

Audubon County Memorial Hospital
Audubon, Iowa

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

Together with Independent Auditor's Report

Audubon County Memorial Hospital

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Audubon County Memorial Hospital

Officials
June 30, 2014

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
Jay D. Mendenhall	Chairman	December 31, 2018
Paul Schultz, DDS	Vice Chairman	December 31, 2018
Connie S. Faga	Secretary	December 31, 2014
Marlene Ballou	Treasurer	December 31, 2018
Mark Kessler	Member	December 31, 2016
Daniel Smith	Member	December 31, 2014
Denise Kilworth	Member	December 31, 2016
Hospital Officials		
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	

Independent Auditor's Report

To the Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa:

Report on the Financial Statements

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

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

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

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 change in financial position and its cash flows for the years then ended in conformity 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 (pages 4 through 7) and budgetary comparison information (page 22) 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 (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in (Exhibits 1 – 8) 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 supplementary information in (Exhibits 1 – 8) 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 October 14, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Omaha, Nebraska,
October 14, 2014.

Audubon County Memorial Hospital

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

Introduction

This management's discussion and analysis of the financial performance of Audubon County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents increased between 2014 and 2013 by \$400,440 or 25%, and decreased between 2013 and 2012 by \$383,906 or 19%.
- The Hospital's net position increased \$71,904 or .3% in 2014, and increased \$190,351 or 1% in 2013.
- The Hospital & Foundation together reported an operating loss in 2014 of \$797,585, and a loss in 2013 of \$609,504.
- Net nonoperating revenue increased by \$69,634 or 8% in 2014, and decreased by \$4,153 or .5% in 2013.

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 flow. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the statement of net position. The Hospital's net position increased by \$71,904 or .4% in 2014 over 2013 as shown in Table 1.

Audubon County Memorial Hospital

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

Table 1: Condensed Statements of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets			
Patient accounts receivable, net	\$ 1,531,692	2,102,254	1,176,016
Other current assets	10,910,647	10,216,844	10,703,069
Capital assets, net	4,610,483	4,677,966	4,234,735
Other noncurrent assets	<u>3,719,904</u>	<u>3,753,961</u>	<u>4,153,719</u>
Total assets	<u>20,772,726</u>	<u>20,751,025</u>	<u>20,267,539</u>
Liabilities			
Current liabilities	<u>1,108,565</u>	<u>1,351,063</u>	<u>1,088,644</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	<u>861,829</u>	<u>669,534</u>	<u>638,818</u>
Net Position			
Net investment in capital assets	4,610,483	4,677,966	4,234,735
Restricted expendable	210,443	209,089	207,227
Restricted non expendable	10,000	11,980	10,000
Unrestricted	<u>13,971,406</u>	<u>13,831,393</u>	<u>14,088,115</u>
Total net position	<u>\$ 18,802,332</u>	<u>18,730,428</u>	<u>18,540,077</u>

In 2014, gross accounts receivable decreased by \$488,134 from fiscal year 2013. Net days in accounts receivable decreased from 81 in 2013 to 59 in 2014. Deductions from patient service revenue increased by \$343,686 from 2013 to 2014. The Hospital is working on getting net days revenue in accounts receivable down after a computer conversion at the end of fiscal year 2013. The Hospital also changed the way accounts are written off to bad debt. Historically, if a patient already had accounts in bad debt, and were making small payments the Hospital would transfer the account to bad debts and manage the account in that system. The Hospital now leaves the accounts in accounts receivable and manages them from there, no matter how small the payments are. The Hospital also didn't get any accounts sent to bad debt until May of 2014 due to computer problems.

Capital assets increased by \$226,531 between year 2013 and 2014. Accumulated depreciation increased by \$294,014 for a net decrease in capital assets of \$67,483.

In 2013, gross accounts receivable increased by \$1,157,558 from fiscal year 2012. Provision for bad debt increased by \$109,379, and contractual adjustments increased by \$121,941. Charity care increased by \$109,379 over 2012.

Capital assets increased by \$790,294 between year 2012 and 2013. Accumulated depreciation increase by \$321,995 for a net increase in capital assets of \$443,231.

Revenue, Expenses and Changes in Net Position

In 2014, the Hospital's net position increased by \$71,904 as shown in Table 2. This increase is made up of several different components.

