

**Lakes Regional Healthcare**  
Spirit Lake, Iowa

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

**Together with Independent Auditor's Report**

# Lakes Regional Healthcare

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## Lakes Regional Healthcare

Officials  
June 30, 2014

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### Board of Trustees

	<u>Address</u>	<u>Term Expires</u>
Denny Perry, Chairman	Spirit Lake, Iowa	December 2016
Kris Walker, Vice-Chairman	Arnolds Park, Iowa	December 2018
Steve Feld, Secretary/Treasurer	Milford, Iowa	December 2016
Dan Sedlacek	Spirit Lake, Iowa	December 2014
Deb Goetzinger	Spirit Lake, Iowa	December 2014
Mary Kay Bates	Spirit Lake, Iowa	December 2018
Jeremy Bolluyt	Spirit Lake, Iowa	December 2014

### Chief Executive Officer

Jason Harrington	Spirit Lake, Iowa	Indefinite
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### Chief Financial Officer

Steve Alger	Spirit Lake, Iowa	Indefinite
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## Independent Auditor's Report

To the Board of Trustees  
Lakes Regional Healthcare  
Spirit Lake, Iowa:

### Report on the Financial Statements

We have audited the accompanying financial statements of Lakes Regional Healthcare (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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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

### Emphasis of Matter

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

## **Other Matters**

### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-8 and 26 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 1-6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 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.

*Spim Johnson, LLP*

Omaha, Nebraska,  
October 22, 2014.

# Lakes Regional Healthcare

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

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This discussion and analysis of Lakes Regional Healthcare's (LRH) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2014, 2013 and 2012. This discussion and analysis should be read in conjunction with financial statements, which start on page 9.

### Financial Highlights

- LRH net position increased in 2014 by \$629,050 or 1.7%. In 2013, the net position increased by \$1,030,090 or 2.9%. In 2012, the net position increased by \$1,357,398 or 3.9%.
- LRH reported operating income in 2014 of \$288,849 compared to an operating income of \$569,507 and \$925,676 in 2013 and 2012, respectively.
- LRH reported non-operating activity in 2014 of \$340,201 compared to non-operating activity of \$460,583 and \$431,722 in 2013 and 2012, respectively.

### Using This Annual Report

LRH financial statements consist of three statements—a Statement of Net Position; a Statement of Revenue, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and the related notes provide information about the activities of LRH, including resources held by LRH but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Analysis of LRH finances starts on page 9. The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position report information about LRH resources and activities in a way that helps answer whether LRH, as a whole, is better or worse off from this year's activities. These statements include all restricted and unrestricted assets and liabilities using the accrual basis of accounting. All the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report LRH net position and changes in them. Increases or decreases in net position are an indicator of whether its financial health is improving or deteriorating. To assess the health of LRH, non-financial factors, such as changes in the patient base of LRH and measures of the quality of service it provides to the community, and local economic factors also need to be considered.

#### The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

# Lakes Regional Healthcare

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

*Table 1: Assets, Liabilities, and Net Assets*

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 Change</u>
<b>Assets:</b>				
Current assets	\$ 23,613,334	33,991,315	24,207,198	-30.5%
Other non-current assets	3,763,401	3,772,673	2,778,894	-0.2%
Capital assets, net	<u>34,152,186</u>	<u>23,436,858</u>	<u>15,731,421</u>	<u>45.7%</u>
<b>Total assets</b>	<u><u>61,528,921</u></u>	<u><u>61,200,846</u></u>	<u><u>42,717,513</u></u>	<u><u>0.5%</u></u>
<b>Liabilities:</b>				
Current Liabilities	7,156,470	6,483,981	3,286,200	10.4%
Long-term debt outstanding	<u>16,536,998</u>	<u>17,585,462</u>	<u>3,330,000</u>	<u>-6.0%</u>
<b>Total liabilities</b>	<u><u>23,693,468</u></u>	<u><u>24,069,443</u></u>	<u><u>6,616,200</u></u>	<u><u>-1.6%</u></u>
<b>Deferred inflow of resources:</b>				
Unavailable property tax revenue	<u>425,000</u>	<u>350,000</u>	<u>350,000</u>	<u>21.4%</u>
<b>Net position:</b>				
Net investment in capital assets	16,566,047	13,199,015	12,106,421	25.5%
Restricted for debt service	1,373,539	1,342,437	269,007	2.3%
Restricted expendable	78,473	189,832	200,023	-58.7%
Restricted nonexpendable	25,000	25,000	25,000	0.0%
Unrestricted	<u>19,367,394</u>	<u>22,025,119</u>	<u>23,150,862</u>	<u>-12.1%</u>
<b>Total net position</b>	<u><u>\$ 37,410,453</u></u>	<u><u>36,781,403</u></u>	<u><u>35,751,313</u></u>	<u><u>1.7%</u></u>

### Net Position

LRH net position is the difference between assets and liabilities reported in the Statement of Net Position on page 9. LRH net position increased this past year by \$629,050 or 1.7%, as shown in Table 1. This compares to an increase of \$1,030,090 in 2013 and an increase of \$1,357,398 in 2012.

## Lakes Regional Healthcare

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 Change</u>
<b>Operating Revenue:</b>				
Net patient service revenue	\$ 34,416,274	34,648,143	27,432,142	-0.7%
Provision for bad debt	(1,755,229)	(1,842,480)	(1,144,815)	-4.7%
Other operating revenue, net	1,132,440	1,326,016	2,096,610	-14.6%
Net assets released for operations	93,272	1,969	119,940	4637.0%
<b>Total operating revenue</b>	<u>33,886,757</u>	<u>34,133,648</u>	<u>28,503,877</u>	<u>-0.7%</u>
<b>Operating Expenses:</b>				
Salaries and benefits	14,104,051	14,328,633	13,784,591	-1.6%
Purchased services and other	17,363,030	16,985,189	11,362,281	2.2%
Depreciation and amortization	2,093,166	2,222,826	2,253,504	-5.8%
Interest	37,661	27,493	177,825	37.0%
<b>Total operating expenses</b>	<u>33,597,908</u>	<u>33,564,141</u>	<u>27,578,201</u>	<u>0.1%</u>
<b>Operating income</b>	<u>288,849</u>	<u>569,507</u>	<u>925,676</u>	<u>-49.3%</u>
<b>Non-operating Revenues and Expenses</b>				
Investment income	101,561	120,773	188,559	-15.9%
County tax revenue	350,000	350,000	350,000	0.0%
Non-capital grants and contributions	--	--	350	0.0%
Other non-operating revenue and expenses, net	(111,360)	(10,190)	(107,187)	992.8%
<b>Total non-operating revenue, net</b>	<u>340,201</u>	<u>460,583</u>	<u>431,722</u>	<u>-26.1%</u>
<b>Increase in net position</b>	<u>629,050</u>	<u>1,030,090</u>	<u>1,357,398</u>	<u>-38.9%</u>
<b>Net position beginning of year</b>	<u>36,781,403</u>	<u>35,751,313</u>	<u>34,393,915</u>	<u>2.9%</u>
<b>Net position end of year</b>	<u>\$ 37,410,453</u>	<u>36,781,403</u>	<u>35,751,313</u>	<u>1.7%</u>

