

**Crawford County Memorial Hospital
Denison, Iowa**

FINANCIAL REPORT

June 30, 2014

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**Crawford County Memorial Hospital
OFFICIALS
June 30, 2014**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the accompanying financial statements of Crawford County Memorial 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. 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 Hospital'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 Hospital'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 Crawford County Memorial Hospital, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-13 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2014, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 12, 2014

Crawford County Memorial Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Crawford County Memorial Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Financial Highlights

- Total assets decreased by \$947,037 to \$49,687,430
- Total assets whose use is limited decreased by \$584,969 to \$8,298,711
- Total property and equipment decreased by \$431,529 to \$31,426,784
- Total net position decreased by \$943,528 to \$19,164,085
- Total long-term debt, including current maturities, decreased by \$341,615 to \$26,554,994
- Net patient service revenue increased by \$2,885,249, or 12%, to \$27,288,117
- Operating expenses increased by \$3,707,830, or 15%, to \$29,166,973

Operating and Financial Performance

This section is intended as a written supplement to the financial information presented in the management's discussion and analysis for the fiscal years ended June 30, 2014 and 2013. While management believes the strategic discussion below fairly represents the capability of the Hospital, it should be noted that potential internal and external factors unknown at this time could impact the projections with both positive and negative trends.

History

During the 2014 and 2013 fiscal years, the Hospital focused on the research and development of services that would more fully utilize assets built into the new replacement facility. While the financial results for fiscal year 2014 were negative, it is also notable that several actions have been implemented to provide a base for future growth, utilization and support of the new facility. The actions taken generally contribute to the documented existence of additional service demand in the primary and secondary market areas served by the Hospital.

Fiscal Year 2014 and 2013 Investments

For the two year period ending June 30, 2014 significant service investments were implemented and showed partial year services/demand increase, with long term expectation of increase in revenues and better control of variable expense, associated with operations, for future years. Research and development actions included the following:

- Local physician service expansion.
 - For the fiscal year 2014, newborn deliveries in obstetrics increased 45%.
 - This increase was further supported with the expenditure of \$143,309 to purchase and install an electronic fetal monitoring system to enable clinical improvements in the monitoring of fetal heart tones during labor.
 - Outreach services were established to further develop demand for specialized services offered at the Hospital.

Operating and Financial Performance (continued)

- Orthopedic services were in development from May, 2013 through October, 2013 with full time service started November, 2013. Expenditures associated with the startup phase of this service included the following:
 - Salaries: \$325,094.
 - Equipment: \$254,630.
 - Orthopedic supplies added to inventory: \$107,540
- In the fall of 2013 primary care was increased with the addition of two full time primary care staff added to the clinic acquired in the Hospital's City Center location.
 - Costs associated with this expansion totaled \$344,703, with \$254,269 recovered with initial 9 month revenues.
- General Surgery was reintroduced with a full time presence.
 - Surgical procedures increased 3% for the fiscal year.
- Temporary surgeon staffing cost decreased \$154,423.
- **Construction:** An additional 6,000 square feet was completed, and was fully funded from cash reserves, to provide clinic housing for obstetrics & gynecology, orthopedic surgery and general surgery. Total costs included:
 - Balance Sheet Investment: \$1,525,949.
 - Staff transition salaries: \$96,686
- **Affordable Care Research, Development and Response:** with the implementation of the Patient Protection and Affordable Care Act in January, 2014 the Hospital acted on the need to enhance service efficiency. Related impacts and actions included:
 - *Impacts associated with Affordable Care Act implementation:*
 - Decrease of \$850,000 in reimbursements.
 1. Gross revenues for fiscal year 2014 totaled \$42,530,744, contractual adjustments and bad debts from gross revenues increased 2%, from 33% to 35%.
 - Increase of number of days net patient service revenue in net patient receivables from 67 for fiscal year 2013 to 75 for fiscal year 2014.
 1. Patient out of pocket expectations from insurance companies continue to increase.
 2. Transition continued at fiscal year 2014 to move from two dedicated receivables electronic systems in both the Hospital and related rural health clinic.
 - *Actions in response to Affordable Care Act implementation:*
 - Redesigned accounts receivable policy to increase future collections targeted for implementation in the second fiscal quarter of fiscal year 2015.
 - A single enterprise receivables system was implemented, and is anticipated to assist with the steady decrease of days in accounts receivable throughout fiscal year 2015.
 - Designed and implemented service accountability staffing at a departmental level targeted to hold total labor cost from operations between 40% and 50% of net revenue for fiscal year 2015.
 - Completed research on the development of expanded patient and family services functions to further integrate continuity and service access to health coach, interpreter, utilization review, skilled and acute care services. Full implementation of reorganized patient and family services function is targeted to be completed by January, 2015.
 - Initiated discussions to further integrate clinical service affiliations with urban providers.

Operating and Financial Performance (continued)

- **Investment Summary:** All totaled the actions above account for significant investments targeted to stabilize the Hospital's ability to transition into the future healthcare industry expectations. Recap of focused investment activity includes:

• Obstetrics	\$143,309
• Orthopedic services expansion	\$687,264
• Primary care	\$90,434
• Clinic space expansion:	\$1,622,635
• Total	\$2,543,642

Fiscal Year 2015 Plans

In addition to continuing the implementation efforts initiated in fiscal year 2014 to improve the return from operations, the following focused activities are also planned for the upcoming fiscal year.

