011, through the end of the lease.

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for thirty-six monthly payments of $11,781, beginning in December 2010, through the end of the lease.

The Hospital leases a vehicle under a cancelable lease. The current lease calls for forty-eight monthly payments of $469, beginning in May 2013, with a final payment of $30,942 at the end of the lease. A prior operating lease, which expired April 2013, called for monthly payments of $499.

Operating expenses incurred on the above equipment leases totaled $248,304 and $248,364 for the years ended June 30, 2013 and 2012, respectively.

The minimum future rentals under the leases as of June 30, 2013, are as follows:

Year ending June 30	
2014	$ 165,534
2015	30,876
2016	5,625
2017	36,098
Total	$ 238,133

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2013 and 2012 included $153,592 and $157,123, respectively, of aggregate rental income under the lease agreements.

NOTE 17 ORANGE CITY AREA HEALTH FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement nursing home facility. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of $1,318,342 and $979,887 to the Hospital for the years ended June 30, 2013 and 2012, respectively. The Foundation's audited statements of financial position as of June 30, 2013 and 2012, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

REQUIRED SUPPLEMENTARY INFORMATION

Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b - a)/c)
July 1, 2011	$ –	$106.0	$106.0	0.0%	$16,485	0.6%
July 1, 2012	$ –	$106.0	$106.0	0.0%	$16,443	0.6%
July 1, 2013	$ –	$173.5	$173.5	0.0%	$17,220	1.0%

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2013

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 Orange City to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

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	Budgeted Amounts		Amount Over (Under) Budget
		Original	Amended	
Total expenses	$39,995,063	$39,722,317	$43,222,317	$(3,227,254)

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

Orange City Municipal Hospital
d/b/a Orange City Area Health System
AGE ANALYSIS OF PATIENT RECEIVABLES

Age of accounts (by date of discharge)	Amounts June 30 2013	Amounts June 30 2012	Percent to total June 30 2013	Percent to total June 30 2012
0 - 30 days	$3,460,178	$3,754,187	52.27%	53.69%
31 - 60 days	1,049,055	1,277,287	15.85	18.27
61 - 90 days	717,442	471,701	10.84	6.74
91 - 180 days	648,447	686,139	9.79	9.81
Over 6 months	745,002	803,659	11.25	11.49
Totals	6,620,124	6,992,973	100.00%	100.00%
Allowances				
Uncollectible accounts	850,000	850,000		
Contractual adjustments	1,300,000	1,360,000		
Total allowances	2,150,000	2,210,000		
Totals	$4,470,124	$4,782,973		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	Year ended June 30 2013	Year ended June 30 2012
BALANCE, beginning	$ 850,000	$ 700,000
Provision for bad debts	500,842	604,991
Recoveries of accounts written off previously	337,293	338,265
Accounts written off	(838,135)	(793,256)
BALANCE, ending	$ 850,000	$ 850,000

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
INVENTORIES

	June 30	
	2013	**2012**
General stores	$ 233,284	$ 239,469
Central supply	42,320	45,161
Operating room	85,021	100,921
Radiology	2,275	2,890
Medical clinics	39,230	35,641
Totals	$ 402,130	$ 424,082

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
INSURANCE COVERAGE
June 30, 2013

Cincinnati Insurance Company (policy expiration July 1, 2014)	
Building and contents, builders risk, fire and extended coverage	
(100% co-insurance, replacement value, and special causes of loss)	$57,211,800
Downtown Campus (80% Co-insurance, functional replacement, and special clauses)	$5,849,000
	$5,000 deductible
Blanket earnings and expense	$27,718,444
Owned automobiles	
Liability	$1,000,000
Collision and comprehensive	$1,000 deductible
Uninsured/underinsured motorist	$1,000,000
Medical payments	$5,000
Blanket fidelity bond	
Employees	$150,000
	$2,500 deductible
Accounts receivable records	$1,000,000
	$5,000 deductible
Equipment floater	$27,000
Cincinnati Insurance Company (policy expiration July 1, 2014)	
Directors, officers and hospital staff liability	$1,000,000
	$15,000 deductible
Employment practices liability	$1,000,000
	$25,000 deductible
PIC Wisconsin Insurance Company (policy expiration July 1, 2014)	
Employee benefit liability	$1,000,000
Professional liability—hospital	$1,000,000/3,000,000
Professional liability—physicians	$1,000,000/3,000,000
General liability	$1,000,000/3,000,000
Excess professional liability	$2,000,000
Excess liability hospital	$2,000,000
Farm Bureau Mutual Insurance Company (policy expiration April 1, 2014)	
Workers' compensation	Statutory