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

In 2014, LRH net position increased by \$629,050 or 1.7%, as shown in Table 2. This increase was a combination of three components. Operating revenue decreased by \$246,891 or 0.7% in 2014, while operating expenses increased by \$33,767 or 0.1%. Non-operating revenue decreased by \$120,382 or 26.1%.

#### *Operating Revenue*

The first component of the change in LRH net position is operating revenue. Operating revenue decreased \$246,891 or 0.7% in 2014. The changes in operating revenue are as follows:

## Lakes Regional Healthcare

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

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- Net patient service revenue decreased \$231,869 or 0.7% in 2014, compared to an increase of \$7,216,001 or 26.3% in 2013 and an increase of \$910,179 or 3.4% in 2012. LRH assumed the operations of the two primary care clinics located on the hospital campus during 2013. Net patient service revenue for the clinics increased \$1,056,725 during 2014, primarily due to 2014 representing twelve months of activity compared to ten months in 2013. Net patient service revenue for the clinics increased \$5,010,869 during 2013 due to 2013 being the initial year. LRH received \$2,136,023 in 2014 and \$2,318,328 in 2013 of supplemental Medicare reimbursements as a member of the Rural Community Hospital Demonstration Program (see Note 3). Setting aside the positive effects of the above activity, net patient service revenue in 2014 experienced a decrease in patient volumes combined with Medicare reimbursement cuts via specific programs and sequestration. Acute patient days were 2,732 in 2014, compared to 3,022 in 2013 and 2,871 in 2012. Surgical patients were 2,158 in 2014, compared to 2,044 in 2013 and 2,108 in 2012.
- The ability to collect revenue charged to patients affects operating revenue. The provision for bad debt in 2014 was \$1,755,229, a 4.7% decrease from 2013. This decrease is a reflection of the decrease in patient volumes combined with increased collection efforts.
- LRH at times provides care for patients who have little or no health insurance and are financially unable to make payment. The level of services provided to these patients was \$353,769 in 2014 compared to \$290,361 in 2013 and \$288,547 in 2012. Because there is no expectation of repayment, charity care affects operating revenue.
- LRH received Medicare incentive payments relating to the use of certified electronic health record technology (see Note 14). LRH recognized incentive payments of \$349,401 in 2014 compared to \$731,250 in 2013, and \$1,514,600 in 2012.

#### Operating Expenses

The second component of the change in LRH net position is operating expenses. Operating expenses increased \$33,767 or 0.1% in 2014. The primary components affecting operating expenses are:

- As noted above, the hospital assumed the operations of the two primary care clinics located on the hospital campus during 2013. This resulted in an increase for 2014 of \$911,709 in operating expenses, with the majority classified as professional fees and purchased services. The increase is due to 2014 representing twelve months of clinic operations versus ten months during 2013. Operating expenses increased \$5,018,550 during 2013 due to the initial year of the clinic operations.
- Salary and benefit costs for employees decreased \$224,582 or 1.6% in 2014, compared to an increase of \$544,042 or 3.9% in 2013, and an increase of \$602,668 or 4.6% in 2012.
- Purchased services and other expenses increased \$377,841 or 2.2% in 2014, compared to an increase of \$5,382,565 or 49.5% in 2013, and an increase of \$363,089 or 3.3% in 2012. The 2014 and 2013 increases included \$919,692 and \$4,924,411, respectively, for the primary care clinics. Setting aside this expense increase, LRH experienced a decrease in supplies expense for 2014.

#### Non-operating Revenue and Expenses

The third and final component of the change in LRH net position is its non-operating revenue. Non-operating revenue decreased \$120,385 or 26.1% in 2014. The primary components affecting non-operating revenue are:

- Property tax income was \$350,000 in 2014, 2013, and 2012 respectively. Dickinson County provides property tax revenue to LRH for the ambulance service. The county tax levy was \$0.16291 per \$1000 of valuation for 2014, \$0.16999 in 2013 and \$0.18613 in 2012.
- Investment income was \$101,561 for 2014, \$120,773 in 2013, and \$188,559 in 2012. Excess cash is maintained in interest bearing checking, savings, and short term certificates of deposits. These low risk investments continue to have very low rates of return.
- Other non-operating revenue (expenses), net were (\$111,360) in 2014, (\$10,190) in 2013, and (\$107,187) in 2012. The majority of this expense in 2014 related to the release of restrictions on donations.

# Lakes Regional Healthcare

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

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### Cash Flows

Changes in cash flows are consistent with changes in operating income and non-operating revenue and expenses, discussed earlier.

### Capital Asset and Debt Administration

#### Capital Assets

As of June 30, 2014 LRH had \$34,152,186 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. At June 30, 2013, LRH had \$23,436,858 invested in capital assets, net of accumulated depreciation. Capital spending was \$13,126,041 and \$8,258,475 in 2014 and 2013, respectively. The increased capital spending in 2014 and 2013 is the result of capitalization of 40,000 square feet of space that will provide improvements to the Hospital's surgery, purchasing, and facilities departments along with the critical care unit and the obstetrics unit at the Hospital.

#### Debt

At year-end, LRH had \$16,536,998 in capital loan notes outstanding. The majority of this debt was issued in conjunction with the 2013/2014 construction project.

#### Other Economic Factors

The 2013 and 2014 fiscal years provided LRH with a combination of favorable and unfavorable Medicare reimbursement decisions. LRH was affected unfavorably by discontinuation of the Outpatient Hold Harmless provisions within the OPSS payment system along with the 2% Medicare reimbursement cuts that started in the spring of 2013 as a result of the government sequestration. In addition, the continued pressures from the Recovery Audit Program (RACs) have impacted Hospital operations. The effects of the above were lessened somewhat by the favorable continued participation in the Rural Community Hospital Demonstration Program. 2014 was the third year of participation in this five year program.