Audubon County Memorial Hospital

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenue			
Net patient service revenue	\$ 9,487,438	9,428,814	9,769,249
Other operating revenue	667,078	155,002	412,278
Total operating revenue	<u>10,154,516</u>	<u>9,583,816</u>	<u>10,181,527</u>
Operating Expenses			
Salaries and wages and employee benefits	6,554,292	5,978,133	5,617,688
Depreciation and amortization	790,637	795,106	824,899
Other operating expenses	3,607,172	3,420,081	3,667,906
Total operating expenses	<u>10,952,101</u>	<u>10,193,320</u>	<u>10,110,493</u>
Operating Income (Loss)	<u>(797,585)</u>	<u>(609,504)</u>	<u>71,034</u>
Nonoperating Revenue			
Property taxes	669,870	638,769	605,566
Interest income	85,574	88,925	104,242
Non-capital gifts	114,045	72,161	94,200
Total non-operating revenue	<u>869,489</u>	<u>799,855</u>	<u>804,008</u>
Excess of Revenue Over Expenses Before Capital Grants and Contributions	71,904	190,351	875,042
Capital Grants and Contributions	<u>--</u>	<u>--</u>	<u>5,252</u>
Increase in Net Position	<u>\$ 71,904</u>	<u>190,351</u>	<u>880,294</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service revenue and other operating revenue and the expenses incurred to perform those services. In 2014 and 2013 the Hospital reported an operating loss, but in 2012 there was a gain in operating income. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2014, the following changes were noted:

- Inpatient revenue increased by \$387,963 in 2014, acute inpatient days increased by 31 days with an average length of stay of 3.2 days, swing-bed days increased by 111 days. The Hospital had an increase in patient charges in most areas for fiscal year 2014 of 5%.
- Outpatient revenue decreased by \$131,188 in 2014. The Hospital had an increase in Audubon Family Healthcare Clinic of \$194,888 with the addition of a physician in September of 2013, and a decrease of \$37,482 in Exira Medical Clinic. The biggest department decrease was in Pharmacy for \$377,242 due to the decrease in chemotherapy patients. In 2014, overall, net patient service revenue increased by \$58,624 over 2013.

Audubon County Memorial Hospital

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

- Other operating revenue increase by \$512,076 due to Medicare incentive payment for electronic health record and 340B income. Operating expenses increased by \$758,781. Mostly due to salary, wages, and employee benefits. Salaries increased at anniversary date by 3%, and a physician was added.
- With the increase in revenue, and an even bigger increase in expenses, the hospital showed a net operating loss for the fiscal year.

In 2013, the following changes were noted:

- Inpatient revenue decreased by \$67,764 in 2013, acute inpatient days decreased by 30 days with an average length of stay of 3.07 days, swing-bed days decreased by 44 days. The Hospital had an increase in patient charges in most areas for fiscal year 2013 of 7%.
- Outpatient revenue increased by \$510,481, of that, \$22,708 was from the two rural health clinics. In 2013, overall, net patient service revenue decreased by \$340,435 or 3% from fiscal year 2012.
- Other operating revenue was significantly lower due to no Medicare incentive payment in fiscal year 2013 for electronic health record implementation.
- Operating expenses increased by \$82,827. Mostly due to salary, wages, and employee benefits. Salaries increased at anniversary date by 3%.
- With the decrease in revenue, and the increase in expenses, the hospital showed a net operating loss for the fiscal year.

Nonoperating Revenue and Expenses

Nonoperating revenue consists primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which increased by \$69,634 or .9% from 2013 to 2014, and decreased by \$4,153 or .5% from 2012 to 2013. Investment income decreased in 2014 and 2013 by \$3,351 and \$15,317, respectively, due to decreasing interest rates.

Property tax receipts were higher due to higher property valuation. Per thousand tax asking of \$1.85 remained the same as 2013.

Grants and gifts for noncapital items received in fiscal year 2014 increased by \$41,884. Grants and gifts for non-capital items received in fiscal year 2013 decreased by \$22,039 from 2012.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenue in 2014, 2013 and 2012, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Hospital had \$4.6 million invested in capital assets, net of accumulated depreciation. At the end of 2013, the Hospital had \$4.7 million invested in capital assets, net of accumulated depreciation.

Debt

The Hospital had no debt at the end of fiscal years 2014 and 2013.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 712.563.2611.