- **Dialysis Service Development:** Community based discussion will lead to the vote of the community to support general obligation bonding to provide for the implementation of hemodialysis and peritoneal dialysis services to enhance support of public health needs without operational impact to the Hospital.
- **Local Provider Expansion:** It is expected that the Hospital will continue provider expansion in primary care to include the addition of visiting specialists and in residence primary care physician staff to support continued expansion of the primary care services offered by the Hospital.
- **Electronic Medical Records:** The Hospital will implement electronic medical records for the rural health clinic and continue to maintain compliance with meaningful use objectives defined by federal law, rule and regulation.
- **Organizational Alignment:** With the continuation of health reform efforts, the Hospital will continue to seek various alignments with regional providers that provide for clinical and operational improvements in upstream and downstream referral processes for acute and skilled care services that assure ongoing financial viability, service provision and quality for local consumers of care.

While the future is difficult to accurately predict, the targeted efforts initiated in fiscal year 2014 are intended to position the Hospital to create a successful future. The key program initiatives include local provider expansion, control of cost growth, with emphasis on labor cost, and continued growth of OB/GYN, general surgery and orthopedic surgery services.

Potential Adverse Impacts

While the future adversities are unknown, it seems likely that three strategic areas will require continued focus to insure the Hospital remains flexible to adapt to the future state. The following changes may lead to adverse impact in future years.

- Population shifts in age, employment status and economic capability.
- Payment reforms that create a negative financial impact on rural healthcare delivery systems.
- Delivery reforms from public and private sector initiatives which have potential to both increase and decrease local delivery of service due to changes in regulations directing the delivery of care.

Required Financial Statements

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

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

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

Financial Analysis of the Hospital

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

A summary of the Hospital's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	2014	2013	2012
Current assets	\$ 8,501,935	\$ 8,532,474	\$ 6,843,455
Assets whose use is limited	8,298,711	8,883,680	8,527,675
Property and equipment	31,426,784	31,858,313	34,131,585
Other asset	<u>1,460,000</u>	<u>1,360,000</u>	<u>2,435,000</u>
Total assets	<u>\$49,687,430</u>	<u>\$50,634,467</u>	<u>\$51,937,715</u>
Current liabilities	\$ 3,240,787	\$ 2,913,090	\$ 2,364,399
Long-term debt, less current maturities	25,822,558	26,253,764	26,896,609
Other noncurrent liabilities	<u>1,460,000</u>	<u>1,360,000</u>	<u>1,280,000</u>
Total liabilities	<u>\$30,523,345</u>	<u>\$30,526,854</u>	<u>\$30,541,008</u>
Net investment in capital assets	\$ 5,666,421	\$ 5,755,500	\$ 8,564,573
Restricted	59,950	74,804	142,197
Unrestricted	<u>13,437,714</u>	<u>14,277,309</u>	<u>12,689,937</u>
Total net position	<u>\$19,164,085</u>	<u>\$20,107,613</u>	<u>\$21,396,707</u>

As depicted in Table 1, total assets decreased in fiscal year 2014 to \$49,687,430.

A summary of the Hospital's historical statements of revenues, expenses, and changes in net position is presented in Table 2.

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

	<u>Year ended June 30</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Net patient service revenue	\$27,288,117	\$24,402,868	\$22,265,217
Other revenue	<u>718,198</u>	<u>674,943</u>	<u>1,543,755</u>
Total revenue	<u>28,006,315</u>	<u>25,077,811</u>	<u>23,808,972</u>
Salaries	13,763,035	11,899,684	11,520,786
Supplies and expenses	12,290,015	10,540,115	9,487,842
Provision for depreciation	<u>3,113,923</u>	<u>3,019,344</u>	<u>2,853,386</u>
Total operating expenses	<u>29,166,973</u>	<u>25,459,143</u>	<u>23,862,014</u>
Operating (loss)	<u>(1,160,658)</u>	<u>(381,332)</u>	<u>(53,042)</u>
County taxes	1,363,506	1,285,848	1,155,091
Investment income	45,819	53,643	99,320
Unrestricted contributions	15,000	1,000	39,682
Transfer from related Foundation	11,615	152,276	128,116
Interest and amortization expense	(1,218,810)	(1,245,529)	(1,276,310)
Loss on disposal of equipment	<u>-</u>	<u>-</u>	<u>(47,780)</u>
Total nonoperating gains (losses)	<u>217,130</u>	<u>247,238</u>	<u>98,119</u>
Change in net position	(943,528)	(134,094)	45,077
Total net position, beginning	<u>20,107,613</u>	<u>20,241,707</u>	<u>21,351,630</u>
Total net position, ending	<u>\$19,164,085</u>	<u>\$20,107,613</u>	<u>\$21,396,707</u>

Summary

The management initiatives outlined in this document identify those programs, services and initiatives which appear at this writing to assure a future business model which achieves viability and growth of the Hospital. However, it is anticipated that these efforts will receive ongoing management and governance review to assure continued relevance to the needs of the community, regulatory compliance and integration with state and national healthcare trends.