In addition to the above pressures on hospital revenue, expenses continue to be impacted by higher than average inflation rates combined with a steady rate of increase on salary costs for union contracts that represent employees of various departments. Physician turnover across specialties has also impacted the Hospital's expenses through increased physician recruitment incentives and income guarantees.

### Contacting LRH Financial Management

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of LRH finances. Questions about this report or requests for more information should be directed to:

Steve Alger  
Chief Financial Officer  
Lakes Regional Healthcare  
Highway 71 South  
Spirit Lake, Iowa 51360  
712-336-8796

# Lakes Regional Healthcare

## Statements of Net Position June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 15,959,610	14,437,877
Certificates of deposit	--	3,708,547
Assets limited as to use - current portion	379,200	8,625,640
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,686,861 in 2014 and \$1,895,793 in 2013	4,470,021	4,667,179
Succeeding year property tax	425,000	350,000
Other	1,225,631	1,153,648
Inventories	938,103	734,903
Prepaid expenses	215,769	181,647
Estimated third-party payor settlements, net	--	131,874
	<u>23,613,334</u>	<u>33,991,315</u>
Total current assets	23,613,334	33,991,315
Assets limited as to use	3,763,401	3,772,673
Capital assets, net of accumulated depreciation	<u>34,152,186</u>	<u>23,436,858</u>
Total assets	<u>61,528,921</u>	<u>61,200,846</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	1,049,141	929,818
Accounts payable -		
Trade	2,501,594	1,853,823
Construction	969,426	1,578,018
Salaries, wages and accrued vacation payable	1,460,638	1,386,017
Payroll taxes withheld and accrued	130,587	214,991
Accrued interest payable	26,340	30,562
Other accrued liabilities	565,020	490,752
Estimated third-party payor settlements, net	453,724	--
	<u>7,156,470</u>	<u>6,483,981</u>
Total current liabilities	7,156,470	6,483,981
Long-term debt, net of current portion	<u>16,536,998</u>	<u>17,585,462</u>
Total liabilities	<u>23,693,468</u>	<u>24,069,443</u>
<b>DEFERRED INFLOW OF RESOURCES</b>		
Unavailable property tax revenue	<u>425,000</u>	<u>350,000</u>
<b>NET POSITION</b>		
Net investment in capital assets	16,566,047	13,199,015
Restricted -		
For debt service	1,373,539	1,342,437
Expendable for capital acquisitions & operating activities	78,473	189,832
Nonexpendable	25,000	25,000
Unrestricted	<u>19,367,394</u>	<u>22,025,119</u>
Total net position	<u>\$ 37,410,453</u>	<u>36,781,403</u>

See notes to financial statements

## Lakes Regional Healthcare

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

	<u>2014</u>	<u>Restated 2013</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 34,416,274	34,648,143
Provision for bad debt	<u>(1,755,229)</u>	<u>(1,842,480)</u>
Net patient service revenue	32,661,045	32,805,663
Other, net	<u>1,225,712</u>	<u>1,327,985</u>
Total operating revenue	<u>33,886,757</u>	<u>34,133,648</u>
OPERATING EXPENSES:		
Salaries	10,853,202	11,129,951
Employee benefits	3,250,849	3,198,682
Purchased services and professional fees	8,954,067	8,139,775
Utilities	521,209	454,122
Supplies and other expenses	7,654,053	8,169,939
Depreciation and amortization	2,093,166	2,222,826
Insurance	233,701	221,353
Interest	<u>37,661</u>	<u>27,493</u>
Total operating expenses	<u>33,597,908</u>	<u>33,564,141</u>
OPERATING INCOME	<u>288,849</u>	<u>569,507</u>
NONOPERATING REVENUE:		
Investment income	101,561	120,773
County tax revenue	<u>350,000</u>	<u>350,000</u>
Total nonoperating revenue	<u>451,561</u>	<u>470,773</u>
EXCESS REVENUE OVER EXPENSES BEFORE RESTRICTED AND AUXILIARY ACTIVITY, NET	740,410	1,040,280
RESTRICTED AND AUXILIARY ACTIVITY, NET	<u>(111,360)</u>	<u>(10,190)</u>
INCREASE IN NET POSITION	<u>629,050</u>	<u>1,030,090</u>
NET POSITION, beginning of year, as previously reported	36,781,403	35,763,820
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 15)	<u>--</u>	<u>(12,507)</u>
NET POSITION, beginning of year, as restated	<u>36,781,403</u>	<u>35,751,313</u>
NET POSITION, end of year	<u>\$ 37,410,453</u>	<u>36,781,403</u>

*See notes to financial statements*

## Lakes Regional Healthcare

### Statements of Cash Flows

For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>Restated 2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 33,443,801	31,752,951
Cash paid for employees salaries and benefits	(14,113,834)	(14,198,788)
Cash paid to suppliers and contractors	(16,878,313)	(15,986,338)
Other receipts and payments, net	1,058,456	751,496
	<u>3,510,110</u>	<u>2,319,321</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES, County taxes received	<u>350,000</u>	<u>350,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(13,126,041)	(8,258,475)
Proceeds from issuance of long-term debt, net of premium	--	15,193,100
Payments on long-term debt	(910,000)	(295,000)
Interest paid on long-term debt	(346,484)	(204,748)
	<u>(14,382,525)</u>	<u>6,434,877</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from (deposits to) assets limited as to use, net	8,230,290	(9,361,590)
Withdrawals from certificates of deposit, net	3,708,547	94,106
Investment income	105,311	135,149
	<u>12,044,148</u>	<u>(9,132,335)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,521,733	(28,137)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>14,437,877</u>	<u>14,466,014</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u><u>15,959,610</u></u>	<u><u>14,437,877</u></u>

*See notes to financial statements*

## Lakes Regional Healthcare

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

	<u>2014</u>	<u>Restated 2013</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 288,849	569,507
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	2,093,166	2,222,826
Interest expense	37,661	27,493
Gain on disposal of capital assets	(9,335)	(17,684)
(Increase) decrease in current assets -		
Receivables -		
Patients	197,158	(844,957)
Other	(71,983)	(559,793)
Inventories	(203,200)	1,494
Prepaid expenses	(34,122)	(14,597)
Estimated third-party payor settlements	131,874	(131,874)
Increase (decrease) in current liabilities -		
Accounts payable - trade	647,771	953,756
Due to restricted funds	(85,938)	988
Salaries, wages and accrued vacation payable	74,621	112,220
Payroll taxes withheld and accrued	(84,404)	17,625
Other accrued liabilities	74,268	58,198
Estimated third-party payor settlements	453,724	(75,881)
Net cash provided by operating activities	\$ <u>3,510,110</u>	<u>2,319,321</u>

*See notes to financial statements*

# Lakes Regional Healthcare

## Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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

The following describes the reporting entity and is a summary of significant accounting policies of Lakes Regional Healthcare (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 and governed by a seven member Board of Trustees elected for terms of six years.