Audubon County Memorial Hospital

Statements of Net Position June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,002,031	1,601,591
Short-term investments	7,484,040	7,439,906
Receivables -		
Patients, net of estimated uncollectible accounts of \$457,329 in 2014 and \$355,230 in 2013	1,531,692	2,102,254
Succeeding year property tax	861,829	669,534
Other	50,758	21,337
Inventories	320,449	321,410
Prepaid expenses	191,540	163,066
	<u>12,442,339</u>	<u>12,319,098</u>
Assets limited as to use or restricted:		
Designated by board of trustees	3,499,461	3,532,892
Restricted by donors for -		
Scholarships	4	4
Physician recruitment	210,439	209,085
Endowment	10,000	11,980
	<u>3,719,904</u>	<u>3,753,961</u>
Capital assets, net of accumulated depreciation	<u>4,610,483</u>	<u>4,677,966</u>
Total assets	<u>20,772,726</u>	<u>20,751,025</u>
LIABILITIES		
Current liabilities:		
Accounts payable -		
Trade	254,249	427,621
Capital assets	10,379	--
Accrued salaries, vacation and benefits payable	641,633	590,467
Estimated third-party payor settlements	202,304	332,975
	<u>1,108,565</u>	<u>1,351,063</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	<u>861,829</u>	<u>669,534</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	4,610,483	4,677,966
Restricted -		
Expendable for scholarships	4	4
Expendable for physician recruitment	210,439	209,085
Nonexpendable endowment	10,000	11,980
Unrestricted	<u>13,971,406</u>	<u>13,831,393</u>
Total net position	<u>\$ 18,802,332</u>	<u>18,730,428</u>

See notes to financial statements

Audubon 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>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 9,676,359	9,763,270
Provision for bad debt	(188,921)	(334,456)
Net patient service revenue	9,487,438	9,428,814
Other operating revenue	667,078	155,002
Total operating revenue	<u>10,154,516</u>	<u>9,583,816</u>
OPERATING EXPENSES:		
Salaries	4,918,881	4,473,836
Employee benefits	1,635,411	1,504,297
Medical professional fees and purchased services	1,116,645	1,096,008
Medical supplies and other	1,365,693	1,315,892
General services	327,962	278,658
Administrative services	737,296	676,281
Insurance	59,576	53,242
Depreciation	790,637	795,106
Total operating expenses	<u>10,952,101</u>	<u>10,193,320</u>
OPERATING LOSS	<u>(797,585)</u>	<u>(609,504)</u>
NONOPERATING REVENUE:		
County tax revenue	669,870	638,769
Investment income	85,574	88,925
Noncapital grants and contributions	114,045	72,161
Nonoperating revenue	<u>869,489</u>	<u>799,855</u>
INCREASE IN NET POSITION	71,904	190,351
NET POSITION, Beginning of year	<u>18,730,428</u>	<u>18,540,077</u>
NET POSITION, End of year	<u>\$ 18,802,332</u>	<u>18,730,428</u>

See notes to financial statements

Audubon County Memorial Hospital

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

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 9,927,329	8,625,180
Cash paid for employees salaries and benefits	(6,503,126)	(5,918,956)
Cash paid to suppliers and contractors	(3,808,057)	(3,385,186)
Other receipts and payments, net	<u>637,134</u>	<u>397,290</u>
Net cash provided by (used in) operating activities	<u>253,280</u>	<u>(281,672)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	114,045	72,161
County tax receipts	<u>669,870</u>	<u>638,769</u>
Net cash provided by noncapital financing activities	<u>783,915</u>	<u>710,930</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES,		
Purchase of capital assets, net	<u>(712,252)</u>	<u>(1,253,885)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchase) of investments and assets limited as to use or restricted, net	(10,077)	351,796
Investment income	<u>85,574</u>	<u>88,925</u>
Net cash provided by investing activities	<u>75,497</u>	<u>440,721</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	400,440	(383,906)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,601,591</u>	<u>1,985,497</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 2,002,031</u>	<u>1,601,591</u>

See notes to financial statements

Audubon County Memorial Hospital

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

	<u>2014</u>	<u>2013</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (797,585)	(609,504)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	790,637	795,106
(Gain) loss on sale of capital assets	(523)	15,548
(Increase) decrease in current assets -		
Receivables -		
Patients	570,562	(926,238)
Other	(29,421)	226,740
Inventories	961	(15,848)
Prepaid expenses	(28,474)	(29,895)
Increase (decrease) in current liabilities -		
Accounts payable	(173,372)	80,638
Accrued salaries, vacation and benefits payable	51,166	59,177
Estimated third-party payor settlements	(130,671)	122,604
Net cash provided by (used in) operating activities	\$ <u>253,280</u>	<u>(281,672)</u>

See notes to financial statements

Audubon 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 describes the reporting entity and provides a summary of significant accounting policies of Audubon County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa, governed by a seven-member Board of Trustees. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Hospital. The Foundation is organized under Chapter 504A of the Code of Iowa.

