

Adair County Memorial Hospital
Greenfield, Iowa

**Financial Statements and
Supplementary Information
June 30, 2014 and 2013**

Together with Independent Auditor's Report

Adair County Memorial Hospital

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Adair County Memorial Hospital

Officials
June 30, 2014

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Adair County Memorial Hospital (Hospital) as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2014 and 2013, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Hospital adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8) and budgetary comparison information (page 27) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements in Exhibits 1 – 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information (Exhibits 1 – 6) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
November 19, 2014.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

This section of Adair County Memorial Hospital's (Hospital) annual financial report presents background information and management's analysis of the Hospital's financial performance during the fiscal years ended June 30, 2014 and 2013. It should be read in conjunction with the financial statements of the Hospital.

2014 Financial Highlights

- The Hospital's total assets increased by approximately \$925,000, primarily due to an increase in estimated third-party settlements as a result of an electronic health records (EHR) incentive receivable of \$1,325,000.
- During the year, the Hospital's total operating revenues increased approximately \$1,397,000 to \$11,161,373, a 14% increase from the prior year, primarily as a result of recognition of \$705,000 of EHR incentive revenue and an increase in net patient service revenue. Inpatient volumes decreased during the fiscal year but were offset by increases in outpatient volumes which resulted in gross patient service revenue only increasing approximately \$24,000.
- Expenses increased approximately \$661,000, or 6%, to \$11,558,093. Salaries and benefits increased by approximately \$342,000 due to wage increases and increased FTE's. FTE's increased by approximately 11 during 2014 due to an added provider and new service lines including orthopedic specialist and pediatrician. The Hospital reported a loss from operations of \$396,720 in 2014 and \$1,132,423 in 2013. The improvement in operation loss is primarily due to the EHR incentives mentioned previously.

2013 Financial Highlights

- The Hospital's total assets decreased by approximately \$50,000.
- During the year, the Hospital's total operating revenues increased approximately \$502,000 to \$9,764,784, or 5%, from the prior year due to an increase in outpatient volume.
- Operating expenses increased approximately \$493,000, or 5%, to \$10,897,207. Salaries and benefits increased by approximately \$437,000 due to wage increases and increased FTE's.

Using This Annual Report

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

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

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

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

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

Statement Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between assets, deferred outflows, liabilities, and deferred inflow. The Hospital's net position increased this past year by \$1,192,425 or 16% as shown below.

| | <u>2014</u> | <u>2013 Restated</u> | <u>Dollar Change</u> | <u>Percent Change</u> | <u>2012</u> |
|---------------------------------------|---------------------|--------------------------|--------------------------|---------------------------|-------------------|
| Assets: | | | | | |
| Total current assets | \$ 8,543,665 | 8,908,226 | (364,561) | -4% | 8,096,806 |
| Net capital assets | 8,695,161 | 7,479,350 | 1,215,811 | 16% | 8,257,349 |
| Other noncurrent assets | <u>2,234,008</u> | <u>2,159,783</u> | <u>74,225</u> | 3% | <u>2,243,218</u> |
| Total assets | <u>19,472,834</u> | <u>18,547,359</u> | <u>925,475</u> | 5% | <u>18,597,373</u> |
| Liabilities: | | | | | |
| Current liabilities | 1,147,160 | 1,241,769 | (94,609) | -8% | 1,315,026 |
| Long-term debt | <u>8,268,896</u> | <u>8,475,476</u> | <u>(206,580)</u> | -2% | <u>8,765,267</u> |
| Total liabilities | <u>9,416,056</u> | <u>9,717,245</u> | <u>(301,189)</u> | -3% | <u>10,080,293</u> |
| Deferred Inflows of Resources, | | | | | |
| Unavailable property tax revenue | <u>1,520,217</u> | <u>1,485,978</u> | <u>34,239</u> | 2% | <u>1,398,009</u> |
| Net Position (Deficit): | | | | | |
| Net investment in capital assets | 692,367 | (694,302) | 1,386,669 | -200% | (195,340) |
| Restricted - expendable | 6,521 | -- | 6,521 | 100% | 4,440 |
| Unrestricted | <u>7,837,673</u> | <u>8,038,438</u> | <u>(200,765)</u> | -2% | <u>7,309,971</u> |
| Total net position | <u>\$ 8,536,561</u> | <u>7,344,136</u> | <u>1,192,425</u> | 16% | <u>7,119,071</u> |

Year ended June 30, 2014 - There was a significant decrease in cash and cash equivalents and a corresponding increase in capital assets due to the purchase of the electronic medical records system. An EHR incentive receivable of \$1,325,000 and deferral of \$600,000 was recorded in estimated third-party settlements as a result of the electronic medical records system purchase. The net effect of this transaction was the primary reason for the increase in total assets of approximately \$925,000.

Year ended June 30, 2013 - There was a significant increase in cash and cash equivalents in 2013 as a result of the receipt of preliminary cost report settlements for previous fiscal years. Capital assets decreased as the Hospital recorded approximately \$900,000 in depreciation and amortization but only purchased approximately \$196,000 in capital assets during the year.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

Operating Results and Changes in the Hospital's Net Position

In 2014, the Hospital's net position increased by approximately \$1,192,000 or 16% as shown below.

| | 2014 | 2013 Restated | Dollar Change | Percent Change | 2012 |
|---|---------------------|-------------------|------------------|-------------------|-------------------|
| Operating revenue: | | | | | |
| Net patient service revenue | \$ 9,652,751 | 9,245,397 | 407,354 | 4% | 8,761,711 |
| Other operating revenue | 1,508,622 | 519,387 | 989,235 | 190% | 500,607 |
| Total operating revenue | <u>11,161,373</u> | <u>9,764,784</u> | <u>1,396,589</u> | 14% | <u>9,262,318</u> |
| Operating Expenses: | | | | | |
| Salaries and employee benefits | 5,827,649 | 5,486,083 | 341,566 | 6% | 5,048,719 |
| Professional fees and purchased services | 2,221,354 | 2,042,000 | 179,354 | 9% | 1,735,247 |
| Supplies and other expenses | 2,227,117 | 2,000,847 | 226,270 | 11% | 2,053,035 |
| Depreciation and interest | 1,281,973 | 1,368,277 | (86,304) | -6% | 1,567,110 |
| Total operating expenses | <u>11,558,093</u> | <u>10,897,207</u> | <u>660,886</u> | 6% | <u>10,404,111</u> |
| Operating loss | (396,720) | (1,132,423) | 735,703 | -65% | (1,141,793) |
| Nonoperating revenue | 1,584,420 | 1,487,977 | 96,443 | 6% | 1,418,407 |
| Excess revenue over expenses before capital grants and contributions | 1,187,700 | 355,554 | 832,146 | 234% | 276,614 |
| Capital grants and contributions | 4,725 | -- | 4,725 | 100% | -- |
| Increase in net position | <u>1,192,425</u> | <u>355,554</u> | <u>836,871</u> | 235% | <u>276,614</u> |
| Net position, beginning of year, as previously reported | 7,344,136 | 7,119,071 | 225,065 | 3% | 6,842,457 |
| Cumulative effect of accounting change | -- | (130,489) | 130,489 | -100% | -- |
| Net position, beginning of year, as restated | <u>7,344,136</u> | <u>6,988,582</u> | <u>355,554</u> | 5% | <u>6,842,457</u> |
| Net position, end of year | <u>\$ 8,536,561</u> | <u>7,344,136</u> | <u>1,192,425</u> | 16% | <u>7,119,071</u> |