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
PATIENT SERVICE REVENUE

	Total		Inpatient	
	Year ended June 30		Year ended June 30	
	2013	2012	2013	2012
DAILY PATIENT SERVICES				
Medical, surgical and obstetric	$ 4,587,664	$ 4,722,488	$2,495,908	$2,422,395
Special care	51,075	57,980	51,075	57,980
Long term care	4,890,701	4,652,292	–	–
Nursery	373,116	352,635	372,990	352,635
	9,902,556	9,785,395	2,919,973	2,833,010
OTHER NURSING SERVICES				
Operating and recovery room	4,690,176	4,826,199	753,881	783,462
Central service and supply	1,167,239	1,258,299	587,731	649,710
Emergency service	1,822,751	1,831,048	64,401	66,886
Ambulance	439,672	390,189	31,297	30,103
Home Health	1,020,710	1,135,323	–	–
Hospice	773,271	585,475	–	–
	9,913,819	10,026,533	1,437,310	1,530,161
OTHER PROFESSIONAL SERVICES				
Laboratory	4,088,378	4,003,150	480,437	498,334
Radiology	5,320,617	5,371,869	202,674	186,051
Pharmacy	4,460,578	4,152,250	1,170,053	1,206,966
Anesthesiology	1,846,099	1,898,179	461,571	495,331
Respiratory therapy and oxygen	436,613	451,144	285,673	299,222
Physical therapy	2,090,649	1,749,095	152,522	125,616
Cardio pulmonary	720,761	720,079	59,911	39,027
Pulmonary rehabilitation	8,120	7,889	–	–
Speech therapy	39,460	41,305	5,585	6,166
Audiology	50,844	34,692	–	–
Orange City medical clinic	9,568,320	9,064,013	–	–
Hospers medical clinic	323,427	275,892	–	–
Paullina medical clinic	740,242	732,370	–	–
Specialty clinics	332,842	149,269	945	–
Surgery	1,532,155	1,570,159	–	–
	31,559,105	30,221,355	2,819,371	2,856,713
	51,375,480	50,033,283	$7,176,654	$7,219,884
Charity care charges foregone, based on established rates	149,564	136,351		
Total gross patient service revenue	51,225,916	49,896,932		
Provisions for contractual and other adjustments	12,710,792	12,444,281		
Net patient service revenue	$38,515,124	$37,452,651		

See accompanying independent auditor's report.

Outpatient		Swing bed		Intermediate care unit	
Year ended June 30		Year ended June 30		Year ended June 30	
2013	2012	2013	2012	2013	2012
$ 2,090,717	$ 2,295,262	$ 1,039	$ 4,831	$ –	$ –
–	–	–	–	–	–
–	–	410,175	431,925	4,480,526	4,220,367
126	–	–	–	–	–
2,090,843	2,295,262	411,214	436,756	4,480,526	4,220,367
3,925,508	4,042,737	10,787	–	–	–
553,718	596,532	25,767	12,057	23	–
1,758,350	1,764,162	–	–	–	–
408,375	360,086	–	–	–	–
1,020,710	1,135,323	–	–	–	–
773,271	585,475	–	–	–	–
8,439,932	8,484,315	36,554	12,057	23	–
3,548,954	3,450,025	58,987	54,791	–	–
5,109,975	5,179,739	7,968	6,079	–	–
2,918,087	2,545,516	295,803	314,772	76,635	84,996
1,381,653	1,402,848	2,875	–	–	–
88,462	87,165	62,478	64,757	–	–
1,761,810	1,452,121	176,317	171,358	–	–
656,790	674,857	4,060	6,195	–	–
8,120	7,889	–	–	–	–
28,667	24,588	5,208	10,551	–	–
50,844	34,692	–	–	–	–
9,568,320	9,064,013	–	–	–	–
323,427	275,892	–	–	–	–
740,242	732,370	–	–	–	–
331,897	149,269	–	–	–	–
1,532,155	1,570,159	–	–	–	–
28,049,403	26,651,143	613,696	628,503	76,635	84,996
$38,580,178	$37,430,720	$1,061,464	$1,077,316	$4,557,184	$4,305,363