For financial reporting purposes, Audubon County Memorial Hospital has included all the funds of the Hospital, specifically all assets, deferred outflows, liabilities, deferred inflows, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

In accordance with the Governmental Accounting Standards Board criteria, Audubon County Hospital Foundation (Foundation) is included in the accompanying financial statements as a blended component unit. The Foundation is legally separate from Audubon County Memorial Hospital, but was organized primarily for its benefit.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Hospital. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective December 1, 2001.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government health care 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 health care 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.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

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 statement of net position displays the Hospital's assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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 and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require it to be maintained permanently by the Hospital.

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

Unrestricted – This component of net position consists of net position not meeting the definition of the two 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 U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is 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 and liabilities 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 and donors.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

G. *Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payer obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payer class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Property Tax Receivable*

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

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*

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. Donor restricted funds are maintained by the Hospital according to the terms specified by the donor.

K. *Investments*

Investments in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and increases in fair value of investments.

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. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

Land improvements	10 to 40 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.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, 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 vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

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. Income Taxes

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

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.

P. Statements of Revenue, Expenses and Changes in Net Position

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

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

Q. *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.

R. *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.

S. *Charity Care*

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

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community benefits at or below cost.

T. *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.

U. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of \$323,160 and \$269,900 were incurred for the years ended June 30, 2014 and 2013, respectively.

V. *Change in Accounting Principle*

During 2014, the Hospital has adopted the provision 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.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

W. Subsequent Events

The Hospital considered events occurring through October 14, 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.

(2) Deposits and Investments

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.

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 Hospital's investments at June 30, 2014 and 2013 consisted of money market mutual funds as follows:

	<u>2014</u>	<u>2013</u>
Money market mutual funds – Foundation	\$ 7,059	3,344
Mutual funds – Foundation	<u>157,540</u>	<u>141,187</u>
	<u>\$ 164,599</u>	<u>144,531</u>

The composition of 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, Certificates of deposit	\$ <u>7,484,040</u>	<u>7,439,906</u>
Assets limited as to use or restricted: Internally designated –		
Cash and cash equivalents	\$ 165,652	238,289
Certificates of deposit	3,389,653	3,371,141
Money market mutual funds	7,059	3,344
Mutual funds	<u>157,540</u>	<u>141,187</u>
	<u>\$ 3,719,904</u>	<u>3,753,961</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 67,945	77,975
Net increase (decrease) in fair value of investments	<u>17,629</u>	<u>10,950</u>
Total investment return	<u>\$ 85,574</u>	<u>88,925</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 follows:

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, outpatient and certain rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. Certain physician clinic services related to Medicare beneficiaries are paid based on fee schedule amounts. 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 audits thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2012.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. 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, will incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital 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.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. This basis for payment to the Hospital under these agreements may include discounts from established charges and prospectively determined rates.

Net patient service revenue as reflected in the accompanying statements of revenue, expenses and changes in net position consists of the following:

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 1,480,341	1,092,378
Outpatient	10,571,450	10,860,043
Clinic	<u>1,100,204</u>	<u>942,799</u>
Total gross patient service revenue	<u>13,151,995</u>	<u>12,895,220</u>
Deductions from patient service revenue:		
Medicare	1,718,122	1,506,480
Medicaid	260,877	215,235
Other payors	1,477,462	1,400,514
Charity care	<u>19,175</u>	<u>9,721</u>
Total deductions from patient service revenue	<u>3,475,636</u>	<u>3,131,950</u>
Net patient service revenue before provision for bad debt	<u>\$ 9,676,359</u>	<u>9,763,270</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 57% and 7%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014 compared to 57% for Medicare and 4% for Medicaid in 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.

(4) Composition of Patient Receivables

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

	<u>2014</u>	<u>2013</u>
Patient accounts	\$ 2,408,154	2,896,288
Less estimated third-party contractual adjustments	(419,133)	(438,804)
Less allowance for doubtful accounts	<u>(457,329)</u>	<u>(355,230)</u>
	<u>\$ 1,531,692</u>	<u>2,102,254</u>

The Hospital is located in Audubon, 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	35%	46%
Medicaid	9	4
Commercial	24	35
Private pay	<u>32</u>	<u>15</u>
	<u>100%</u>	<u>100%</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(5) Capital Assets