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2014 the Hospital reported an operating loss of \$396,720 and in 2013 and 2012 the Hospital reported operating losses of \$1,132,423 and \$1,141,793, respectively. The improvement in the operating loss for 2014 is primarily as a result of the recognition of \$705,000 of EHR incentive revenue recorded as other operating revenue as seen below.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

Other Operating Revenue

Other revenue includes EHR incentive revenue, grant income, 340B program revenue, cafeteria sales, and other miscellaneous services as noted below. 2014 was the first full year of the 340B program for the Hospital.

| | 2014 | 2013 | Dollar Change | Percent Change | 2012 |
|---------------------------------|---------------------|----------------|--------------------------|---------------------------|----------------|
| EHR incentive payments | \$ 705,000 | 4,229 | 700,771 | 16571% | 111,578 |
| Pharmacy revenue - 340B program | 380,364 | 96,608 | 283,756 | 294% | -- |
| Grants | 295,130 | 304,886 | (9,756) | -3% | 274,018 |
| Meals sold | 45,204 | 46,545 | (1,341) | -3% | 41,405 |
| Lifeline | 22,600 | 24,600 | (2,000) | -8% | 26,985 |
| Other | 60,324 | 42,519 | 17,805 | 42% | 46,621 |
| Total | \$ 1,508,622 | 519,387 | 989,235 | 190% | 500,607 |

Nonoperating Income

Nonoperating income includes county tax subsidies, investment income and noncapital grants and contributions. The Hospital holds funds in its statements of net position that are invested primarily in money market funds and CD's. These investments earned approximately \$36,000 and \$42,000 during fiscal year 2014 and 2013, respectively. The Hospital also received approximately \$1,485,000 in county tax subsidy, and approximately \$62,000 in noncapital grants and contributions in fiscal year 2014. In fiscal year 2013, the Hospital received approximately \$1,398,000 in county tax subsidy and approximately \$48,000 in noncapital grants and contributions.

Capital Assets

June 30, 2014: At the end of fiscal year 2014, the hospital had \$8,695,161 invested in capital assets, net of accumulated depreciation. During the fiscal year, the Hospital made capital investments for a total of approximately \$2,117,000. The following is a list of significant items purchased:

| Asset | 2014 Cost |
|-------------------------------------|------------------|
| Electronic medical records system | \$ 1,418,000 |
| Chemistry analyzer | 125,000 |
| Patient monitoring system | 105,000 |
| General ledger and payroll software | 85,000 |
| Server room upgrades/additions | 99,000 |

June 30, 2013: At the end of fiscal year 2013, the hospital had \$7,479,350 invested in capital assets, net of accumulated depreciation. During the fiscal year, the Hospital made capital investments for a total of approximately \$203,000. The following is a list of significant items purchased:

| Asset | 2013 Cost |
|--------------------|------------------|
| Ambulance garage | \$ 97,900 |
| Anesthesia machine | 35,000 |
| IRHTP fiber | 19,000 |
| Home Care HVAC | 15,800 |

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2014 and 2013

Long-Term Debt (including Capital Leases)

At June 30, 2014, the Hospital had \$8,594,261 in short-term and long-term debt. During 2014 the Hospital entered into a \$125,000 capital lease for the purchase of a chemistry analyzer. Total debt outstanding represents approximately 44% of the Hospital's total assets at June 30, 2014.

At June 30, 2013, the Hospital had \$8,765,119 in short-term and long-term debt. This has decreased \$279,038 from fiscal year 2012, as a result of scheduled payments and no borrowings. Total debt outstanding represents approximately 47% of the Hospital's total assets at June 30, 2013.

Contacting Hospital's Chief Executive Officer

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

Angela Mortoza
Chief Executive Officer
Adair County Memorial Hospital
641-743-7234

Adair County Memorial Hospital

Statements of Net Position June 30, 2014 and 2013

| ASSETS | 2014 | 2013 Restated |
|--|---------------------|--------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 2,232,183 | 3,995,927 |
| Short-term investments | 1,367,347 | 1,360,659 |
| Assets limited as to use or restricted, current portion | 248,487 | 237,606 |
| Receivables - | | |
| Patients, net of estimated uncollectibles | | |
| of \$304,936 in 2014 and \$346,430 in 2013 | 1,160,077 | 1,285,082 |
| Pledges | -- | 14,006 |
| Succeeding year property taxes receivable | 1,520,217 | 1,485,978 |
| Other | 103,949 | 150,960 |
| Inventories | 227,756 | 180,603 |
| Prepaid expenses | 213,840 | 197,405 |
| Estimated third-party payor settlements | 1,469,809 | -- |
| Total current assets | <u>8,543,665</u> | <u>8,908,226</u> |
| Noncurrent assets: | | |
| Assets limited as to use or restricted, net of current portion | 2,234,008 | 2,159,783 |
| Capital assets, net | <u>8,695,161</u> | <u>7,479,350</u> |
| Total assets | <u>19,472,834</u> | <u>18,547,359</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Current portion of long-term debt | 325,365 | 289,643 |
| Accounts payable - | | |
| Trade | 255,967 | 239,090 |
| Capital assets | 17,600 | -- |
| Accrued salaries, vacation and benefits payable | 522,539 | 465,817 |
| Accrued interest payable | 25,689 | 23,754 |
| Estimated third-party payor settlements | -- | 223,465 |
| Total current liabilities | <u>1,147,160</u> | <u>1,241,769</u> |
| Long-term liabilities, | | |
| Long-term debt, net of current portion | <u>8,268,896</u> | <u>8,475,476</u> |
| Total liabilities | <u>9,416,056</u> | <u>9,717,245</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Unavailable property tax revenue | <u>1,520,217</u> | <u>1,485,978</u> |
| Commitments and contingencies | | |
| NET POSITION (DEFICIT) | | |
| Net investment in capital assets | 692,367 | (694,302) |
| Restricted - expendable | 6,521 | -- |
| Unrestricted | <u>7,837,673</u> | <u>8,038,438</u> |
| Total net position | <u>\$ 8,536,561</u> | <u>7,344,136</u> |