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	Year ended June 30	
	2013	**2012**
Contractual adjustments and discounts	$12,209,950	$11,839,290
Provision for bad debts	500,842	604,991
Totals	$12,710,792	$12,444,281

OTHER REVENUE

	Year ended June 30	
	2013	**2012**
Cafeteria	$ 226,774	$ 208,809
Other	526,072	483,281
Lifeline	46,460	44,390
Landsmeer Ridge	1,371,565	1,303,313
Totals	$2,170,871	$2,039,793

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
NURSING SERVICE EXPENSES

	Year ended June 30	
	2013	**2012**
NURSING ADMINISTRATION		
Salaries	$ 174,428	$ 168,002
Supplies and expenses	37,750	37,085
	212,178	205,087
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,594,053	1,590,894
Supplies and expenses	316,987	331,945
	1,911,040	1,922,839
SPECIAL CARE		
Salaries	10,286	6,494
Supplies and expenses	23	188
	10,309	6,682
SWING BED		
Salaries	4,495	5,099
INTERMEDIATE CARE		
Hospital		
Salaries	945,470	914,404
Purchased services	245,114	163,710
Supplies and expenses	170,339	166,885
Heritage House		
Salaries	1,432,439	1,357,320
Supplies and expenses	564,830	470,026
	3,358,192	3,072,345
NURSERY		
Salaries	58,145	58,274
Supplies and expenses	10,097	8,475
	68,242	66,749
OPERATING AND RECOVERY ROOMS		
Salaries	669,060	681,203
Supplies and expenses	225,476	143,793
	894,536	824,996
CENTRAL SERVICE AND SUPPLY		
Billable supplies	702,348	784,465
Supplies and expenses	28,052	72,028
	730,400	856,493

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
NURSING SERVICE EXPENSES (continued)

	Year ended June 30	
	2013	**2012**
EMERGENCY SERVICE		
Salaries	$1,342,184	$1,252,227
Supplies and expenses	64,795	22,895
	1,406,979	1,275,122
AMBULANCE		
Salaries	73,812	63,984
Supplies and expenses	38,497	40,313
	112,309	104,297
HOME HEALTH		
Salaries	440,867	460,630
Purchased services	55,821	56,400
Supplies and expenses	101,613	103,060
	598,301	620,090
HOSPICE		
Salaries	229,670	221,673
Supplies and expenses	174,723	169,297
	404,393	390,970
Totals	$9,711,374	$9,350,769

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES

	Year ended June 30	
	2013	**2012**
LABORATORY		
Salaries	$ 521,238	$ 489,390
Professional fees	315,395	332,363
Supplies and expenses	383,849	420,753
	1,220,482	1,242,506
RADIOLOGY		
Salaries	1,069,212	1,109,944
Professional fees	135,067	83,691
Purchased services	412,326	454,930
Supplies and expenses	221,348	217,966
	1,837,953	1,866,531
ONCOLOGY		
Salaries	29,130	29,058
PHARMACY		
Salaries	62,856	62,826
Purchased services	1,983,632	1,701,080
Supplies and expenses	7,721	10,905
	2,054,209	1,774,811
ANESTHESIOLOGY		
Salaries	294,002	324,705
Professional fees	519,050	534,226
Supplies and expenses	30,447	24,929
	843,499	883,860
RESPIRATORY THERAPY		
Salaries	117,953	115,233
Oxygen	29,965	24,903
Supplies and expenses	17,949	96,829
	165,867	236,965
PHYSICAL THERAPY		
Salaries	55,017	57,537
Purchased services	1,044,465	871,887
Supplies and expenses	22,363	29,684
	1,121,845	959,108
CARDIO PULMONARY		
Purchased services	152,941	56,886
Supplies and expenses	4,724	4,944
	157,665	61,830