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

	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	252,336	385,798	(600,924)	37,210
Total capital assets, not being depreciated	<u>320,725</u>	<u>385,798</u>	<u>(600,924)</u>	<u>105,599</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	8,191,466	16,164	119,574	8,327,204
Fixed equipment	585,520	10,379	--	595,899
Major moveable equipment	4,531,226	310,813	(15,273)	4,826,766
Total capital assets, being depreciated	<u>13,731,241</u>	<u>337,356</u>	<u>104,301</u>	<u>14,172,898</u>
Less accumulated depreciation:				
Land improvements	360,318	8,939	--	369,257
Hospital buildings	5,241,299	315,936	--	5,557,235
Fixed equipment	482,633	17,258	--	499,891
Major moveable equipment	3,289,750	448,504	(496,623)	3,241,631
Total accumulated depreciation	<u>9,374,000</u>	<u>790,637</u>	<u>(496,623)</u>	<u>9,668,014</u>
Total capital assets, being depreciated, net	<u>4,357,241</u>	<u>(453,281)</u>	<u>600,924</u>	<u>4,504,884</u>
Total capital assets, net	<u>\$ 4,677,966</u>	<u>(67,483)</u>	<u>--</u>	<u>4,610,483</u>

	June 30, 2012	Additions	Transfers and Disposals	June 30, 2013
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	131,100	984,440	(863,204)	252,336
Total capital assets, not being depreciated	<u>199,489</u>	<u>984,440</u>	<u>(863,204)</u>	<u>320,725</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	7,579,763	65,330	546,373	8,191,466
Fixed equipment	620,797	6,453	(41,730)	585,520
Major moveable equipment	4,438,594	225,945	(133,313)	4,531,226
Total capital assets, being depreciated	<u>13,062,183</u>	<u>297,728</u>	<u>371,330</u>	<u>13,731,241</u>
Less accumulated depreciation:				
Land improvements	345,467	14,851	--	360,318
Hospital buildings	5,135,161	358,343	(252,205)	5,241,299
Fixed equipment	511,188	16,945	(45,500)	482,633
Major moveable equipment	3,035,121	404,967	(150,338)	3,289,750
Total accumulated depreciation	<u>9,026,937</u>	<u>795,106</u>	<u>(448,043)</u>	<u>9,374,000</u>
Total capital assets, being depreciated, net	<u>4,035,246</u>	<u>(497,378)</u>	<u>819,373</u>	<u>4,357,241</u>
Total capital assets, net	<u>\$ 4,234,735</u>	<u>487,062</u>	<u>(43,831)</u>	<u>4,677,966</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2014 and 2013

(6) 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 \$2,000,000 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 recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2014 and 2013, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(7) Pension and Retirement Benefits

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. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. IPERS provides retirement and death benefits, which are established by state statute, to plan members and their 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 payroll for 2014 and 2013, respectively. Contribution requirements are established by state statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012, were \$434,378, \$382,659 and \$336,013 respectively, which equaled the required contributions for each year.

(8) Contingencies

The Hospital is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(9) Health Information Technology Incentives

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 health care providers. During 2012, the Hospital qualified for the financial incentive payments by attesting it met specific criteria set by the Center 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. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. No incentive payment was earned in 2013. In 2014, the Hospital elected to record \$395,794 of the incentive payment as other operating revenue in the period earned, and not defer any portion that may be related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. Medicaid incentive revenue of \$35,900 and \$71,800 was earned in 2014 and 2013, respectively. 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.

Audubon County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended 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, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 669,870	--	669,870	647,902	21,968
Add: Other revenues / receipts	10,260,087	372,447	10,632,534	10,299,171	333,363
Less: Expenses / disbursements	<u>10,906,441</u>	<u>33,834</u>	<u>10,940,275</u>	<u>11,331,797</u>	<u>391,522</u>
Net	23,516	338,613	362,129	(384,724)	<u><u>746,853</u></u>
Balance beginning of year	<u>18,439,244</u>	<u>(5,934,970)</u>	<u>12,504,274</u>	<u>13,610,679</u>	
Balance end of year	<u>\$ 18,462,760</u>	<u>(5,596,357)</u>	<u>12,866,403</u>	<u>13,225,955</u>	