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

Volume: Medical, surgical and obstetrical discharges for fiscal year 2014 were 601 compared to 572 in fiscal year 2013. Average length of stay increased slightly as medical, surgical and obstetrical patient days increased to 1,552 from 1,463 in 2013. Swing bed, skilled care discharges for fiscal year 2014 were 83 compared to 94 in fiscal year 2013. Average length of stay increased as swing bed, skilled care patient days decreased to 688 from 708 in 2013. Volume on the outpatient side indicated positive growth in 2014. In 2014, gross outpatient charges increased to \$36,832,340 compared to \$31,624,834 in 2013. Laboratory, pharmacy and clinics reflected the most significant growth in 2014.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2014. Overall, gross patient service revenue increased to \$42,064,164 from \$36,272,184 in 2013.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$14,776,047 in 2014 compared to \$11,869,316 in 2013, representing 35% and 33% of gross patient charges for each of the years ended June 30, 2014 and 2013, respectively.

Operating and Financial Performance (continued)

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2014	2013	2012
Medicare	39%	42%	42%
Medicaid	12	11	11
Commercial insurance	43	41	41
Patients	<u>6</u>	<u>6</u>	<u>6</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$718,198 in 2014 compared to \$674,943 in 2013, primarily due to increased retail pharmacy income.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 16% to \$13,763,035 in 2014 from \$11,899,684 in 2013. The most significant increase related to clinics and fiscal and administrative service.

Approximately 40% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 17% to \$12,290,015 in 2014 from \$10,540,115 in 2013. The most significant increases related to laboratory, ambulance, clinics, fiscal and administrative service and IPERS.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$3,113,923 in 2014 from \$3,019,344 in 2013.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$217,130 from \$247,238 in 2013, primarily due to a decrease in transfer from related foundation.

Property and Equipment

At the end of 2014, the Hospital had \$31,426,784 invested in property and equipment, net of accumulated depreciation. The notes to the financial statements provide more detail of changes in property and equipment. In 2014, \$2,682,394 was spent to acquire property and equipment.

A summary of the Hospital's property and equipment is presented in Table 4.

**Table 4
Property and Equipment**

	June 30		
	2014	2013	2012
Land	\$ 449,900	\$ 449,900	\$ 419,900
Land improvements	3,380,543	3,374,962	3,374,962
Buildings	11,404,548	11,389,174	11,131,674
Fixed equipment	21,100,029	21,094,603	20,949,444
Major movable equipment	15,515,357	14,382,238	14,068,825
Construction in progress	<u>1,522,894</u>	—	—
Subtotal	53,373,271	50,690,877	49,944,805
Less accumulated depreciation	<u>21,946,487</u>	<u>18,832,564</u>	<u>15,813,220</u>
Property and equipment	<u>\$31,426,784</u>	<u>\$31,858,313</u>	<u>\$34,131,585</u>

Debt Administration

At year end, the Hospital had \$26,554,994 in current and long-term debt related to Hospital Revenue Bonds and note payable, equipment, a decrease of \$341,615 from 2013. More detailed information about the Hospital's outstanding long-term debt is presented in the notes to financial statements. Note that total long-term debt represents approximately 85% of the Hospital's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on the budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the notes to financial statements. A comparison of the Hospital's fiscal year 2014 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 1,363,506	\$ 1,341,348	\$ 22,158
Other revenues/receipts	<u>28,078,749</u>	<u>28,537,343</u>	(458,594)
	29,442,255	29,878,691	(436,436)
Expenses/expenditures	<u>30,670,056</u>	<u>30,801,459</u>	(131,403)
Net	<u>\$ (1,227,801)</u>	<u>\$ (922,768)</u>	<u>\$ (305,033)</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to decreased net patient service revenue. Expenses/expenditures were lower than County Hospital budget primarily due to decreased capital expenditures.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2015 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Growth in demand for services
- Technology advancements

Contacting Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Crawford County Memorial Hospital at (712) 265-2500 or write care of: Chief Financial Officer, Crawford County Memorial Hospital, 100 Medical Parkway, Denison, Iowa 51442.

**Crawford County Memorial Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2014	2013
CURRENT ASSETS		
Cash	\$ 1,925,528	\$ 2,590,852
Patient receivables, less allowances for contractual adjustments and bad debts	5,596,704	4,498,332
Other receivables	14,717	14,723
Estimated third-party payor settlements	200,000	700,000
Inventories	554,622	437,787
Prepaid expenses	<u>210,364</u>	<u>290,780</u>
Total current assets	<u>8,501,935</u>	<u>8,532,474</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion, cash and cash equivalents	7,444,131	8,015,080
Restricted for payment of long-term debt and interest, cash and cash equivalents	<u>854,580</u>	<u>868,600</u>
Total assets whose use is limited	<u>8,298,711</u>	<u>8,883,680</u>
PROPERTY AND EQUIPMENT		
	53,373,271	50,690,877
Less accumulated depreciation	<u>21,946,487</u>	<u>18,832,564</u>
Total property and equipment	<u>31,426,784</u>	<u>31,858,313</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>1,460,000</u>	<u>1,360,000</u>
Totals	<u>\$49,687,430</u>	<u>\$50,634,467</u>

See Notes to Financial Statements.