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2013	2012
SPEECH THERAPY		
Purchased services	$ 24,919	$ 22,923
AUDIOLOGY		
Purchased services	30,520	28,000
Supplies and expenses	221	158
	30,741	28,158
OCCUPATIONAL HEALTH SERVICES		
Salaries	85,444	77,844
Purchased services	1,145	797
Supplies and expenses	23,541	24,259
	110,130	102,900
ORANGE CITY MEDICAL CLINIC		
Salaries	3,425,891	3,475,026
Purchased services	632,656	631,154
Medical supplies	550,306	571,401
Supplies and expenses	60,471	44,424
Utilities	73,857	73,723
Telephone	1,300	2,091
Insurance	77,689	84,473
Employee benefits	843,568	788,376
	5,665,738	5,670,668
HOSPERS MEDICAL CLINIC		
Salaries	143,551	145,855
Purchased service	33,696	36,765
Medical supplies	8,682	10,405
Supplies and expenses	24,331	20,624
Utilities	1,786	1,558
Telephone	6,802	6,575
Employee benefits	44,360	38,852
	263,208	260,634
PAULLINA MEDICAL CLINIC		
Salaries	337,312	357,100
Purchased service	68,371	70,876
Medical supplies	23,515	21,279
Supplies and expenses	31,663	15,817
Utilities	6,776	7,146
Telephone	30,539	9,701
Employee benefits	97,170	87,270
	595,346	569,189
SPECIALTY CLINICS		
Salaries	80,885	78,813
Supplies and expenses	3,446	9,539
	84,331	88,352

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	Year ended June 30	
	2013	**2012**
SURGERY		
Salaries	$ 678,809	$ 678,847
Purchased services	–	35
Supplies and expenses	84,311	80,811
Utilities	2,699	3,046
	765,819	762,739
LANDSMEER RIDGE		
Salaries	436,043	416,710
Purchased services	8,305	7,881
Medical supplies	1,374	1,227
Supplies and expenses	186,059	204,644
Utilities	84,457	80,415
Telephone	12,570	11,672
Insurance	4,314	4,003
	733,122	726,552
SOCIAL SERVICE		
Salaries	127,670	98,404
Supplies and expenses	–	2
	127,670	98,406
MEDICAL RECORDS		
Salaries	280,150	164,769
Supplies and expenses	17,326	28,489
	297,476	193,258
Totals	$16,129,150	$15,578,448

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
GENERAL SERVICE EXPENSES

	Year ended June 30	
	2013	**2012**
DIETARY		
Salaries	$ 277,928	$ 274,625
Food	423,934	400,740
Supplies and expenses	68,014	78,504
	769,876	753,869
PLANT OPERATION AND MAINTENANCE		
Salaries	224,456	185,955
Utilities	483,575	470,025
Purchased services	45,407	59,268
Supplies and expenses	132,691	140,825
	886,129	856,073
HOUSEKEEPING		
Salaries	205,525	194,875
Supplies and expenses	57,300	70,571
	262,825	265,446
LAUNDRY AND LINEN		
Salaries	24,414	23,890
Supplies and expenses	13,236	8,095
	37,650	31,985
Totals	$1,956,480	$1,907,373