See accompanying independent auditor's report

**Combining Statement of Net Position
June 30, 2014**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,879,334	122,697	--	2,002,031
Short-term investments	7,431,764	52,276	--	7,484,040
Receivables -				
Patients, net of estimated uncollectible accounts of \$457,329 in 2014	1,531,692	--	--	1,531,692
Succeeding year property tax	861,829	--	--	861,829
Other	50,758	--	--	50,758
Inventories	320,449	--	--	320,449
Prepaid expenses	191,540	--	--	191,540
Total current assets	<u>12,267,366</u>	<u>174,973</u>	<u>--</u>	<u>12,442,339</u>
Assets limited as to use or restricted:				
Designated by board of trustees	3,334,862	164,599	--	3,499,461
Restricted by donors for -				
Scholarships	4	--	--	4
Physician recruitment	210,439	--	--	210,439
Endowment	10,000	--	--	10,000
Total assets limited as to use or restricted	<u>3,555,305</u>	<u>164,599</u>	<u>--</u>	<u>3,719,904</u>
Capital assets, net of accumulated depreciation	<u>4,610,483</u>	<u>--</u>	<u>--</u>	<u>4,610,483</u>
Total assets	<u>20,433,154</u>	<u>339,572</u>	<u>--</u>	<u>20,772,726</u>
LIABILITIES				
Current liabilities:				
Accounts payable -				
Trade	254,249	--	--	254,249
Capital assets	10,379	--	--	10,379
Accrued salaries, vacation and benefits payable	641,633	--	--	641,633
Estimated third-party payor settlements	202,304	--	--	202,304
Total current liabilities	<u>1,108,565</u>	<u>--</u>	<u>--</u>	<u>1,108,565</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable property tax revenue	<u>861,829</u>	<u>--</u>	<u>--</u>	<u>861,829</u>
NET POSITION				
Net investment in capital assets	4,610,483	--	--	4,610,483
Restricted -				
Expendable for scholarships	4	--	--	4
Expendable for physician recruitment	210,439	--	--	210,439
Nonexpendable endowment	10,000	--	--	10,000
Unrestricted	<u>13,631,834</u>	<u>339,572</u>	<u>--</u>	<u>13,971,406</u>
Total net position	<u>\$ 18,462,760</u>	<u>339,572</u>	<u>--</u>	<u>18,802,332</u>

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 9,676,359	--	--	9,676,359
Provision for bad debt	(188,921)	--	--	(188,921)
Net patient service revenue	9,487,438	--	--	9,487,438
Other operating revenue	667,078	--	--	667,078
Total operating revenue	<u>10,154,516</u>	<u>--</u>	<u>--</u>	<u>10,154,516</u>
OPERATING EXPENSES:				
Salaries	4,889,607	29,274	--	4,918,881
Employee benefits	1,633,172	2,239	--	1,635,411
Medical professional fees and purchased services	1,116,645	--	--	1,116,645
Medical supplies and other	1,365,693	--	--	1,365,693
General services	327,962	--	--	327,962
Administrative services	723,149	51,647	(37,500)	737,296
Insurance	59,576	--	--	59,576
Depreciation	790,637	--	--	790,637
Total operating expenses	<u>10,906,441</u>	<u>83,160</u>	<u>(37,500)</u>	<u>10,952,101</u>
OPERATING LOSS	<u>(751,925)</u>	<u>(83,160)</u>	<u>37,500</u>	<u>(797,585)</u>
NONOPERATING REVENUE:				
County tax revenue	669,870	--	--	669,870
Investment income	63,921	21,653	--	85,574
Noncapital grants and contributions	4,150	109,895	--	114,045
Nonoperating revenue	<u>737,941</u>	<u>131,548</u>	<u>--</u>	<u>869,489</u>
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	(13,984)	48,388	37,500	71,904
GRANTS AND CONTRIBUTIONS	<u>37,500</u>	<u>--</u>	<u>(37,500)</u>	<u>--</u>
INCREASE IN NET POSITION	23,516	48,388	--	71,904