	June 30	
	2014	2013
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 732,436	\$ 642,845
Accounts payable	1,138,334	1,055,779
Accrued employee compensation	1,132,202	991,452
Payroll taxes and amounts withheld from employees	143,115	120,514
Accrued interest	94,700	102,500
	<u>3,240,787</u>	<u>2,913,090</u>
LONG-TERM DEBT , less current maturities	<u>25,822,558</u>	<u>26,253,764</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>1,460,000</u>	<u>1,360,000</u>
NET POSITION		
Net investment in capital assets	5,666,421	5,755,500
Restricted	59,950	74,804
Unrestricted	<u>13,437,714</u>	<u>14,277,309</u>
Total net position	<u>19,164,085</u>	<u>20,107,613</u>
Totals	<u>\$49,687,430</u>	<u>\$50,634,467</u>

Crawford County Memorial Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2014 \$1,467,775; 2013 \$1,165,156	\$27,288,117	\$24,402,868
OTHER REVENUE	<u>718,198</u>	<u>674,943</u>
Total revenue	<u>28,006,315</u>	<u>25,077,811</u>
EXPENSES		
Nursing service	5,364,616	5,457,076
Other professional service	12,046,060	9,279,829
General service	1,551,712	1,447,564
Fiscal and administrative service and unassigned expenses	7,090,662	6,255,330
Provision for depreciation	<u>3,113,923</u>	<u>3,019,344</u>
Total operating expenses	<u>29,166,973</u>	<u>25,459,143</u>
Operating (loss)	<u>(1,160,658)</u>	<u>(381,332)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,363,506	1,285,848
Investment income	45,819	53,643
Unrestricted contributions	15,000	1,000
Transfer from related foundation	11,615	152,276
Interest and amortization expense	<u>(1,218,810)</u>	<u>(1,245,529)</u>
Total nonoperating gains (losses)	<u>217,130</u>	<u>247,238</u>
Change in net position	(943,528)	(134,094)
TOTAL NET POSITION		
Beginning, as restated	<u>20,107,613</u>	<u>20,241,707</u>
Ending	<u>\$19,164,085</u>	<u>\$20,107,613</u>

See Notes to Financial Statements.

**Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$26,689,745	\$23,781,303
Cash paid to suppliers for goods and services	(12,221,272)	(10,207,113)
Cash paid to employees for services	(13,622,285)	(11,869,013)
Other operating revenue received	<u>718,198</u>	<u>674,943</u>
Net cash and cash equivalents provided by operating activities	<u>1,564,386</u>	<u>2,380,120</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,363,506	1,285,848
Contributions received	15,000	1,000
Transfer from related foundation	<u>11,615</u>	<u>152,276</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>1,390,121</u>	<u>1,439,124</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	333,206	-
Principal payments on long-term debt	(674,821)	(617,613)
Interest paid on long-term debt	(1,226,610)	(1,247,629)
Acquisition of property and equipment	<u>(2,682,394)</u>	<u>(746,072)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(4,250,619)</u>	<u>(2,611,314)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>45,819</u>	<u>67,416</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,250,293)	1,275,346
CASH AND CASH EQUIVALENTS		
Beginning	<u>11,474,532</u>	<u>10,199,186</u>
Ending	<u>\$10,224,239</u>	<u>\$11,474,532</u>

**Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2014	2013
RECONCILIATION OF OPERATING (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (1,160,658)	\$ (381,332)
Adjustments to reconcile operating (loss) to net cash and cash equivalents provided by operating activities		
Depreciation	3,113,923	3,019,344
Changes in assets and liabilities		
(Increase) in patient receivables	(1,098,372)	(721,565)
Decrease in other receivables	6	2,267
Decrease in net estimated third-party payor settlements	500,000	100,000
(Increase) in inventories	(116,835)	(80,188)
(Increase) decrease in prepaid expenses	80,416	(83,965)
Increase in accounts payable	82,555	478,022
Increase in accrued employee compensation	140,750	30,671
Increase in payroll taxes and amounts withheld from employees	<u>22,601</u>	<u>16,866</u>
Net cash and cash equivalents provided by operating activities	<u>\$ 1,564,386</u>	<u>\$ 2,380,120</u>
 RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 1,925,528	\$ 2,590,852
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash and cash equivalents	7,444,131	8,015,080
Restricted for payment of long-term debt and interest, cash and cash equivalents	<u>854,580</u>	<u>868,600</u>
Total per statement of cash flows	<u>\$10,224,239</u>	<u>\$11,474,532</u>

See Notes to Financial Statements.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Crawford County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. 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. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

New Accounting Standard Adopted

During fiscal year 2014, the Hospital adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources, expenses, or inflows of resources, revenues. The adoption of this Statement results in a restatement of net position as of July 1, 2012.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and all certificates of deposit.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is three to forty years.

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 the 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.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

Net Position

Net position is presented in the following three components:

Net investment in capital assets

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

Restricted

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

Unrestricted

Unrestricted net position has no externally imposed restrictions on use.