See notes to financial statements

Adair County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> Restated |
|--|---------------------|-------------------------|
| OPERATING REVENUE: | | |
| Net patient service revenue before provision for bad debt | \$ 9,977,821 | 9,589,328 |
| Provision for bad debt | (325,070) | (343,931) |
| Net patient service revenue | 9,652,751 | 9,245,397 |
| Other operating revenue | 1,508,622 | 519,387 |
| Total operating revenue | <u>11,161,373</u> | <u>9,764,784</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 4,292,585 | 4,045,732 |
| Employee benefits | 1,535,064 | 1,440,351 |
| Professional fees and purchased services | 2,221,354 | 2,042,000 |
| Supplies | 999,019 | 986,857 |
| Facility costs | 689,971 | 584,796 |
| Other | 470,905 | 359,802 |
| Insurance | 67,222 | 69,392 |
| Interest | 381,104 | 387,885 |
| Depreciation and amortization | 900,869 | 980,392 |
| Total operating expenses | <u>11,558,093</u> | <u>10,897,207</u> |
| OPERATING LOSS | <u>(396,720)</u> | <u>(1,132,423)</u> |
| NONOPERATING REVENUE: | | |
| County tax revenue | 1,485,978 | 1,398,009 |
| Investment income | 36,482 | 41,716 |
| Noncapital grants and contributions | 61,960 | 48,252 |
| Total nonoperating revenue | <u>1,584,420</u> | <u>1,487,977</u> |
| EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS | 1,187,700 | 355,554 |
| CAPITAL GRANTS AND CONTRIBUTIONS | <u>4,725</u> | <u>--</u> |
| INCREASE IN NET POSITION | <u>1,192,425</u> | <u>355,554</u> |
| NET POSITION, beginning of year, as previously reported | 7,344,136 | 7,119,071 |
| CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 14) | <u>--</u> | <u>(130,489)</u> |
| NET POSITION, beginning of year, as restated | <u>7,344,136</u> | <u>6,988,582</u> |
| NET POSITION, end of year | <u>\$ 8,536,561</u> | <u>7,344,136</u> |

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> <u>Restated</u> |
|---|---------------------|--------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from patients and third-party payors | \$ 8,084,482 | 9,141,413 |
| Cash paid for employee salaries and benefits | (5,770,927) | (5,471,415) |
| Cash paid to suppliers and contractors | (4,448,171) | (4,203,831) |
| Other receipts and payments, net | <u>1,508,551</u> | <u>519,565</u> |
| Net cash used in operating activities | <u>(626,065)</u> | <u>(14,268)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Noncapital grants and contributions | 75,966 | 60,882 |
| County tax receipts | <u>1,485,978</u> | <u>1,398,009</u> |
| Net cash provided by noncapital financing activities | <u>1,561,944</u> | <u>1,458,891</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Purchase of capital assets | (1,974,009) | (202,571) |
| Capital grants and contributions | 4,725 | -- |
| Principal payments on long-term debt | (295,858) | (279,037) |
| Interest paid on long-term debt | <u>(379,169)</u> | <u>(388,417)</u> |
| Net cash used in capital and related financing activities | <u>(2,644,311)</u> | <u>(870,025)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Deposits to short-term investments and assets limited as to use or restricted | (91,794) | (63,800) |
| Investment income | <u>36,482</u> | <u>41,716</u> |
| Net cash used in investing activities | <u>(55,312)</u> | <u>(22,084)</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,763,744) | 552,514 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>3,995,927</u> | <u>3,443,413</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 2,232,183</u> | <u>3,995,927</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Equipment acquired under capital lease obligation | <u>\$ 125,000</u> | <u>--</u> |

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> <u>Restated</u> |
|--|---------------------|--------------------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | \$ (396,720) | (1,132,423) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization | 900,869 | 980,392 |
| (Gain) loss on disposal of capital assets | (71) | 178 |
| Interest expense included in operating expenses | 381,104 | 387,885 |
| (Increase) decrease in current assets - | | |
| Receivables - | | |
| Patients | 125,005 | (95,511) |
| Other | 47,011 | (92,970) |
| Inventories | (47,153) | 24,067 |
| Prepaid expenses | (16,435) | (2,407) |
| Estimated third-party payor settlements | (1,469,809) | -- |
| Increase (decrease) in current liabilities - | | |
| Accounts payable - trade | 16,877 | (89,674) |
| Accrued salaries, vacation and benefits payable | 56,722 | 14,668 |
| Estimated third-party payor settlements | <u>(223,465)</u> | <u>(8,473)</u> |
| Net cash used in operating activities | \$ <u>(626,065)</u> | <u>(14,268)</u> |

See notes to financial statements

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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

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

A. *Reporting Entity*

For financial reporting purposes, Adair County Memorial Hospital has included all funds of the Hospital and all funds of Adair County Health Foundation (Foundation) as a blended component unit. The Hospital has considered all potential component entities 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 (GASB) 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. Management has determined the Foundation is the only component unit.

The Foundation is a legally separate not-for-profit corporation that was formed to "protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services." The Adair County Memorial Hospital and the Adair County Health Foundation are collectively referred to as the "Hospital" throughout this report.

B. *Industry Environment*

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

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

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

C. *Basis of Presentation*

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

G. Short-Term Investments

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

H. Patient Receivables, Net

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debt for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debt in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

I. Inventories

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

J. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

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

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

K. Investment Income

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in increase in net position unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the increase in net position unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2014 and 2013, there were no investment declines that were determined to be other than temporary.

L. Capital Assets, Net

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

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

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

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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

M. *Compensated Absences*

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits and earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Accrued compensated absences payable at June 30, 2014 and 2013 was \$264,356 and \$229,842, respectively.

N. *Deferred Inflows of Resources*

Deferred inflows of resources consist of succeeding year property taxes receivable which will not be recognized as revenue until the year for which it is levied. It is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

O. *Statements of Revenue, Expenses, and Changes in Net Position*

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

P. *Income Taxes*

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

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation is no longer subject to income tax examinations for the years ending prior to June 30, 2011.

Q. *Excess of Revenue Over Expenses Before Capital Grants and Contributions*

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

R. Net Patient Service Revenue

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

S. Grants and Contributions

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

T. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from revenue under the Hospital's charity care policy were \$48,851 and \$71,230 for 2014 and 2013, respectively.

U. Risk Management

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

V. Change in Accounting Principle

During 2014, the Hospital has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with implementation of GASB 65 was a reduction of \$130,489 in net position as of the beginning of 2013 (See Note 14).

W. Subsequent Events

The Hospital considered events occurring through November 19, 2014 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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

The Hospital's deposits in banks at June 30, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had only certificates of deposit investments at June 30, 2014 and 2013.

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

The composition of short-term investments and assets limited as to use or restricted as of June 30, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|------------------|
| Short-term investments: | | |
| Operating reserves - | | |
| Certificates of deposit | \$ 1,363,792 | 1,353,999 |
| Accrued interest | 3,555 | 6,660 |
| Total short-term investments | <u>\$ 1,367,347</u> | <u>1,360,659</u> |
| Assets limited as to use or restricted: | | |
| By indenture agreements - | | |
| Cash and cash equivalent | \$ 221,188 | 194,512 |
| Certificates of deposit | 659,222 | 653,029 |
| | 880,410 | 847,541 |
| By Board of Trustees for capital improvement, | | |
| Certificates of deposit | 1,602,085 | 1,549,848 |
| Total assets limited as to use or restricted | 2,482,495 | 2,397,389 |
| Less amounts required to meet current obligations | 248,487 | 237,606 |
| Assets limited as to use or restricted, net of current portion | <u>\$ 2,234,008</u> | <u>2,159,783</u> |

(3) Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a CAH are paid based on Medicare defined costs of providing the services. Outpatient services and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2012.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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