NET POSITION, Beginning of year	<u>18,439,244</u>	<u>291,184</u>	<u>--</u>	<u>18,730,428</u>
NET POSITION, End of year	<u>\$ 18,462,760</u>	<u>339,572</u>	<u>--</u>	<u>18,802,332</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, surgical and obstetrics	\$ 263,877	172,688	724	437,289	233,766	313,291	--	547,057
Skilled nursing	--	--	303,086	303,086	--	--	221,192	221,192
	<u>263,877</u>	<u>172,688</u>	<u>303,810</u>	<u>740,375</u>	<u>233,766</u>	<u>313,291</u>	<u>221,192</u>	<u>768,249</u>
NURSING SERVICES:								
Operating room	40,684	1,201,753	--	1,242,437	19,040	1,157,911	1,061	1,178,012
Emergency	6,964	894,827	--	901,791	12,787	917,689	(589)	929,887
Recovery room	2,170	128,837	--	131,007	1,181	108,144	295	109,620
	<u>49,818</u>	<u>2,225,417</u>	<u>--</u>	<u>2,275,235</u>	<u>33,008</u>	<u>2,183,744</u>	<u>767</u>	<u>2,217,519</u>
OTHER PROFESSIONAL SERVICES:								
Radiology	105,863	2,509,539	23,922	2,639,324	66,125	2,468,552	8,271	2,542,948
Laboratory	111,693	2,260,524	46,413	2,418,630	94,796	2,170,576	30,250	2,295,622
Pharmacy	141,479	1,071,510	102,145	1,315,134	102,292	1,448,752	85,351	1,636,395
Audubon Family Health Care Clinic	--	642,901	--	642,901	--	448,013	--	448,013
Physical therapy	17,354	504,638	69,856	591,848	11,239	420,157	45,113	476,509
Electrocardiology	19,332	490,995	4,440	514,767	20,059	462,447	2,437	484,943
Medical and surgical supplies	62,572	397,671	24,327	484,570	44,073	420,235	12,219	476,527
Exira Medical Clinic	--	457,303	--	457,303	--	494,785	--	494,785
Anesthesiology	18,049	425,611	--	443,660	5,752	357,645	1,255	364,652
Clinic	858	228,672	688	230,218	673	243,689	328	244,690
Occupational therapy	1,696	20,696	49,356	71,748	3,402	41,481	35,471	80,354
Cardiology	--	65,680	--	65,680	--	66,692	--	66,692
Sleep study	--	61,004	--	61,004	--	88,017	--	88,017
Respiratory therapy	10,242	32,465	13,061	55,768	6,319	31,066	1,774	39,159
Blood service	9,617	35,232	3,463	48,312	10,614	38,521	1,671	50,806
Intravenous therapy	11,514	24,901	6,854	43,269	8,272	29,719	1,541	39,532
Cardiac rehabilitation	--	28,566	--	28,566	--	25,782	--	25,782
Speech therapy	2,374	8,219	5,159	15,752	1,027	12,981	2,636	16,644
Psychiatry	509	6,975	--	7,484	685	36,215	--	36,900
Dietary	--	447	--	447	--	482	--	482
	<u>513,152</u>	<u>9,273,549</u>	<u>349,684</u>	<u>10,136,385</u>	<u>375,328</u>	<u>9,305,807</u>	<u>228,317</u>	<u>9,909,452</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>826,847</u>	<u>11,671,654</u>	<u>653,494</u>	<u>13,151,995</u>	<u>642,102</u>	<u>11,802,842</u>	<u>450,276</u>	<u>12,895,220</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(3,456,461)				(3,122,231)
Charity care services and other discounts, based on charges forgone				(19,175)				(9,719)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				<u>9,676,359</u>				<u>9,763,270</u>
PROVISION FOR BAD DEBT				<u>(188,921)</u>				<u>(334,456)</u>
NET PATIENT SERVICE REVENUE				<u>9,487,438</u>				<u>9,428,814</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>
Other Operating Revenue		
Medicare EHR incentive	\$ 395,794	--
340B income	147,562	--
Medicaid EHR incentive	35,900	71,800
Space rental	35,287	24,560
Other	23,167	38,456
Cafeteria meals	21,038	22,051
Grants	7,807	13,683
Gain (loss) on sale of capital assets	<u>523</u>	<u>(15,548)</u>
	<u>\$ 667,078</u>	<u>155,002</u>