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

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

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

#### C. Basis of Presentation

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

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

## Lakes Regional Healthcare

### Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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*Restricted* – This component of net position results when constraints placed on net positions through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

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

*D. Measurement Focus and Basis of Accounting*

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are 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. Estimates also affect the reported amounts of revenues 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 donor and loan agreements.

*G. Patient Receivables, Net*

Net patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice. If unspecified, payments of patient receivables are allocated to unpaid accounts.

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 payor 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. Other Receivables*

Other receivables include physician recruitment advances and income guarantees, Medicare electronic health record incentive payments, and other miscellaneous receivables.

# Lakes Regional Healthcare

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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*I. Inventories*

Inventories are valued at historical cost using the first-in, first-out method.

*J. Assets Limited as to Use*

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

*Under Loan Agreements* - These funds are used for the payment of principal and interest on associated debt and to provide funds for the Hospital construction project.

*By Donor* - These funds are restricted for specified purposes as directed by the grantor or donor.

*K. Capital Assets*

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

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

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers, and furniture	3 to 25 years

*L. Costs of Borrowing*

Except for capital assets acquired through gifts, contributions or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets, net of capitalized interest income on unspent borrowed funds.

*M. 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 Board of Trustees. The succeeding year property taxes receivable represents taxes certified by the Board of Trustees 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 Trustees 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 taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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*N. Compensated Absences*

Sick leave does not vest and is accounted for as an expenditure or an expense when it is paid. Vacation leave vests and may be carried forward by an employee in an amount not to exceed 480 hours. Vacation expense is accrued as an expense and a liability as it is earned. Vacation leave expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued vacation leave payable at June 30, 2014 and 2013 was \$929,844 and \$906,584, respectively.

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

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Property tax levied to finance the current year is included in nonoperating revenue and peripheral or incidental transactions are reported as nonoperating revenue and expenses.

*P. 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.

*Q. Grants and Contributions*

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

*R. Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

*S. Group Health Insurance Costs*

The Hospital is self-insured under its employee group health program up to certain limits. Included in the employee benefits expense on the accompanying consolidated statements of operations is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end. A liability for unpaid claims is included in other accrued liabilities on the accompanying statements of net position in the amount of \$245,000 and \$206,141 at June 30, 2014 and 2013, respectively.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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#### *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. Change in Accounting Principle*

During 2014, the Hospital has adopted the provisions of GASB Statement No. 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statements 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 statements of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$12,507 in net position as of the beginning of 2013 (see Note 15).

#### *V. Subsequent Events*

The Hospital considered events occurring through October 22, 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) Cash 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; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name. The Hospital had no investments as defined by GASB Codification Section 150 and 155 at June 30, 2014 and 2013.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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#### (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 and swing-bed services rendered to Medicare program beneficiaries are paid based on Medicare defined costs of providing the services pursuant to the terms of the Rural Community Hospital Demonstration Program. Outpatient services are paid based on ambulatory payment classifications or fee schedule amounts. Home health services are paid at prospectively determined rates per episode of care. 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 Medicare Administrative Contractor.

The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary 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 rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services related to Medicaid beneficiaries are paid based on ambulatory patient classifications or fee schedule amounts.

**Commercial** The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements primarily includes discounts from established charges.

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. Net patient service revenue increased \$289,000 and \$450,000 in 2014 and 2013, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of information obtained from final settlements and years that are no longer subject to audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 51% and 7%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2014, and 49% and 6%, respectively, for the year ended June 30, 2013. The Hospital grants credit without collateral to their patients, most of whom 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.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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#### (4) Other Receivables

The composition of other receivables at June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Physician loans and income guarantees, net	\$ 917,424	292,983
Medicare EHR incentive (Note 14)	--	731,250
Other	<u>308,207</u>	<u>129,415</u>
	<u>\$ 1,225,631</u>	<u>1,153,648</u>

Receivables for physician loans and income guarantees are recorded when paid and subsequently amortized to operating expenses as the physicians fulfill the commitments of the agreements.

#### (5) Assets Limited as to Use

##### By Board

Cash deposits and certificates of deposit designated by the Board for endowments as of June 30, 2014 and 2013, are summarized as follows:

	<u>2014</u>	<u>2013</u>
Endowments -		
Cash	\$ 3,530	4,393
Certificates of deposit	2,670,000	2,651,340
Interest receivable	1,099	2,852
Commingled donor funds (see below)	<u>(9,040)</u>	<u>(94,978)</u>
	<u>\$ 2,665,589</u>	<u>2,563,607</u>

##### Under Loan Agreements

In connection with the issuance of Lakes Regional Healthcare Revenue Capital Loan Notes, Series 2002, the Hospital is required to maintain the following fund:

*Bond Fund* – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment (Series 2002).

In connection with the issuance of Dickinson County General Obligation Urban Renewal Hospital Bonds, Series 2012 and Series 2013, and pursuant to the Loan Agreements between Dickinson County and the Hospital, the Hospital is required to maintain the following funds:

*Construction Fund* – Consists of unexpended bond proceeds to be used for the construction, furnishing and equipping of the projects specified in the trust indenture agreements.

*Sinking Funds* – Established for the monthly deposit by the Hospital of 1/12th of the next annual principal payment and 1/6th of the next semi-annual interest payment (Series 2012 and 2013).