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES

	Year ended June 30	
	2013	**2012**
FISCAL AND ADMINISTRATIVE SERVICE		
Administrative and general		
Salaries	$ 683,917	$ 699,461
Management fees	398,907	362,277
Professional services	41,337	31,829
Collection	48,205	49,618
Telephone	62,835	64,484
Supplies and expenses	1,112,499	905,389
	2,347,700	2,113,058
Human resources		
Salaries	139,459	131,803
Supplies and expenses	92,311	132,599
	231,770	264,402
Regulatory affairs		
Salaries	75,623	67,855
Supplies and expenses	1,584	2,523
	77,207	70,378
Community relations		
Salaries	74,031	69,463
Supplies and expenses	85,385	77,081
	159,416	146,544
Receiving and stores		
Salaries	127,184	119,516
Supplies and expenses	29,642	29,648
	156,826	149,164
Admissions		
Salaries	225,671	213,603
Supplies and expenses	7,996	4,915
	233,667	218,518
Total fiscal and administrative expenses	3,206,586	2,962,064
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,984,590	1,822,501
Group health insurance	2,491,278	1,986,961
Other	156,654	170,284
Insurance	410,748	455,419
Total unassigned expenses	5,043,270	4,435,165
Totals	$8,249,856	$7,397,229

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
COMPARATIVE STATISTICS

	Year ended June 30	
	2013	**2012**
PATIENT DAYS		
Adult and pediatric	2,744	2,744
Nursery	530	501
Swing bed		
Skilled nursing care	947	1,077
Intermediate care	32	23
Intermediate care		
Hospital	11,301	11,639
Heritage House	16,744	16,438
Totals	32,298	32,422
ADMISSIONS		
Adult and pediatric	874	845
Swing bed		
Skilled nursing care	108	113
Intermediate care	11	6
Intermediate care		
Hospital	18	19
Heritage House	23	19
Total admissions	1,034	1,002
DISCHARGES		
Adult and pediatric	880	844
Swing bed		
Skilled nursing care	109	110
Intermediate care	11	6
Intermediate care		
Hospital	20	19
Heritage House	26	17
Total discharges	1,046	996
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.12	3.25
Swing bed		
Skilled nursing care	8.69	9.79
Intermediate care	2.91	3.83
Intermediate care		
Hospital	565.05	612.58
Heritage House	644.00	966.94

See accompanying independent auditor's report.

Orange City Municipal Hospital
d/b/a Orange City Area Health System
COMPARATIVE STATISTICS (continued)

	Year ended June 30	
	2013	**2012**
BEDS		
Adult, pediatric and swing bed	25	25
Intermediate care		
Hospital	33	33
Heritage House	50	50
OCCUPANCY PERCENT		
Adult, pediatric and swing bed	46.61%	47.5%
Intermediate care		
Hospital	93.8%	96.4%
Heritage House	91.7%	89.8%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	$105,521	$102,330
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR	42.36	46.7

See accompanying independent auditor's report.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orange City Municipal Hospital d/b/a Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital and Foundation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital and Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital and Foundation's internal control.

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

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

1601 22nd Street, Suite 400, West Des Moines, Iowa 50266-1453 Telephone: (515) 225-8400 Fax: (515) 225-0149
www.denman-cpa.com e-mail: firm@denman-cpa.com

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital and Foundation'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 and Foundation. 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital and Foundation'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 and Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Denman & Company, LLP

DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 26, 2013

Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FINDINGS
Year ended June 30, 2013

Part I–Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

Part II–Findings Related to Required Statutory Reporting

13-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

13-II-B TRAVEL EXPENSES

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

13-II-C BUSINESS TRANSACTIONS

No transactions between the Hospital and a Hospital official were noted.

13-II-D BOARD MINUTES

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

13-II-E DEPOSITS AND INVESTMENTS

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

13-II-F OTHER NONCOMPLIANCE

Comment

The Hospital sold land during the year without serving notice or holding a public hearing.

Recommendation

We recommend the Hospital serve appropriate notice and hold a public hearing before selling any real property pursuant to the applicable provisions of Chapter 36 of the Code of Iowa.

Response

The Hospital will follow the provisions of Chapter 36 of the Code of Iowa before selling real property in the future.

Conclusions

Response accepted.