See accompanying independent auditor's report

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

	2014			2013		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 808,606	42,087	850,693	858,301	29,474	887,775
Emergency service	551,047	98,181	649,228	536,638	94,772	631,410
Operating room	99,921	84,922	184,843	100,422	84,576	184,998
Nursing Administration	86,062	9,970	96,032	79,672	9,146	88,818
	<u>1,545,636</u>	<u>235,160</u>	<u>1,780,796</u>	<u>1,575,033</u>	<u>217,968</u>	<u>1,793,001</u>
OTHER PROFESSIONAL SERVICES:						
Radiology	184,182	699,304	883,486	198,863	685,650	884,513
Audubon Family Health Care Clinic	657,823	70,236	728,059	343,664	33,012	376,676
Pharmacy	125,917	449,455	575,372	143,870	439,869	583,739
Laboratory	240,259	262,949	503,208	248,574	306,641	555,215
Exira Medical Clinic	357,472	38,011	395,483	332,715	45,544	378,259
Specialty clinics	282,171	42,044	324,215	201,733	72,472	274,205
Central supply	29,186	268,114	297,300	6,567	255,196	261,763
Anesthesiology	--	223,024	223,024	--	188,330	188,330
Medical records	153,283	58,988	212,271	152,260	37,877	190,137
Physical therapy	180,734	14,005	194,739	177,521	9,043	186,564
Cardiology	--	44,507	44,507	--	33,018	33,018
Respiratory therapy	36,857	2,655	39,512	36,395	2,910	39,305
Occupational therapy	--	19,242	19,242	--	20,702	20,702
Sleep study	--	19,200	19,200	--	28,350	28,350
Cardiac rehabilitation	11,727	623	12,350	9,604	1,750	11,354
Electrocardiology	3,614	7,582	11,196	4,677	4,509	9,186
Speech therapy	--	9,366	9,366	--	11,072	11,072
Intravenous therapy	--	6,490	6,490	--	2,270	2,270
Psychiatry	705	--	705	6,088	--	6,088
	<u>2,263,930</u>	<u>2,235,795</u>	<u>4,499,725</u>	<u>1,862,531</u>	<u>2,178,215</u>	<u>4,040,746</u>
GENERAL SERVICES:						
Plant operation and maintenance	142,518	231,475	373,993	139,551	189,078	328,629
Dietary	131,057	80,127	211,184	125,203	71,531	196,734
Housekeeping	129,942	16,936	146,878	137,205	16,578	153,783
Laundry	24,187	12,855	37,042	22,437	12,176	34,613
	<u>427,704</u>	<u>341,393</u>	<u>769,097</u>	<u>424,396</u>	<u>289,363</u>	<u>713,759</u>
ADMINISTRATIVE SERVICES						
	<u>681,611</u>	<u>735,248</u>	<u>1,416,859</u>	<u>611,876</u>	<u>681,293</u>	<u>1,293,169</u>
NONDEPARTMENTAL:						
Employee benefits	--	1,635,411	1,635,411	--	1,504,297	1,504,297
Depreciation and amortization	--	790,637	790,637	--	795,106	795,106
Insurance	--	59,576	59,576	--	53,242	53,242
	<u>--</u>	<u>2,485,624</u>	<u>2,485,624</u>	<u>--</u>	<u>2,352,645</u>	<u>2,352,645</u>
TOTAL EXPENSES	\$ <u>4,918,881</u>	<u>6,033,220</u>	<u>10,952,101</u>	<u>4,473,836</u>	<u>5,719,484</u>	<u>10,193,320</u>

See accompanying independent auditor's report

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

ANALYSIS OF AGING:

Days Since Discharge	2014		2013	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,132,688	47 %	1,216,378	42 %
31 - 60	326,256	14	1,190,795	41
61 - 90	155,651	6	189,715	7
91 - 120	57,043	2	38,639	1
121 and over	736,516	31	260,761	9
	<u>2,408,154</u>	<u>100 %</u>	<u>2,896,288</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(457,329)		(355,230)	
Allowance for contractual adjustments	<u>(419,133)</u>		<u>(438,804)</u>	
	<u>\$ 1,531,692</u>		<u>2,102,254</u>	

	2014	2013
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 355,230	245,851
Provision of uncollectible accounts	188,921	334,456
Recoveries of accounts previously written off	121,825	259,003
Accounts written off	<u>(208,647)</u>	<u>(484,080)</u>
Balance, end of year	<u>\$ 457,329</u>	<u>355,230</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INVENTORIES:		
General stores	\$ 159,067	170,086
Pharmacy	145,189	145,956
Laboratory	<u>16,193</u>	<u>5,368</u>
	<u>\$ 320,449</u>	<u>321,410</u>
PREPAID EXPENSES:		
Insurance	\$ 45,732	24,358
Service contracts	131,056	114,756
Other	<u>14,752</u>	<u>23,952</u>
	<u>\$ 191,540</u>	<u>163,066</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		
Acute	312	281
Swing-bed	468	357
	<u>780</u>	<u>638</u>
Admissions (Acute)	98	91
Discharges (Acute)	98	91
Average Length of Stay in Days (Acute)	3.2	3.1
Beds	25	25
Occupancy percentage (Acute)	3.41%	3.07%
Emergency room visits	1,299	1,356
Specialty clinic visits	4,044	4,370
Extra medical clinic encounters	4,105	4,451
Audubon Family Health Care clinic encounters	5,285	4,732
Number of employees - full-time equivalents	89	87

**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
Audubon County Memorial Hospital
Audubon, Iowa:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Audubon County Memorial Hospital (Hospital), a component unit of Audubon County, Nebraska, 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 October 14, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as II-A-14, that we consider to be a significant deficiency in internal control.

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 Health Center'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 Health Center. 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 auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purposes of this Report

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

Spim Johnson, LLP

Omaha, Nebraska,
October 14, 2014.

Audubon 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 significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-14

Significant Deficiencies in Internal Control over Financial Reporting:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Instances of Non-Compliance:

No matters were reported.

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.

Audubon County Memorial Hospital

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

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

Board 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..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Audubon 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	Segregation of duties in the accounting and data processing areas.	Not corrected.	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-14.

Audubon County Memorial Hospital

Audit Staff For the Year Ended June 30, 2014

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Brad Pieper, Staff Auditor

McKayla Anderson, Staff Auditor