Charity Care

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

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Patient Service Revenue

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

Revenues, Expenses, and Changes in Net Position

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

Investment Income

The Hospital has nonnegotiable certificates of deposit recorded at cost. The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. Investment income is reported as nonoperating gains.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are residents of the County.

Accounting Estimates and Assumptions

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

Restatement

Due to the Hospital's adoption of Governmental Accounting Standards Board Statement No. 65, net position was restated at July 1, 2012. With the adoption of this Standard, the Hospital is expensing unamortized financing costs and they are no longer amortized annually. The following is a reconciliation of net position previously reported at July 1, 2012, to the restated net position at July 1, 2012.

Net position at July 1, 2012, as previously reported	\$21,396,707
Adjustment, adoption of Statement No. 65	<u>(1,155,000)</u>
Net position at July 2012, as restated for Statement No. 65	<u>\$20,241,707</u>

Reclassifications

Certain amounts have been reclassified in the 2013 financial statements in order to conform with the 2014 presentation, with no effect on the change in net position.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND CASH EQUIVALENTS

The Hospital's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by 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.

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	Year ended June 30	
	2014	2013
Medicare	\$2,052,290	\$1,792,832
Medicaid	876,321	404,085
Commercial insurance	2,821,806	2,045,332
Patients	<u>2,166,287</u>	<u>1,976,083</u>
Total patient receivables	7,916,704	6,218,332
Less allowances for contractual adjustments and bad debts	<u>(2,320,000)</u>	<u>(1,720,000)</u>
Net patient receivables	<u>\$5,596,704</u>	<u>\$4,498,332</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2014:

	Interest Funds	Reserve Fund	Total
Balance, beginning of year	\$ 74,804	\$ 793,796	\$ 868,600
Transfer from current assets, cash	1,850,945	-	1,850,945
Interest earned	16	835	851
Principal and interest payments	<u>(1,865,816)</u>	<u>-</u>	<u>(1,865,816)</u>
Balance, end of year	<u>\$ 59,949</u>	<u>\$ 794,631</u>	<u>\$ 854,580</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 449,900	\$ -	\$ 449,900	\$ -
Land improvements	3,380,543	1,008,952	3,374,962	794,433
Buildings	11,404,548	4,163,799	11,389,174	3,852,212
Fixed equipment	21,100,029	6,587,992	21,094,603	5,375,252
Major movable equipment	15,515,357	10,185,744	14,382,238	8,810,667
Construction in progress	<u>1,522,894</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$53,373,271</u>	<u>\$21,946,487</u>	<u>\$50,690,877</u>	<u>\$18,832,564</u>

A summary of changes in property and equipment for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 449,900	\$ -	\$ -	\$ 449,900
Land improvements	3,374,962	5,581	-	3,380,543
Buildings	11,389,174	15,374	-	11,404,548
Fixed equipment	21,094,603	5,426	-	21,100,029
Major movable equipment	14,382,238	1,133,119	-	15,515,357
Construction in progress	<u>-</u>	<u>1,522,894</u>	<u>-</u>	<u>1,522,894</u>
Totals	50,690,877	2,682,394	-	53,373,271
Less accumulated depreciation	<u>(18,832,564)</u>	<u>(3,113,923)</u>	<u>-</u>	<u>(21,946,487)</u>
Net property and equipment	<u>\$31,858,313</u>	<u>\$ (431,529)</u>	<u>\$ -</u>	<u>\$31,426,784</u>

Construction in progress at June 30, 2014 consisted of costs relative to the Hospital's rural health clinic expansion project. The estimated total cost of the project is approximately \$1,800,000 and is being funded by Hospital cash reserves.

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 419,900	\$ 30,000	\$ -	\$ 449,900
Land improvements	3,374,962	-	-	3,374,962
Buildings	11,131,674	257,500	-	11,389,174
Fixed equipment	20,949,444	145,159	-	21,094,603
Major movable equipment	<u>14,068,825</u>	<u>313,413</u>	<u>-</u>	<u>14,382,238</u>
Totals	49,944,805	746,072	-	50,690,877
Less accumulated depreciation	<u>(15,813,220)</u>	<u>(3,019,344)</u>	<u>-</u>	<u>(18,832,564)</u>
Net property and equipment	<u>\$34,131,585</u>	<u>\$(2,273,272)</u>	<u>\$ -</u>	<u>\$31,858,313</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	Year ended June 30	
	2014	2013
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,070,000	\$ 9,315,000
Hospital Revenue Bonds, Series 2009B	1,718,376	1,758,161
Hospital Revenue Bonds, Series 2009D	15,465,388	15,823,448
Note payable, equipment	301,230	—
	26,554,994	26,896,609
Less current maturities	732,436	642,845
Long-term debt, net of current maturities	<u>\$25,822,558</u>	<u>\$26,253,764</u>

Hospital Revenue Refunding Bonds, Series 2009A

The Hospital has issued Hospital Revenue Refunding Bonds, Series 2009A in the original amount of \$10,000,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2034, at remaining interest rates ranging from 4.6% to 6.4%. At June 30, 2014, the remaining balance on these Bonds is \$9,070,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$791,890.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2014.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Hospital Revenue Bonds, Series 2009B