*Debt Service Reserve Fund* – Established for the deposit of an amount equal to the maximum annual debt service payable on the Series 2012 and 2013 notes in any future fiscal year.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

The amounts as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Bond Fund, Series 2002, cash	\$ 275,485	270,303
Construction Fund, Series 2012 and 2013, cash	--	8,277,437
Sinking Funds, Series 2012 and 2013, cash	103,715	77,900
Debt Service Reserve Fund, Series 2012 and 2013, cash	<u>994,339</u>	<u>994,234</u>
	1,373,539	9,619,874
Less current portion	<u>(379,200)</u>	<u>(8,625,640)</u>
	<u>\$ 994,339</u>	<u>994,234</u>

#### By Donor

The Mandelbaum Endowment Fund consists of a bequest of \$25,000 received in June 1988. The principal amount of \$25,000 is to remain intact with the interest earned to be used for nurse training.

The Hospice and other restricted contributions are donor funds received that are commingled with the board designated endowment funds. These funds are restricted for various donor restrictions.

The Hospital Auxiliary conducts various projects to raise funds which are used to satisfy needs of the Hospital as determined by its executive Board and the Hospital Board of Trustees.

The amounts segregated as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Mandelbaum Endowment fund		
Certificate of deposit	\$ 25,000	25,000
Hospice and other restricted contributions		
Commingled with board designated endowment funds	9,040	94,978
Hospital auxiliary assets, primarily cash and cash equivalents	<u>69,433</u>	<u>94,854</u>
	<u>\$ 103,473</u>	<u>214,832</u>
Total assets limited as to use, net of current portion	<u>\$ 3,763,401</u>	<u>3,772,673</u>
Capitalized interest income on construction funds	<u>\$ 3,750</u>	<u>14,376</u>

# Lakes Regional Healthcare

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

### (6) Capital Assets

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

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 919,017	--	--	919,017
Construction in progress	9,616,760	12,662,392	(22,279,152)	--
Total capital assets, not being depreciated	<u>10,535,777</u>	<u>12,662,392</u>	<u>(22,279,152)</u>	<u>919,017</u>
Capital assets, being depreciated:				
Land improvements	630,744	--	135,955	766,699
Hospital buildings	21,090,697	--	16,091,424	37,182,121
Fixed equipment	3,663,599	--	1,232,378	4,895,977
Major moveable equipment	13,623,929	164,268	2,116,433	15,904,630
Total capital assets, being depreciated	<u>39,008,969</u>	<u>164,268</u>	<u>19,576,190</u>	<u>58,749,427</u>
Less accumulated depreciation:				
Land improvements	414,947	25,866	(85,215)	355,598
Hospital buildings	11,483,266	827,623	(1,562,142)	10,748,747
Fixed equipment	2,458,875	328,666	(47,145)	2,740,396
Major moveable equipment	11,750,800	911,011	(990,294)	11,671,517
Total accumulated depreciation	<u>26,107,888</u>	<u>2,093,166</u>	<u>(2,684,796)</u>	<u>25,516,258</u>
Total capital assets, being depreciated, net	<u>12,901,081</u>	<u>(1,928,898)</u>	<u>22,260,986</u>	<u>33,233,169</u>
Total capital assets, net	<u>\$ 23,436,858</u>	<u>10,733,494</u>	<u>(18,166)</u>	<u>34,152,186</u>
	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 919,017	--	--	919,017
Construction in progress	762,046	9,720,627	(865,913)	9,616,760
Total capital assets, not being depreciated	<u>1,681,063</u>	<u>9,720,627</u>	<u>(865,913)</u>	<u>10,535,777</u>
Capital assets, being depreciated:				
Land improvements	623,724	7,020	--	630,744
Hospital buildings	20,293,618	8,040	789,039	21,090,697
Fixed equipment	3,706,988	--	(43,389)	3,663,599
Major moveable equipment	13,465,747	269,451	(111,269)	13,623,929
Total capital assets, being depreciated	<u>38,090,077</u>	<u>284,511</u>	<u>634,381</u>	<u>39,008,969</u>
Less accumulated depreciation:				
Land improvements	390,296	24,651	--	414,947
Hospital buildings	10,709,677	773,589	--	11,483,266
Fixed equipment	2,153,816	348,448	(43,389)	2,458,875
Major moveable equipment	10,785,930	1,076,138	(111,268)	11,750,800
Total accumulated depreciation	<u>24,039,719</u>	<u>2,222,826</u>	<u>(154,657)</u>	<u>26,107,888</u>
Total capital assets, being depreciated, net	<u>14,050,358</u>	<u>(1,938,315)</u>	<u>789,038</u>	<u>12,901,081</u>
Total capital assets, net	<u>\$ 15,731,421</u>	<u>7,782,312</u>	<u>(76,875)</u>	<u>23,436,858</u>

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

#### (7) Long-Term Debt

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

	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Capital loan notes (A)	\$ 3,330,000	--	(310,000)	3,020,000	320,000
Series 2012 loan agreement (B)	10,000,000	--	--	10,000,000	--
Series 2013 loan agreement (C)	5,000,000	--	(600,000)	4,400,000	710,000
Unamortized bond premiums (B, C)	185,280	--	(19,141)	166,139	19,141
	<u>\$ 18,515,280</u>	<u>--</u>	<u>(929,141)</u>	<u>17,586,139</u>	<u>1,049,141</u>

  

	June 30, 2012	Borrowings	Payments	June 30, 2013	Due Within One Year
Capital loan notes (A)	\$ 3,625,000	--	(295,000)	3,330,000	310,000
Series 2012 loan agreement (B)	--	10,000,000	--	10,000,000	--
Series 2013 loan agreement (C)	--	5,000,000	--	5,000,000	600,000
Unamortized bond premiums (B, C)	--	193,100	(7,820)	185,280	19,818
	<u>\$ 3,625,000</u>	<u>15,193,100</u>	<u>(302,820)</u>	<u>18,515,280</u>	<u>929,818</u>