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

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

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

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|-------------------|
| Gross patient service revenue: | | |
| Inpatient and swing bed services | \$ 839,027 | 1,171,967 |
| Outpatient | 9,473,739 | 9,229,133 |
| Clinics | <u>2,106,941</u> | <u>1,995,181</u> |
| Total gross patient service revenue | <u>12,419,707</u> | <u>12,396,281</u> |
| Deductions from gross patient service revenue: | | |
| Medicare | 552,121 | 706,298 |
| Medicaid | 246,171 | 321,965 |
| Other payors | 1,594,743 | 1,707,460 |
| Charity care | <u>48,851</u> | <u>71,230</u> |
| Total deductions from gross patient service revenue | <u>2,441,886</u> | <u>2,806,953</u> |
| Net patient service revenue before provision for bad debt | <u>\$ 9,977,821</u> | <u>9,589,328</u> |

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

Revenue from the Medicare and Medicaid programs accounts for approximately 52% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 compared to 52% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2013. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2014 and 2013 net patient service revenue increased approximately \$0- and \$92,000 respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2014 and 2013 consisted of the following:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------|
| CMS electronic health record incentive payments | \$ 705,000 | 4,229 |
| Pharmacy revenue – 340B program | 380,364 | 96,608 |
| Grants | 295,130 | 304,886 |
| Meals sold | 45,204 | 46,545 |
| Lifeline | 22,600 | 24,600 |
| Gain (loss) on sale of capital assets | 71 | (178) |
| Other | 60,253 | 42,697 |
| | <u>\$ 1,508,622</u> | <u>519,387</u> |

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During 2014 and 2013, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. An incentive receivable of approximately \$1,325,000 and \$19,000 has been recognized in the statements of net position as of June 30, 2014 and 2013, and is included in estimated third-party payor settlements. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. As of June 30, 2014 and 2013 the Hospital has elected to record \$705,000 and \$4,229, respectively, of the incentive payment as other operating revenue in the period earned, and defer the remaining amounts of approximately \$600,000 and \$16,000, respectively, related to future Medicare reimbursement. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|------------------|
| Patient receivables | \$ 1,873,040 | 2,126,135 |
| Less estimated third-party contractual adjustments | (408,027) | (494,623) |
| Less allowance for uncollectible accounts | (304,936) | (346,430) |
| | <u>\$ 1,160,077</u> | <u>1,285,082</u> |

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

| | <u>2014</u> | <u>2013</u> |
|--------------------------|-------------|-------------|
| Medicare | 29% | 33% |
| Medicaid | 4 | 3 |
| Other third-party payors | 41 | 41 |
| Patients | 26 | 23 |
| | <u>100%</u> | <u>100%</u> |

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(6) Capital Assets, Net

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

| | <u>June 30, 2013</u> | <u>Additions</u> | <u>Transfers and Disposals</u> | <u>June 30, 2014</u> |
|--|--------------------------|------------------|------------------------------------|--------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 50,806 | -- | -- | 50,806 |
| Construction in progress | 55,565 | 1,711,645 | (1,618,792) | 148,418 |
| Total capital assets, not being depreciated | <u>106,371</u> | <u>1,711,645</u> | <u>(1,618,792)</u> | <u>199,224</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 361,547 | 5,200 | 5,096 | 371,843 |
| Building and leasehold improvements | 9,368,663 | 11,650 | 11,346 | 9,391,659 |
| Fixed equipment | 947,939 | 66,063 | -- | 1,014,002 |
| Major movable equipment | 3,150,897 | 322,122 | 1,602,350 | 5,075,369 |
| Total capital assets, being depreciated | <u>13,829,046</u> | <u>405,035</u> | <u>1,618,792</u> | <u>15,852,873</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 218,918 | 17,170 | -- | 236,088 |
| Building and leasehold improvements | 3,168,531 | 481,527 | -- | 3,650,058 |
| Fixed equipment | 634,685 | 74,088 | -- | 708,773 |
| Major movable equipment | 2,433,933 | 328,084 | -- | 2,762,017 |
| Total accumulated depreciation | <u>6,456,067</u> | <u>900,869</u> | <u>--</u> | <u>7,356,936</u> |
| Total capital assets, being depreciated, net | <u>7,372,979</u> | <u>(495,834)</u> | <u>1,618,792</u> | <u>8,495,937</u> |
| Total capital assets, net | <u>\$ 7,479,350</u> | <u>1,215,811</u> | <u>--</u> | <u>8,695,161</u> |
| | <u>June 30, 2012</u> | <u>Additions</u> | <u>Transfers and Disposals</u> | <u>June 30, 2013</u> |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 50,806 | -- | -- | 50,806 |
| Construction in progress | 66,616 | 116,497 | (127,548) | 55,565 |
| Total capital assets, not being depreciated | <u>117,422</u> | <u>116,497</u> | <u>(127,548)</u> | <u>106,371</u> |
| Capital assets, being depreciated: | | | | |
| Land improvements | 356,241 | 5,306 | -- | 361,547 |
| Building and leasehold improvements | 9,249,747 | 10,478 | 108,438 | 9,368,663 |
| Fixed equipment | 909,894 | 21,861 | 16,184 | 947,939 |
| Major movable equipment | 3,106,087 | 48,429 | (3,619) | 3,150,897 |
| Total capital assets, being depreciated | <u>13,621,969</u> | <u>86,074</u> | <u>121,003</u> | <u>13,829,046</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | 195,280 | 23,638 | -- | 218,918 |
| Building and leasehold improvements | 2,657,449 | 511,082 | -- | 3,168,531 |
| Fixed equipment | 546,135 | 88,550 | -- | 634,685 |
| Major movable equipment | 2,083,178 | 357,122 | (6,367) | 2,433,933 |
| Total accumulated depreciation | <u>5,482,042</u> | <u>980,392</u> | <u>(6,367)</u> | <u>6,456,067</u> |
| Total capital assets, being depreciated, net | <u>8,139,927</u> | <u>(894,318)</u> | <u>127,370</u> | <u>7,372,979</u> |
| Total capital assets, net | <u>\$ 8,257,349</u> | <u>(777,821)</u> | <u>(178)</u> | <u>7,479,350</u> |