The Hospital has issued Hospital Revenue Bonds, Series 2009B in the original amount of \$1,815,000. The Bonds are payable solely from future revenues of the Hospital and require monthly payments of \$8,985, including interest at 3.91%, with the final payment due June, 2039. The interest rate is variable and the Bonds stipulate the rate will reset initially December, 2021 then every five years following. At those dates, the interest rate will be set using a defined interest rate index. At June 30, 2014, the remaining balance on these Bonds is \$1,718,376.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Hospital Revenue Bonds, Series 2009D

The Hospital has issued Hospital Revenue Bonds, Series 2009D in the amount of \$16,335,000. The Bonds are payable solely from future revenues of the Hospital and require monthly payments of 80,865 including interest at 3.91%, with the final payment due June, 2039. The interest rate is variable and the Bonds stipulate the rate will reset initially December, 2021 then every five years following. At those dates, the interest rate will be set using a defined interest rate index. At June 30, 2014 the remaining balance on these Bonds is \$15,465,388.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

As to the above Bonds, Series 2009A, 2009B and 2009D, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2039. As of June 30, 2014 the remaining principal and interest on the Series Bonds was \$42,778,451. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2014 and 2013:

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Change in net position	\$ (943,528)	\$ (134,094)
Provision for depreciation	3,113,923	3,019,344
Interest expense on the Bonds	<u>1,215,142</u>	<u>1,245,529</u>
 Pledged net revenues	 <u>\$3,385,537</u>	 <u>\$4,130,779</u>
Principal and interest requirements		
Hospital Revenue Refunding Bonds, Series 2009A	\$ 787,610	\$ 786,157
Hospital Revenue Bonds, Series 2009B	107,821	107,696
Hospital Revenue Bonds, Series 2009D	<u>970,385</u>	<u>969,289</u>
 Totals	 <u>\$1,865,816</u>	 <u>\$1,863,142</u>

Aggregate maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>			<u>Note payable, equipment</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2009A</u>	<u>Series 2009B</u>	<u>Series 2009D</u>				
2015	\$ 255,000	\$ 41,368	\$ 372,314	\$ 63,754	\$ 732,436	\$ 1,136,171	\$ 1,868,607
2016	270,000	43,015	387,135	65,531	765,681	1,106,196	1,871,877
2017	280,000	44,728	402,546	67,358	794,632	1,074,286	1,868,918
2018	95,000	46,508	418,571	69,236	829,315	1,040,603	1,869,918
2019	310,000	48,359	435,234	35,351	828,944	1,004,716	1,833,660
2020-2024	1,855,000	272,252	2,450,270	-	4,577,522	4,426,645	9,004,167
2025-2029	2,480,000	330,931	2,978,383	-	5,789,314	3,483,623	9,272,937
2030-2034	3,325,000	402,258	3,620,321	-	7,347,579	2,770,359	10,117,938
2035-2039	-	<u>488,957</u>	<u>4,400,614</u>	-	<u>4,889,571</u>	<u>501,460</u>	<u>5,391,031</u>
Totals	9,070,000	1,718,376	15,465,388	301,230	26,554,994	16,544,059	43,099,053
Less current maturities	<u>255,000</u>	<u>41,368</u>	<u>372,314</u>	<u>63,754</u>	<u>732,436</u>	<u>1,136,171</u>	<u>1,868,607</u>
 Total long-term debt	 <u>\$8,815,000</u>	 <u>\$1,677,008</u>	 <u>\$15,093,074</u>	 <u>\$ 237,476</u>	 <u>\$25,822,558</u>	 <u>\$15,407,888</u>	 <u>\$41,230,446</u>

A summary of changes in long-term debt for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,315,000	\$ -	\$ 245,000	\$ 9,070,000	\$ 255,000
Hospital Revenue Bonds, Series 2009B	1,758,161	-	39,785	1,718,376	41,368
Hospital Revenue Bonds, Series 2009D	15,823,448	-	358,060	15,465,388	372,314
Note payable, equipment	-	<u>333,206</u>	<u>31,976</u>	<u>301,230</u>	<u>63,754</u>
 Totals	 <u>\$26,896,609</u>	 <u>\$ 333,206</u>	 <u>\$ 674,821</u>	 <u>\$26,554,994</u>	 <u>\$ 732,436</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,550,000	\$ -	\$ 235,000	\$ 9,315,000	\$ 245,000
Hospital Revenue Bonds, Series 2009B	1,796,422	-	38,261	1,758,161	39,785
Hospital Revenue Bonds, Series 2009D	<u>16,167,800</u>	<u>-</u>	<u>344,352</u>	<u>15,823,448</u>	<u>358,060</u>
Totals	<u>\$27,514,222</u>	<u>\$ -</u>	<u>\$ 617,613</u>	<u>\$26,896,609</u>	<u>\$ 642,845</u>

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the period ended June 30, 2012.