- (A) On May 6, 2002, \$8,000,000 of Hospital Revenue Capital Loan Notes were issued by the Hospital pursuant to the provisions of Chapter 331 and 347 of the Code of Iowa, as amended, and in conformity with a resolution of the Lakes Regional Healthcare Board of Trustees, and, as such, the Hospital has pledged future revenues, net of specified operating expenses, to repay the bonds. The proceeds of the Notes were used to retire the outstanding principal amount of Public Hospital Revenue Capital Loan Notes, Series 1993(B), and provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the notes is 0.99% and will reset on June 1, 2017 at the rate equal to the five-year United States Treasury Note Index plus .25%.
- (B) On August 22, 2012, Dickinson County, Iowa issued \$10,000,000 of General Obligation Urban Renewal Hospital Bonds Series 2012. Proceeds from the issuance were loaned to the Hospital under a loan agreement between the Hospital and Dickinson County, Iowa. Proceeds from the Series 2012 are being used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the bonds varies between 2.00% and 2.50%. Annual principal payments range in amounts from \$680,000 to \$945,000 and are due beginning in 2021 through June 2032.
- (C) On February 21, 2013, Dickinson County, Iowa issued \$5,000,000 of General Obligation Urban Renewal Hospital Bonds Series 2013. Proceeds from the issuance were loaned to the Hospital under a loan agreement between the Hospital and Dickinson County, Iowa. Proceeds from the Series 2013 are being used to provide funds for the construction of additions to and remodeling of the existing Hospital facilities. The interest rate on the bonds is 1.50%. Annual principal payments range in amounts from \$710,000 to \$740,000 from 2015 through 2020 with a final payment of \$70,000 in June 2021.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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

<u>Year</u>	<u>Interest Rates</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	0.99 - 1.50	\$ 1,030,000	313,616	1,343,616
2016	0.99 - 1.50	1,045,000	299,833	1,344,833
2017	0.99 - 1.50	1,065,000	285,903	1,350,903
2018	0.99 - 1.50	1,095,000	271,752	1,366,752
2019	0.99 - 1.50	1,115,000	257,255	1,372,255
2020-2024	0.99 - 2.00	5,090,000	1,041,512	6,131,512
2025-2029	2.00 - 2.38	4,215,000	618,900	4,833,900
2030-2032	2.38 - 2.50	<u>2,765,000</u>	<u>135,950</u>	<u>2,900,950</u>
		17,420,000	<u>3,571,205</u>	<u>20,644,721</u>
Add unamortized bond premium		<u>166,139</u>		
		\$ <u>17,586,139</u>		

Under the terms of the Series 2012 and 2013 loan agreements, the Hospital is required to maintain certain deposits, which are included with assets limited as to use, satisfy certain measures of financial performance as long as the loans are outstanding and comply with other covenants.

The following interest costs are associated with the Hospital's long-term debt:

	<u>2014</u>	<u>2013</u>
Interest costs	\$ 342,262	232,405
Amortization of bond premiums	(19,141)	(7,820)
Less interest capitalized with Hospital construction project	<u>(285,460)</u>	<u>(197,092)</u>
Interest included in the statements of revenue, expenses and changes in net position	<u>\$ 37,661</u>	<u>27,493</u>

#### (8) Designated Net Position

Of the \$19,367,394 and \$22,025,119 of unrestricted net position reported in 2014 and 2013, respectively, \$2,665,589 and \$2,563,607 has been designated by the Hospital's Board of Trustees for endowments. Designated funds remain under control of the Board of Trustees, which may as its discretion later use the funds for other purposes.

# Lakes Regional Healthcare

## Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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### (9) 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. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future should professional liability insurance not be obtained, should coverage be limited and/or not available.

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.

### (10) Pension Plan

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50360-9117.

Plan members are required to contribute 5.95% and 5.78% of their annual salary and the Hospital is required to contribute an additional 8.96% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$943,673, \$949,393, and \$846,471, respectively, which equaled the required contributions for each year.

### (11) Rental Income

The Hospital is the lessor of certain office space leased under various noncancelable operating leases through 2022. Rental income is recorded monthly as earned in other operating revenue. The future minimum rentals under these leases are as follows:

2015	\$	67,116
2016		67,116
2017		67,116
2018		67,116
2019		67,116
2020 – 2022		100,674

### (12) 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.

## Lakes Regional Healthcare

### Notes to Financial Statements

For the Years Ended June 30, 2014 and 2013

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#### (13) Concentrations of Credit Risk

The Hospital is located in Spirit Lake, 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	38.4%	33.7%
Medicaid	8.9	3.0
Blue Cross	23.0	14.7
Private pay	11.8	34.2
Other third-party payors	<u>17.9</u>	<u>14.4</u>
	<u>100.0%</u>	<u>100.0%</u>

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.

#### (14) Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentive payments beginning in 2011 to certain hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology in ways that demonstrate improved quality and effectiveness of care. Specific criteria is set by the Center for Medicare and Medicaid Services (CMS). Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period. An initial Medicaid incentive payment is available to providers that adopt, implement, or upgrade certified EHR technology. However, in order to receive additional Medicaid incentive payments in subsequent years, providers must demonstrate continued meaningful use of EHR technology.

The Hospital accounts for meaningful use incentive payments under the grant accounting model, cliff recognition. Medicare EHR incentive payments are recognized as revenue when eligible providers demonstrate meaningful use of certified EHR technology and data is available to estimate the incentive payments for each period (a 365 day period after the initial 90 day attestation period). Medicaid EHR incentive payments are recognized as revenue when an eligible provider demonstrates meaningful use of certified EHR technology for each period. For fiscal years 2014 and 2013, the Hospital recognized \$349,401 and \$731,250, respectively, of Medicare meaningful use grant revenue. For fiscal years 2014 and 2013 the Hospital recognized \$87,500 and \$-0-, respectively, of Medicaid meaningful use grant revenue in other revenue in its statement of revenue, expenses, and changes in net position.

## Lakes Regional Healthcare

### Notes to Financial Statements For the Years Ended June 30, 2014 and 2013

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#### (15) Change in Accounting Principle

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

<u>Description</u>	<u>As Previously reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Other assets, net	\$ 241,183	(241,183)	--
Depreciation and amortization	2,234,493	(11,667)	2,222,826
Purchased services and professional fees	7,899,432	240,343	8,139,775
Increase in net position	1,258,766	(228,676)	1,030,090
Net Position, June 30, 2012	35,763,820	(12,507)	35,751,313

## Lakes Regional Healthcare

### Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) June 30, 2014 and 2013

This budgetary comparison is presented as Required Supplementary Information in accordance with GASB Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