Depreciation and amortization expense related to capital assets of \$900,869 and \$980,392 in 2014 and 2013, respectively, is included in the accompanying statements of revenue, expenses and changes in net position. Construction in progress at June 30, 2014 is related to architecture and other planning fees related to a potential renovation project.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2014 and 2013 consisted of the following:

| | <u>June 30,</u> <u>2013</u> | <u>Borrowings</u> | <u>Payments</u> | <u>June 30,</u> <u>2014</u> | <u>Due Within</u> <u>One Year</u> |
|-------------------------|--------------------------------|-------------------|------------------|--------------------------------|--------------------------------------|
| Hospital revenue bonds | | | | | |
| series 2007 A (A) | \$ 4,175,000 | -- | (90,000) | 4,085,000 | 95,000 |
| REC loan (B) | 150,000 | -- | (30,000) | 120,000 | 30,000 |
| USDA series A and B (C) | 4,233,791 | -- | (93,852) | 4,139,939 | 97,798 |
| Capital leases (D) | <u>206,328</u> | <u>125,000</u> | <u>(82,006)</u> | <u>249,322</u> | <u>102,567</u> |
| | <u>\$ 8,765,119</u> | <u>125,000</u> | <u>(295,858)</u> | <u>8,594,261</u> | <u>325,365</u> |

| | <u>June 30,</u> <u>2012</u> | <u>Borrowings</u> | <u>Payments</u> | <u>June 30,</u> <u>2013</u> | <u>Due Within</u> <u>One Year</u> |
|-------------------------|--------------------------------|-------------------|------------------|--------------------------------|--------------------------------------|
| Hospital revenue bonds | | | | | |
| series 2007 A (A) | \$ 4,260,000 | -- | (85,000) | 4,175,000 | 90,000 |
| REC loan (B) | 180,000 | -- | (30,000) | 150,000 | 30,000 |
| USDA series A and B (C) | 4,323,854 | -- | (90,063) | 4,233,791 | 93,852 |
| Capital leases (D) | <u>280,302</u> | <u>--</u> | <u>(73,974)</u> | <u>206,328</u> | <u>75,791</u> |
| | <u>\$ 9,044,156</u> | <u>--</u> | <u>(279,037)</u> | <u>8,765,119</u> | <u>289,643</u> |

- (A) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially ranging from \$95,000 to \$280,000 through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%, collateralized by the Hospital's net revenues. The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.
- (B) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over ten years; the first payment was made August 2008.
- (C) The USDA 2009 Series A and B bonds; \$4,500,000 maturing May 2039 with interest only payments monthly for the first 24 months, interest at 4.125%. Annual payments including principal and interest are \$266,760 on an aggregate basis.
- (D) Two capital lease obligations, payable in monthly installments of \$2,093 and \$6,664, including interest at 0.19% and 2.43%, with maturity dates of March 2019 and March 2016, collateralized by leased equipment.

A summary of the Hospital's future principal and interest payments as of June 30, 2014 is as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------|---------------------|------------------|-------------------|
| 2015 | \$ 325,365 | 369,510 | 694,875 |
| 2016 | 309,742 | 359,293 | 669,035 |
| 2017 | 266,202 | 349,993 | 616,195 |
| 2018 | 275,714 | 340,737 | 616,451 |
| 2019 | 249,134 | 331,003 | 580,137 |
| 2020-2024 | 1,303,493 | 1,492,421 | 2,795,914 |
| 2025-2029 | 1,622,922 | 1,168,218 | 2,791,140 |
| 2030-2034 | 2,036,520 | 751,360 | 2,787,880 |
| 2035-2039 | <u>2,205,169</u> | <u>231,120</u> | <u>2,436,289</u> |
| | <u>\$ 8,594,261</u> | <u>5,393,655</u> | <u>13,987,916</u> |

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

In conjunction with the issuance of the Hospital Revenue Bonds Series 2007A, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund and a sinking fund which are included on the statement of net position as assets limited as to use or restricted. In addition, the Hospital is required to meet a debt service coverage ratio of 1.20% or above. At June 30, 2014 and 2013, the Hospital met the debt service coverage ratio.

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

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

| | <u>2014</u> | <u>2013</u> |
|--------------------------------|-------------------|----------------|
| Major movable equipment | \$ 501,777 | 376,777 |
| Less: accumulated depreciation | <u>250,643</u> | <u>169,549</u> |
| | <u>\$ 251,134</u> | <u>207,228</u> |

(8) Professional Liability Insurance

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

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

(9) Designated Net Position

Of the \$7,837,673 and \$8,038,438 of unrestricted net position in 2014 and 2013, respectively, \$1,602,085 and \$1,549,848 has been designated by the Hospital's Board of Trustees for capital improvements. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

(10) Restricted Net Position

At June 30, 2014 and 2013, restricted expendable net position was available for the following purposes:

| | <u>2014</u> | <u>2013</u> |
|----------------|-----------------|-------------|
| Operations | \$ 4,021 | -- |
| Capital assets | <u>2,500</u> | <u>--</u> |
| | <u>\$ 6,521</u> | <u>--</u> |

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(11) Pension Plan

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

Plan members are required to contribute 5.95% and 5.78% of their annual covered salary and the Hospital is required to contribute 8.93% and 8.67% of annual covered salary for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$375,787, \$351,665 and \$306,210, respectively, equal to the required contributions for each year.

(12) Management Contract

In November 2012, the Hospital entered into a contractual arrangement with Mercy Health Network, Inc. (MHN), under which MHN provides management and other services to the Hospital. Prior to that date the Hospital had a similar arrangement with Mercy Medical Center – Des Moines (Mercy). These arrangements do not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to MHN and Mercy for services during the years ended June 30, 2014 and 2013 were \$495,104 and \$360,243, respectively.

(13) Combining Statements of Blended Component Unit

The information below is the combining information of the blended component unit described in Note 1:

Combining Statement of Net Position – June 30, 2014

| | Adair County Memorial Hospital | Adair County Health Foundation | Eliminations | Total |
|---------------------------------------|--------------------------------------|--------------------------------------|--------------|------------|
| Assets: | | | | |
| Total current assets | \$ 8,514,877 | 28,788 | -- | 8,543,665 |
| Net capital assets | 8,695,161 | -- | -- | 8,695,161 |
| Other noncurrent assets | 2,234,008 | -- | -- | 2,234,008 |
| Total assets | 19,444,046 | 28,788 | -- | 19,472,834 |
| Liabilities: | | | | |
| Current liabilities | 1,147,160 | -- | -- | 1,147,160 |
| Long-term debt | 8,268,896 | -- | -- | 8,268,896 |
| Total liabilities | 9,416,056 | -- | -- | 9,416,056 |
| Deferred Inflows of Resources, | | | | |
| Unavailable property tax revenue | 1,520,217 | -- | -- | 1,520,217 |
| Net Position: | | | | |
| Net investment in capital assets | 692,367 | -- | -- | 692,367 |
| Restricted - expendable | -- | 6,521 | -- | 6,521 |
| Unrestricted | 7,815,406 | 22,267 | -- | 7,837,673 |
| Total net position | \$ 8,507,773 | 28,788 | -- | 8,536,561 |

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

Combining Statement of Revenue, Expenses and Changes in Net Position – For the year ended June 30, 2014

| | Adair County Memorial Hospital | Adair County Health Foundation | Eliminations | Total |
|---|---|---|---------------------|-------------------|
| Operating revenue: | | | | |
| Net patient service revenue | \$ 9,652,751 | -- | -- | 9,652,751 |
| Other operating revenue | 1,508,622 | -- | -- | 1,508,622 |
| Total operating revenue | <u>11,161,373</u> | <u>--</u> | <u>--</u> | <u>11,161,373</u> |
| Operating Expenses: | | | | |
| Salaries and employee benefits | 5,827,649 | -- | -- | 5,827,649 |
| Professional fees and purchased services | 2,221,354 | -- | -- | 2,221,354 |
| Supplies and other expenses | 2,573,983 | 63,575 | (29,337) | 2,608,221 |
| Depreciation and interest | 900,869 | -- | -- | 900,869 |
| Total operating expenses | <u>11,523,855</u> | <u>63,575</u> | <u>(29,337)</u> | <u>11,558,093</u> |
| Operating loss | (362,482) | (63,575) | 29,337 | (396,720) |
| Nonoperating revenue | 1,545,891 | 38,529 | -- | 1,584,420 |
| Excess of revenue over expenses before capital grants and contributions | 1,183,409 | (25,046) | 29,337 | 1,187,700 |
| Capital grants and contributions | 34,062 | -- | (29,337) | 4,725 |
| Increase (decrease) in net position | 1,217,471 | (25,046) | -- | 1,192,425 |
| Net position, beginning of year, as restated | 7,290,302 | 53,834 | -- | 7,344,136 |
| Net position, end of year | <u>\$ 8,507,773</u> | <u>28,788</u> | <u>--</u> | <u>8,536,561</u> |