Other

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

NOTE 8 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Charges foregone, based on established rates	\$ <u>466,579</u>	\$ <u>582,884</u>
Equivalent percentage of charity care patients to all patients served	<u>1.1%</u>	<u>1.6%</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2014 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 10 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2014, regular plan members were required to contribute 5.78% of their annual salary and the Hospital was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,207,069, \$984,729 and \$900,074, respectively, equal to the required contributions for each year.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

For the year ended June 30, 2014, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 1,363,506	\$ —	\$ 1,363,506	\$ 1,341,348
Other revenues/receipts	<u>26,859,939</u>	<u>1,218,810</u>	<u>28,078,749</u>	<u>28,537,343</u>
	28,223,445	1,218,810	29,442,255	29,878,691
Expenses/expenditures	<u>29,166,973</u>	<u>1,503,083</u>	<u>30,670,056</u>	<u>30,801,459</u>
Net	(943,528)	(284,273)	(1,227,801)	(922,768)
Balance, beginning	<u>20,107,613</u>	<u>(5,442,098)</u>	<u>14,665,515</u>	<u>19,314,053</u>
Balance, ending	<u>\$19,164,085</u>	<u>\$(5,726,371)</u>	<u>\$13,437,714</u>	<u>\$18,391,285</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions. An actuarial valuation has been performed and the other post employment benefit has been judged by management to be immaterial to the financial statements.

NOTE 13 RISK MANAGEMENT

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



INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the financial statements of Crawford County Memorial Hospital as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated September 12, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 12, 2014

**Crawford County Memorial Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
0 - 30 days (includes patients in Hospital at end of year)	\$3,117,643	\$2,444,998	39.38%	39.32%
31 - 60 days	1,473,374	976,137	18.61	15.70
61 - 90 days	776,860	683,417	9.81	10.99
91 - 150 days	952,797	816,263	12.04	13.12
Over 150 days	<u>1,596,030</u>	<u>1,297,517</u>	<u>20.16</u>	<u>20.87</u>
Totals	<u>7,916,704</u>	<u>6,218,332</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	980,000	700,000		
Medicaid	280,000	160,000		
Other	460,000	400,000		
Bad debts	<u>600,000</u>	<u>460,000</u>		
Total allowances	<u>2,320,000</u>	<u>1,720,000</u>		
Totals	<u>\$5,596,704</u>	<u>\$4,498,332</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 74,762</u>	<u>\$ 66,857</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>75</u>	<u>67</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
BALANCE , beginning	\$ 460,000	\$ 420,000		
ADD				
Provision for bad debts	1,467,775	1,165,156	5.38%	4.77%
Recoveries of accounts previously written off	<u>511,418</u>	<u>360,180</u>	1.87	1.48
	2,439,193	1,945,336		
DEDUCT				
Accounts written off	<u>1,839,193</u>	<u>1,485,336</u>	6.74	6.09
BALANCE , ending	<u>\$ 600,000</u>	<u>\$ 460,000</u>		

Crawford County Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2014, with comparative totals for 2013

	<u>2014</u>			<u>2013</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$1,971,443	\$ -	\$ 1,971,443	\$ 1,721,878
Swing bed	205,905	-	205,905	361,196
Nursery	120,064	-	120,064	114,127
	<u>2,297,412</u>	<u>-</u>	<u>2,297,412</u>	<u>2,197,201</u>
OTHER NURSING SERVICES				
Operating room	908,275	3,814,489	4,722,764	4,059,562
Recovery room	64,420	609,650	674,070	635,783
Delivery room	218,969	141	219,110	161,309
Emergency service	89,186	3,233,739	3,322,925	3,368,664
Observation room	-	466,367	466,367	394,495
Same day surgery	-	439,215	439,215	452,664
	<u>1,280,850</u>	<u>8,563,601</u>	<u>9,844,451</u>	<u>9,072,477</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	536,069	5,335,591	5,871,660	5,453,028
Electrocardiology	21,491	354,656	376,147	312,123
Radiology	76,920	2,336,255	2,413,175	2,269,323
CT scans	85,863	2,122,444	2,208,307	2,079,475
MRI	86,103	2,058,444	2,144,547	1,773,293
Ultrasound	96,147	1,502,631	1,598,778	1,474,203
Pharmacy	486,363	2,404,662	2,891,025	2,664,713
Oncology	1,203	160,973	162,176	61,576
Anesthesiology	218,579	566,131	784,710	631,656
Respiratory therapy	228,301	572,072	800,373	716,664
Cardiac rehabilitation	310	128,990	129,300	137,784
Ambulance	104,846	1,128,105	1,232,951	1,158,982
Physical therapy	124,563	1,207,280	1,331,843	1,426,247
Occupational therapy	25,751	134,056	159,807	111,248
Speech therapy	27,632	42,219	69,851	79,187
Clinics	-	8,214,230	8,214,230	5,235,888
	<u>2,120,141</u>	<u>28,268,739</u>	<u>30,388,880</u>	<u>25,585,390</u>
Totals	<u>\$5,698,403</u>	<u>\$36,832,340</u>	42,530,743	36,855,068
Charity care charges foregone, based on established rates			(466,579)	(582,884)
Total gross patient service revenue			42,064,164	36,272,184
Provisions for contractual adjustments and bad debts			(14,776,047)	(11,869,316)
Total net patient service revenue			<u>\$27,288,117</u>	<u>\$24,402,868</u>