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 amount budgeted.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	Actual		Actual Cash Basis	Budgeted Amounts		Variance Favorable (Unfavorable)
	Accrual Basis	Accrual Adjustments		Original	Amended	
Estimated amount to be raised by taxation	\$ 350,000	--	350,000	345,362	345,362	4,638
Estimated other revenues / receipts	<u>33,876,958</u>	<u>708,958</u>	<u>34,585,916</u>	<u>35,107,338</u>	<u>35,107,338</u>	<u>(521,422)</u>
	34,226,958	708,958	34,935,916	35,452,700	35,452,700	(516,784)
Expenses / Disbursements	<u>33,597,908</u>	<u>11,775,363</u>	<u>45,373,271</u>	<u>46,116,250</u>	<u>46,809,000</u>	<u>1,435,729</u>
Net	629,050	(11,066,405)	(10,437,355)	<u>\$ (10,663,550)</u>	<u>(11,356,300)</u>	<u>918,945</u>
Balance beginning of year	<u>36,781,403</u>	<u>(6,242,936)</u>	<u>30,538,467</u>			
Balance end of year	<u>\$ 37,410,453</u>	<u>(17,309,341)</u>	<u>20,101,112</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
<b>NURSING SERVICES:</b>								
Medical, surgical and obstetrics	\$ 2,626,107	(943)	--	2,625,164	2,815,768	30,690	--	2,846,458
Observation	--	753,082	--	753,082	149,788	577,711	--	727,499
Coronary care	281,520	--	--	281,520	249,147	--	--	249,147
Nursery	200,371	--	--	200,371	151,420	--	--	151,420
Swing bed	--	--	154,613	154,613	--	--	293,321	293,321
	<u>3,107,998</u>	<u>752,139</u>	<u>154,613</u>	<u>4,014,750</u>	<u>3,366,123</u>	<u>608,401</u>	<u>293,321</u>	<u>4,267,845</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Operating and recovery rooms	1,261,028	7,712,430	9,746	8,983,204	1,349,202	6,905,551	15,456	8,270,209
Primary care clinics	1,612	7,768,585	--	7,770,197	--	6,381,135	--	6,381,135
Pharmacy	1,437,762	5,576,796	123,565	7,138,123	1,437,401	6,186,368	167,164	7,790,933
Laboratory	750,282	4,893,542	34,464	5,678,288	755,756	4,245,230	80,836	5,081,822
Emergency and outpatient service	482,350	4,742,571	657	5,225,578	537,591	4,874,856	2,469	5,414,916
Central services and supply	2,314,968	2,479,788	8,594	4,803,350	2,506,276	1,986,486	10,869	4,503,631
CT scanner	218,883	2,518,268	3,938	2,741,089	148,987	2,148,462	3,250	2,300,699
MRI	35,601	1,868,660	--	1,904,261	33,047	1,592,114	15,135	1,640,296
Radiology	143,455	1,545,510	6,765	1,695,730	171,128	1,511,998	25,031	1,708,157
Ambulance	194,881	1,405,362	5,777	1,606,020	237,355	1,422,909	2,206	1,662,470
Physical therapy	152,893	1,097,734	46,810	1,297,437	163,678	879,765	74,350	1,117,793
Ultrasound	63,118	1,179,853	3,435	1,246,406	85,368	1,101,551	16,778	1,203,697
Anesthesiology	184,669	933,050	1,420	1,119,139	212,144	871,409	2,556	1,086,109
Respiratory therapy	518,077	537,500	44,031	1,099,608	556,320	478,040	80,546	1,114,906
Outpatient clinic	8,210	971,335	--	979,545	10,356	1,014,611	--	1,024,967
Home health	--	778,061	--	778,061	--	917,664	--	917,664
Hospice	496,558	--	--	496,558	341,353	--	--	341,353
Delivery and labor room	325,766	105,315	--	431,081	211,351	88,622	--	299,973
Mammogram	--	383,525	--	383,525	--	349,611	--	349,611
Public health	--	317,829	--	317,829	--	322,478	--	322,478
Occupational therapy	66,565	178,257	34,242	279,064	75,794	181,935	47,691	305,420
Electroencephalography	--	273,555	--	273,555	--	343,561	--	343,561
Electrocardiology	17,588	215,310	498	233,396	24,332	235,262	6,912	266,506
Enterostomal therapy	2,933	223,486	--	226,419	1,177	131,211	--	132,388
Cardiac rehab	--	182,467	--	182,467	--	119,052	--	119,052
Blood	78,983	80,012	4,541	163,536	73,789	60,014	3,614	137,417
Nuclear medicine	3,982	138,079	--	142,061	4,722	219,102	3,189	227,013
Speech therapy	13,967	30,413	2,391	46,771	19,786	15,440	2,539	37,765
	<u>8,774,131</u>	<u>48,137,293</u>	<u>330,874</u>	<u>57,242,298</u>	<u>8,956,913</u>	<u>44,584,437</u>	<u>560,591</u>	<u>54,101,941</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ 11,882,129</b>	<b>48,889,432</b>	<b>485,487</b>	<b>61,257,048</b>	<b>12,323,036</b>	<b>45,192,838</b>	<b>853,912</b>	<b>58,369,786</b>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(26,181,214)				(23,208,817)
Charity care services and other discounts, based on charges forgone				(659,560)				(512,826)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<b>\$ 34,416,274</b>				<b>\$ 34,648,143</b>
<b>PROVISION FOR BAD DEBT</b>				<b>(1,755,229)</b>				<b>(1,842,480)</b>
<b>NET PATIENT SERVICE REVENUE</b>				<b>\$ 32,661,045</b>				<b>\$ 32,805,663</b>

See accompanying independent auditor's report

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

	<u>2014</u>	<u>2013</u>
Electronic health records incentive payments-		
Centers for Medicare and Medicaid Services	\$ 349,401	731,250
Iowa Department of Health and Human Services	87,500	--
Rental income	200,788	212,321
Meals sold	157,667	149,543
Grants	137,177	56,955
Other	109,009	56,740
Net position released for operations	93,272	1,969
Lifeline	59,928	69,512
Meals on wheels	21,635	27,014
Gain (loss) on disposal of capital assets	9,335	17,684
Medical record fees	--	4,425
Dietary instruction	--	572
	<u>\$ 1,225,712</u>	<u>1,327,985</u>