Combining Statement of Cash Flows – For the year ended June 30, 2014

| | Adair County Memorial Hospital | Adair County Health Foundation | Eliminations | Total |
|--|---|---|---------------------|------------------|
| Net cash from operating activities | \$ (533,153) | (63,575) | (29,337) | (626,065) |
| Net cash from noncapital financing activities | 1,561,944 | -- | -- | 1,561,944 |
| Net cash from capital and related financing activities | (2,696,846) | 52,535 | -- | (2,644,311) |
| Net cash from investing activities | (84,649) | -- | 29,337 | (55,312) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (1,752,704) | (11,040) | -- | (1,763,744) |
| CASH AND CASH EQUIVALENTS, beginning of year | 3,956,099 | 39,828 | -- | 3,995,927 |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 2,203,395</u> | <u>28,788</u> | <u>--</u> | <u>2,232,183</u> |

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(14) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Hospital restated the ending net position at June 30, 2012 and depreciation and amortization expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expense in the period incurred, rather than as deferred costs and subsequently amortized.

| | As Previously Reported | Adjustments | Restated Balance |
|---------------------------------------|-----------------------------------|--------------------|-----------------------------|
| Deferred financing costs, net | \$ 132,193 | (132,193) | -- |
| Depreciation and amortization expense | 978,688 | 1,704 | 980,392 |
| Increase in net position | 357,258 | (1,704) | 355,554 |
| Net position, June 30, 2012 | 7,119,071 | (130,489) | 6,988,582 |

Adair County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) June 30, 2014

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

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

For the year ended June 30, 2014, Adair County Memorial Hospital's (excludes the Adair County Health Foundation) expenditures did not exceed the amounts budgeted.

| | Actual Accrual Basis | Accrual Adjustments | Cash Basis | Budget | Variance Favorable (Unfavorable) |
|--------------------------------|----------------------------|------------------------|-------------------|-------------------|--|
| Amount raised by taxation | \$ 1,485,978 | -- | 1,485,978 | 1,372,330 | 113,648 |
| Add: Other revenues / receipts | 11,255,348 | (1,602,331) | 9,653,017 | 11,778,180 | (2,125,163) |
| Less: Expenses / disbursements | <u>11,523,855</u> | <u>1,367,844</u> | <u>12,891,699</u> | <u>13,943,306</u> | <u>1,051,607</u> |
| Net | 1,217,471 | (2,970,175) | (1,752,704) | (792,796) | <u>(959,908)</u> |
| Balance, beginning of year | <u>7,290,302</u> | <u>(3,334,203)</u> | <u>3,956,099</u> | <u>3,956,099</u> | |
| Balance, end of year | \$ <u>8,507,773</u> | <u>(6,304,378)</u> | <u>2,203,395</u> | <u>3,163,303</u> | |

See accompanying independent auditor's report

Patient Service Revenue
For the Years Ended June 30, 2014 and 2013

| | 2014 | | | | 2013 | | | |
|--|-------------------|-------------------|----------------|---------------------|----------------|-------------------|----------------|-------------------|
| | Inpatient | Outpatient | Swing Bed | Total | Inpatient | Outpatient | Swing Bed | Total |
| DAILY PATIENT SERVICES: | | | | | | | | |
| Medical and surgical | \$ 254,756 | -- | -- | 254,756 | 356,834 | -- | -- | 356,834 |
| Swing-bed | -- | -- | 111,612 | 111,612 | -- | -- | 173,695 | 173,695 |
| Hospital physicians | -- | 134,692 | -- | 134,692 | -- | 129,261 | -- | 129,261 |
| | <u>254,756</u> | <u>134,692</u> | <u>111,612</u> | <u>501,060</u> | <u>356,834</u> | <u>129,261</u> | <u>173,695</u> | <u>659,790</u> |
| NURSING SERVICES: | | | | | | | | |
| Operating and recovery rooms | -- | 628,319 | -- | 628,319 | 3,418 | 647,022 | -- | 650,440 |
| Emergency room | 588 | 806,340 | -- | 806,928 | 5,085 | 620,770 | -- | 625,855 |
| Emergency physicians | -- | 23,177 | -- | 23,177 | -- | 220,569 | -- | 220,569 |
| | <u>588</u> | <u>1,457,836</u> | <u>--</u> | <u>1,458,424</u> | <u>8,503</u> | <u>1,488,361</u> | <u>--</u> | <u>1,496,864</u> |
| OTHER PROFESSIONAL SERVICES: | | | | | | | | |
| Laboratory | 105,296 | 2,116,676 | 29,835 | 2,251,807 | 117,443 | 1,954,827 | 40,756 | 2,113,026 |
| Central services and supplies | 14,554 | 112,997 | 2,391 | 129,942 | 18,110 | 124,793 | 7,616 | 150,519 |
| Blood administration | 7,921 | 67,791 | -- | 75,712 | 7,293 | 28,170 | -- | 35,463 |
| Electrocardiology | 10,251 | 403,745 | 204 | 414,200 | 4,887 | 373,458 | 1,323 | 379,668 |
| Ambulance | 15,618 | 456,073 | -- | 471,691 | 20,664 | 568,338 | -- | 589,002 |
| Radiology | 10,434 | 750,542 | 1,558 | 762,534 | 17,629 | 714,774 | 2,640 | 735,043 |
| MRI | -- | 258,068 | -- | 258,068 | 2,443 | 261,209 | -- | 263,652 |
| Mammography | -- | 117,034 | -- | 117,034 | -- | 116,099 | -- | 116,099 |
| CT | 14,411 | 795,454 | -- | 809,865 | 29,295 | 794,562 | 1,909 | 825,766 |
| Home health | -- | 766,682 | -- | 766,682 | -- | 749,256 | -- | 749,256 |
| Pharmacy | 102,934 | 613,117 | 54,816 | 770,867 | 116,261 | 469,914 | 60,149 | 646,324 |
| Intravenous therapy | 3,458 | 165,559 | 91 | 169,108 | 5,215 | 87,510 | 1,635 | 94,360 |
| Ultrasound | 1,333 | 139,304 | 457 | 141,094 | 3,353 | 135,831 | -- | 139,184 |
| Anesthesiology | -- | 191,292 | -- | 191,292 | 872 | 226,886 | 1,199 | 228,957 |
| Respiratory therapy | 35,845 | 11,296 | 2,040 | 49,181 | 62,816 | 19,696 | 26,608 | 109,120 |
| Physical therapy | 5,759 | 656,423 | 25,860 | 688,042 | 7,533 | 672,035 | 38,889 | 718,457 |
| Occupational therapy | 4,528 | 28,846 | 19,141 | 52,515 | 3,476 | 19,288 | 25,729 | 48,493 |
| Speech therapy | 1,515 | 6,581 | 1,821 | 9,917 | 269 | 12,256 | 4,597 | 17,122 |
| Fontanelle clinic | -- | 254,010 | -- | 254,010 | -- | 261,488 | -- | 261,488 |
| Stuart clinic | -- | 605,644 | -- | 605,644 | -- | 597,170 | -- | 597,170 |
| Greenfield clinic | -- | 1,112,595 | -- | 1,112,595 | -- | 1,007,261 | -- | 1,007,261 |
| Cardiac rehab | -- | 93,035 | -- | 93,035 | -- | 114,314 | -- | 114,314 |
| Observation rooms | -- | 265,388 | -- | 265,388 | 2,326 | 297,557 | -- | 299,883 |
| | <u>333,857</u> | <u>9,988,152</u> | <u>138,214</u> | <u>10,460,223</u> | <u>419,885</u> | <u>9,606,692</u> | <u>213,050</u> | <u>10,239,627</u> |
| GROSS PATIENT SERVICE REVENUE | \$ <u>589,201</u> | <u>11,580,680</u> | <u>249,826</u> | <u>12,419,707</u> | <u>785,222</u> | <u>11,224,314</u> | <u>386,745</u> | <u>12,396,281</u> |
| LESS: | | | | | | | | |
| Contractual allowances and other deductions, primarily Medicare and Medicaid | | | | (2,393,035) | | | | (2,735,723) |
| Charity care services and other discounts, based on charges forgone | | | | (48,851) | | | | (71,230) |
| NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT | | | | <u>9,977,821</u> | | | | <u>9,589,328</u> |
| PROVISION FOR BAD DEBT | | | | (325,070) | | | | (343,931) |
| NET PATIENT SERVICE REVENUE | | | | <u>\$ 9,652,751</u> | | | | <u>9,245,397</u> |