**Crawford County Memorial Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Contractual adjustments		
Medicare	\$ 6,256,205	\$ 5,439,410
Medicaid	1,302,772	712,764
Other adjustments	5,749,295	4,551,986
Provision for bad debts	<u>1,467,775</u>	<u>1,165,156</u>
 Totals	 <u>\$14,776,047</u>	 <u>\$11,869,316</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Electronic health records meaningful use incentive revenue	\$ 137,741	\$ 371,573
Cafeteria	71,970	71,482
Rental income	70,764	48,412
Retail pharmacy	191,776	-
Sale of supplies and drugs	3,179	3,523
Wellness	51,011	46,593
Lifeline	24,412	29,158
Miscellaneous	<u>167,345</u>	<u>104,202</u>
 Totals	 <u>\$ 718,198</u>	 <u>\$ 674,943</u>

Crawford County Memorial Hospital
EXPENSES
Year ended June 30, 2014, with comparative totals for 2013

	<u>2014</u>			<u>2013</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 129,652	\$ 3,790	\$ 133,442	\$ 238,491
Medical and surgical	1,089,560	86,472	1,176,032	1,174,397
Obstetrical	268,818	39,263	308,081	292,978
Nursery	87,819	6,633	94,452	60,486
Operating room	437,943	881,949	1,319,892	1,310,979
Recovery room	27,013	3,648	30,661	26,331
Delivery room	44,997	4,467	49,464	43,862
Emergency and outpatient service	948,964	1,303,628	2,252,592	2,309,552
Total nursing service	<u>3,034,766</u>	<u>2,329,850</u>	<u>5,364,616</u>	<u>5,457,076</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	381,133	786,997	1,168,130	861,005
Electrocardiology	58,221	3,275	61,496	57,540
Radiology	384,796	263,121	647,917	620,183
CT scans	-	122,742	122,742	109,362
MRI	-	122,643	122,643	37,206
Ultrasound	141,228	27,967	169,195	169,133
Pharmacy	316,733	628,998	945,731	955,308
Oncology	16,901	126,819	143,720	114,696
Anesthesiology	480,183	150,690	630,873	502,900
Respiratory therapy	103,433	114,261	217,694	195,638
Cardiac rehabilitation	54,581	1,303	55,884	54,136
Ambulance	230,720	154,866	385,586	231,898
Physical therapy	449,479	89,703	539,182	490,851
Occupational therapy	39,428	2,340	41,768	27,170
Speech therapy	-	28,046	28,046	38,420
Clinics	4,830,002	1,254,058	6,084,060	4,235,659
Health information management	352,857	131,650	484,507	366,700
Quality assurance	102,026	9,411	111,437	121,892
Utilization review	84,981	468	85,449	90,132
Total other professional service	<u>8,026,702</u>	<u>4,019,358</u>	<u>12,046,060</u>	<u>9,279,829</u>
GENERAL SERVICE				
Dietary	369,216	146,937	516,153	501,411
Plant engineering	327,517	382,199	709,716	640,480
Housekeeping	222,317	39,084	261,401	240,942
Laundry	-	64,442	64,442	64,731
Total general service	<u>919,050</u>	<u>632,662</u>	<u>1,551,712</u>	<u>1,447,564</u>

Crawford County Memorial Hospital
EXPENSES (continued)
Year ended June 30, 2014, with comparative totals for 2013

	<u>2014</u>			<u>2013</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Fiscal and administrative service	\$ 1,782,517	\$ 1,593,109	\$ 3,375,626	\$ 2,873,612
FICA	-	882,532	882,532	787,749
IPERS	-	1,207,069	1,207,069	984,729
Group health and life insurance	-	1,193,992	1,193,992	1,175,903
Insurance	-	431,443	431,443	433,337
Total fiscal and administrative service and unassigned expenses	<u>1,782,517</u>	<u>5,308,145</u>	<u>7,090,662</u>	<u>6,255,330</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>3,113,923</u>	<u>3,113,923</u>	<u>3,019,344</u>
Total expenses	<u>\$13,763,035</u>	<u>\$15,403,938</u>	<u>\$29,166,973</u>	<u>\$25,459,143</u>

**Crawford County Memorial Hospital
STATISTICS**

	Year ended June 30	
	<u>2014</u>	<u>2013</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,552	1,463
Swing bed		
Skilled care	688	708
Intermediate care	77	45
Nursery	<u>337</u>	<u>255</u>
Totals	<u>2,654</u>	<u>2,471</u>
DISCHARGES		
Medical, surgical and obstetrical	601	572
Swing bed		
Skilled care	83	94
Intermediate care	25	19
Nursery	<u>172</u>	<u>120</u>
Totals	<u>881</u>	<u>805</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.58	2.56
Swing bed		
Skilled care	8.29	7.53
Intermediate care	3.08	2.37
Nursery	1.96	2.13



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

Board of Trustees
Crawford County Memorial Hospital
Denison, 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 Crawford County Memorial Hospital, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 12, 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 opinions 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 12, 2014

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2014**

Part I—Findings Related to the Financial Statements

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

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2014**

Part II—Findings Related to Required Statutory Reporting

14-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its budget, as amended, for the year ended June 30, 2014.

14-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

14-II-C TRAVEL EXPENSES

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

14-II-D BUSINESS TRANSACTIONS

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

14-II-E BOARD MINUTES

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

14-II-F DEPOSITS AND INVESTMENTS

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