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|----------------|
| CMS electronic health record incentive payments | \$ 705,000 | 4,229 |
| Pharmacy revenue - 340B program | 380,364 | 96,608 |
| Grants | 295,130 | 304,886 |
| Meals sold | 45,204 | 46,545 |
| Lifeline | 22,600 | 24,600 |
| Gain (loss) on disposal of capital assets | 71 | (178) |
| Other | <u>60,253</u> | <u>42,697</u> |
| | <u>\$ 1,508,622</u> | <u>519,387</u> |

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2014 and 2013**

| | 2014 | | | 2013 Restated | | |
|--------------------------------------|---------------------|------------------|-------------------|------------------|------------------|-------------------|
| | Salaries | Other | Total | Salaries | Other | Total |
| NURSING SERVICES: | | | | | | |
| Medical and surgical | \$ 735,405 | 193,674 | 929,079 | 747,821 | 240,844 | 988,665 |
| Emergency room | 305,466 | 482,498 | 787,964 | 287,346 | 510,936 | 798,282 |
| Operating and recovery rooms | 90,794 | 47,394 | 138,188 | 90,038 | 44,137 | 134,175 |
| Hospital physicians | -- | 22,740 | 22,740 | -- | 20,166 | 20,166 |
| | <u>1,131,665</u> | <u>746,306</u> | <u>1,877,971</u> | <u>1,125,205</u> | <u>816,083</u> | <u>1,941,288</u> |
| OTHER PROFESSIONAL SERVICES: | | | | | | |
| Laboratory | 185,636 | 280,746 | 466,382 | 194,648 | 282,408 | 477,056 |
| Blood administration | -- | 24,232 | 24,232 | -- | 12,244 | 12,244 |
| Electrocardiology | 1,707 | 151,216 | 152,923 | 3,210 | 91,207 | 94,417 |
| Ambulance | 88,985 | 29,514 | 118,499 | 71,548 | 23,130 | 94,678 |
| Radiology | 159,807 | 214,979 | 374,786 | 155,712 | 215,216 | 370,928 |
| MRI | -- | 47,795 | 47,795 | -- | 51,465 | 51,465 |
| Mammography | -- | 11,422 | 11,422 | -- | 11,542 | 11,542 |
| CT | -- | 118,439 | 118,439 | -- | 118,125 | 118,125 |
| Ultrasound | -- | 12,180 | 12,180 | -- | 12,420 | 12,420 |
| Home health | 445,453 | 121,986 | 567,439 | 431,346 | 144,190 | 575,536 |
| Pharmacy | 48,828 | 423,995 | 472,823 | 88,022 | 219,691 | 307,713 |
| Intravenous solutions | -- | 978 | 978 | -- | 1,920 | 1,920 |
| Anesthesiology | -- | 101,850 | 101,850 | -- | 94,640 | 94,640 |
| Respiratory therapy | -- | 4,452 | 4,452 | -- | 7,220 | 7,220 |
| Physical therapy | -- | 223,566 | 223,566 | -- | 266,394 | 266,394 |
| Occupational therapy | -- | 33,748 | 33,748 | -- | 21,221 | 21,221 |
| Speech therapy | -- | 17,103 | 17,103 | -- | 8,749 | 8,749 |
| Stuart clinic | 240,114 | 135,313 | 375,427 | 231,417 | 120,161 | 351,578 |
| Fontanelle clinic | 181,072 | 30,872 | 211,944 | 188,891 | 49,767 | 238,658 |
| Greenfield clinic | 709,610 | 332,075 | 1,041,685 | 508,772 | 265,396 | 774,168 |
| Renal clinic | 55,414 | 79,376 | 134,790 | 55,736 | 37,700 | 93,436 |
| Medical records | 102,391 | 33,359 | 135,750 | 95,069 | 17,506 | 112,575 |
| Cardiac rehab | 71,001 | 54,154 | 125,155 | 71,498 | 55,784 | 127,282 |
| Lifeline | 1,448 | 12,445 | 13,893 | 1,272 | 14,113 | 15,385 |
| | <u>2,291,466</u> | <u>2,495,795</u> | <u>4,787,261</u> | <u>2,097,141</u> | <u>2,142,209</u> | <u>4,239,350</u> |
| GENERAL SERVICES: | | | | | | |
| Plant operation and maintenance | 47,395 | 245,777 | 293,172 | 48,283 | 237,720 | 286,003 |
| Dietary | 120,454 | 37,992 | 158,446 | 116,064 | 41,084 | 157,148 |
| Laundry | 17,331 | 16,133 | 33,464 | 36,501 | 6,160 | 42,661 |
| Housekeeping | 91,483 | 7,853 | 99,336 | 90,198 | 15,197 | 105,395 |
| | <u>276,663</u> | <u>307,755</u> | <u>584,418</u> | <u>291,046</u> | <u>300,161</u> | <u>591,207</u> |
| ADMINISTRATIVE SERVICES | <u>592,791</u> | <u>797,155</u> | <u>1,389,946</u> | <u>532,340</u> | <u>701,472</u> | <u>1,233,812</u> |
| NONDEPARTMENTAL: | | | | | | |
| Employee benefits | -- | 1,535,064 | 1,535,064 | -- | 1,440,351 | 1,440,351 |
| Depreciation and amortization | -- | 900,869 | 900,869 | -- | 980,392 | 980,392 |
| Insurance | -- | 67,222 | 67,222 | -- | 69,392 | 69,392 |
| Interest | -- | 381,104 | 381,104 | -- | 387,885 | 387,885 |
| Administrative services - Foundation | -- | 34,238 | 34,238 | -- | 13,530 | 13,530 |
| | <u>--</u> | <u>2,918,497</u> | <u>2,918,497</u> | <u>--</u> | <u>2,891,550</u> | <u>2,891,550</u> |
| TOTAL EXPENSES | <u>\$ 4,292,585</u> | <u>7,265,508</u> | <u>11,558,093</u> | <u>4,045,732</u> | <u>6,851,475</u> | <u>10,897,207</u> |

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts
June 30, 2014 and 2013**

ANALYSIS OF AGING:

| Days Since Discharge | 2014 | | 2013 | |
|---------------------------------------|---------------------|------------------|------------------|------------------|
| | Amount | Percent of Total | Amount | Percent of Total |
| 0 - 30 | \$ 857,353 | 46 % | 886,976 | 41 % |
| 31 - 60 | 291,005 | 16 | 467,067 | 22 |
| 61 - 90 | 154,694 | 8 | 206,873 | 10 |
| 91 - 120 | 113,003 | 6 | 117,711 | 6 |
| 121 and over | 456,985 | 24 | 447,508 | 21 |
| | <u>1,873,040</u> | <u>100 %</u> | <u>2,126,135</u> | <u>100 %</u> |
| Less: | | | | |
| Allowance for uncollectible accounts | (304,936) | | (346,430) | |
| Allowance for contractual adjustments | <u>(408,027)</u> | | <u>(494,623)</u> | |
| | <u>\$ 1,160,077</u> | | <u>1,285,082</u> | |

| | 2014 | 2013 |
|---|-------------------|------------------|
| ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS: | | |
| Balance, beginning of year | \$ 346,430 | 331,932 |
| Provision of uncollectible accounts | 325,070 | 343,931 |
| Recoveries of accounts previously written off | 102,135 | 100,857 |
| Accounts written off | <u>(468,699)</u> | <u>(430,290)</u> |
| Balance, end of year | <u>\$ 304,936</u> | <u>346,430</u> |

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|-----------------------|-------------------|----------------|
| INVENTORIES: | | |
| General | \$ 132,923 | 129,575 |
| Pharmacy | 82,698 | 40,357 |
| Clinics and Home Care | <u>12,135</u> | <u>10,671</u> |
| | <u>\$ 227,756</u> | <u>180,603</u> |
| | | |
| | <u>2014</u> | <u>2013</u> |
| PREPAID EXPENSES: | | |
| Insurance | \$ 9,913 | 10,268 |
| Maintenance contracts | 107,421 | 105,531 |
| Other | <u>96,506</u> | <u>81,606</u> |
| | <u>\$ 213,840</u> | <u>197,405</u> |

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2014 and 2013**

| | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|
| Patient days (excluding swing-bed): | | |
| Medicare | 263 | 290 |
| Medicaid | 11 | 4 |
| Private and other | <u>16</u> | <u>101</u> |
| Total | <u>295</u> | <u>395</u> |
| Medicare and Medicaid percentage | 89% | 74% |
| Patient discharges (excluding swing-bed): | | |
| Medicare | 87 | 84 |
| Medicaid | 3 | 3 |
| Private and other | <u>9</u> | <u>31</u> |
| Total | <u>99</u> | <u>118</u> |
| Average length of stay (based on discharge days): | | |
| Medicare | 3.02 days | 3.45 days |
| Medicaid | 3.66 days | 1.33 days |
| Private and other | 1.77 days | 3.25 days |
| Number of employees - full-time equivalents | 92.50 | 81.37 |

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Adair County Memorial Hospital (Hospital) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 19, 2014.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item II-A-14 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item II-B-14 to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hospital's Response to Findings

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

Purpose of this Report

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

Seim Johnson, LLP

Omaha, Nebraska,
November 19, 2014.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2014

Part I: Summary of the Independent Auditor's Results

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

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were reported.

Material Weakness:

II-A-14

Management Estimates

Criteria: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements.

Condition: We identified misstatements in the financial statements related to third-party payor contractual adjustments and settlements, allowance for uncollectible accounts, and depreciation expense during the audit that were not initially identified by the Hospital's internal controls.

Cause: The results of the processes used by management to estimate the third-party payor contractual adjustments and settlements, allowance for uncollectible accounts, and depreciation expense were not as extensive or detailed as needed to properly compute the estimates recorded in the financial statements.

Effect: Audit journal entries were made to adjust amounts recorded by management

Recommendation: We recommend that management review their estimation processes in these areas and determine if additional procedures or templates can be added to enhance the estimation process at year end and on an interim basis.

Views of responsible officials and planned corrective actions: Management is aware of this deficiency and will develop additional procedures to improve the existing estimation process at year end and on an interim basis.

Conclusion: Response accepted.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2014

Significant Deficiency:

II-B-14

Segregation of Duties

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

Condition: The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Cause: Due to limited number of administrative personnel, a lack of segregation of duties exists.

Effect: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist.

Recommendation: We recommend the Hospital continue to monitor and improve its segregation of duties.

Views of
responsible officials
and planned
corrective actions:

Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purposes of removing all instances of segregation of duties. Management added additional accounting staff during 2014 to reduce the amount of segregation of duty occurrences. The Hospital will continue to maintain and improve segregation of duties when possible.

Conclusion: Response accepted.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2014

Part III: Other Findings Related to Required Statutory Reporting

III-A-14

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2014.

III-B-14

Certified Budget: Hospital disbursements during the year ended June 30, 2014 did not exceed amounts budgeted.

III-C-14

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

III-D-14

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

III-E-14

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

III-F-14

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

III-G-14

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

III-H-14

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

Adair County Memorial Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2014

| <u>Finding</u> | <u>Finding title</u> | <u>Status</u> | <u>If not corrected, corrective action plan or other explanation</u> |
|----------------|-----------------------|---------------|--|
| II-A-13 | Cash Reconciliations | Corrected | Corrected |
| II-B-13 | Management Estimates | Not corrected | Management is aware of this deficiency and will develop additional procedures to improve the existing estimation process at year end and on an interim basis. Similar finding reported at II-A-14. |
| II-C-13 | Segregation of Duties | Not corrected | Management is aware of this deficiency in internal control and believes it is not financially prudent for the Hospital to employ additional personnel for the purpose of greater segregation of duties. Management added additional accounting staff during 2014 to reduce the amount of segregation of duty occurrences. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-B-14. |

Adair County Memorial Hospital

**Audit Staff
For the Year Ended June 30, 2014**

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Senior Manager

Nicole R. McDonald, CPA, Manager

Sarah C. Griger, Staff Auditor