*See accompanying independent auditor's report*

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

	2014				2013			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 1,692,717	1,906	75,587	1,770,210	1,860,480	--	100,286	1,960,766
Coronary care	204,744	42,000	6,483	253,227	175,483	39,100	15,448	230,031
Obstetrics	179,979	--	26,740	206,719	153,605	2,748	20,484	176,837
Administration	135,556	--	1,986	137,542	147,602	--	987	148,589
Nursery	79,692	--	4,597	84,289	66,579	--	3,772	70,351
	<u>2,292,688</u>	<u>43,906</u>	<u>115,393</u>	<u>2,451,987</u>	<u>2,403,749</u>	<u>41,848</u>	<u>140,977</u>	<u>2,586,574</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Primary care clinics	117,583	4,923,043	784,006	5,824,632	130,922	4,282,456	504,901	4,918,279
Pharmacy	282,664	516	2,196,044	2,479,224	271,684	--	2,541,822	2,813,506
Emergency room	937,814	1,254,757	168,741	2,361,312	767,497	1,335,245	174,740	2,277,482
Central services and supply	60,987	--	1,252,702	1,313,689	59,285	--	1,757,451	1,816,736
Operating and recovery room	651,177	143,780	339,124	1,134,081	654,670	124,300	301,265	1,080,235
Laboratory	524,585	219,141	232,722	976,448	522,319	206,225	256,768	985,312
Physical therapy	162,456	576,448	42,582	781,486	180,004	495,716	61,487	737,207
Ambulance	537,045	382	100,054	637,481	515,219	--	116,379	631,598
Home health	485,455	57,546	42,875	585,876	643,772	60,749	53,299	757,820
Radiology	356,431	109,528	116,829	582,788	345,814	75,968	123,637	545,419
Outpatient clinic	349,585	--	46,170	395,755	278,792	--	54,613	333,405
Hospice	147,873	190,035	55,843	393,751	149,340	130,340	46,215	325,895
Medical records	339,903	--	48,235	388,138	314,093	8	47,531	361,632
Anesthesiology	160,454	65,771	60,102	286,327	160,454	52,637	64,990	278,081
Same day surgery	242,795	--	31,635	274,430	239,146	--	23,555	262,701
Public health	226,391	1,707	33,258	261,356	236,632	4,492	21,228	262,352
Respiratory therapy	132,225	79,376	37,813	249,414	143,955	96,582	41,702	282,239
CT scanner	53,505	6,915	142,252	202,672	43,453	8,440	155,103	206,996
MRI	34,036	--	128,692	162,728	27,767	--	119,443	147,210
Ultrasound	128,206	4,710	16,440	149,356	117,505	10,627	32,003	160,135
Blood bank	--	107,639	855	108,494	--	99,577	--	99,577
Electrocardiology	101,342	900	4,987	107,229	69,514	1,100	8,296	78,910
Quality assurance	69,646	--	4,370	74,016	70,864	--	5,529	76,393
Delivery and labor room	62,582	--	6,904	69,486	52,284	--	6,735	59,019
Enterostomal therapy	--	47,589	16,719	64,308	--	44,070	2,732	46,802
Nuclear medicine	--	58,787	--	58,787	--	92,770	--	92,770
Electroencephalography	--	36,159	--	36,159	--	58,088	80	58,168
Speech therapy	--	23,593	--	23,593	--	19,845	6	19,851
Social services	23,139	--	64	23,203	16,509	--	56	16,565
	<u>6,187,879</u>	<u>7,908,322</u>	<u>5,910,018</u>	<u>20,006,219</u>	<u>6,011,494</u>	<u>7,199,235</u>	<u>6,521,566</u>	<u>19,732,295</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	399,037	87,211	684,736	1,170,984	379,952	105,846	585,043	1,070,841
Dietary	281,179	1,034	265,807	548,020	294,803	10,132	265,738	570,673
Housekeeping	149,853	4,951	43,231	198,035	163,990	1,790	51,429	217,209
Laundry and linen	25,111	60,585	15,629	101,325	27,537	63,669	5,670	96,876
	<u>855,180</u>	<u>153,781</u>	<u>1,009,403</u>	<u>2,018,364</u>	<u>866,282</u>	<u>181,437</u>	<u>907,880</u>	<u>1,955,599</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>1,517,455</u>	<u>848,058</u>	<u>1,140,448</u>	<u>3,505,961</u>	<u>1,848,426</u>	<u>717,255</u>	<u>1,053,638</u>	<u>3,619,319</u>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	--	--	3,250,849	3,250,849	--	--	3,198,682	3,198,682
Depreciation and amortization	--	--	2,093,166	2,093,166	--	--	2,222,826	2,222,826
Insurance	--	--	233,701	233,701	--	--	221,353	221,353
Interest	--	--	37,661	37,661	--	--	27,493	27,493
	<u>--</u>	<u>--</u>	<u>5,615,377</u>	<u>5,615,377</u>	<u>--</u>	<u>--</u>	<u>5,670,354</u>	<u>5,670,354</u>
<b>TOTAL EXPENSES</b>	<u>\$ 10,853,202</u>	<u>8,954,067</u>	<u>13,790,639</u>	<u>33,597,908</u>	<u>11,129,951</u>	<u>8,139,775</u>	<u>14,294,415</u>	<u>33,564,141</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 - 60	\$ 8,293,036	83.7 %	6,089,421	66.5 %
61 - 90	466,973	4.7	661,242	7.2
91 - 180	696,570	7.0	1,177,941	12.9
> 180 days	452,835	4.6	1,230,857	13.4
	<u>9,909,414</u>	<u>100.0 %</u>	<u>9,159,461</u>	<u>100.0 %</u>
Less:				
Allowance for doubtful accounts	(1,686,861)		(1,895,793)	
Allowance for contractual adjustments	<u>(3,752,532)</u>		<u>(2,596,489)</u>	
	<u>\$ 4,470,021</u>		<u>\$ 4,667,179</u>	

	2014	2013
NET DAYS REVENUE IN PATIENT ACCOUNTS RECEIVABLE	47.4 days	49.3 days
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 1,895,793	1,402,198
Provision of uncollectible accounts	1,755,229	1,842,480
Recoveries of accounts previously written off	328,224	308,400
Accounts written off	<u>(2,292,385)</u>	<u>(1,657,285)</u>
Balance, end of year	<u>\$ 1,686,861</u>	<u>1,895,793</u>

See accompanying independent auditor's report

**Inventories / Prepaid Expenses  
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
INVENTORIES:		
Surgical services	\$ 378,644	305,567
Pharmacy	241,913	222,062
Central storeroom	128,634	98,261
Primary care clinics	80,324	55,065
Fuel oil	28,225	1,863
Radiology	23,470	18,395
Laboratory	20,584	19,713
Gift shop	20,163	--
Dietary	16,146	10,073
Respiratory therapy/stress testing	--	3,904
	<u>\$ 938,103</u>	<u>734,903</u>
PREPAID EXPENSES:		
Insurance	\$ 105,507	52,413
Maintenance contracts	77,127	106,426
Other	33,135	22,808
	<u>\$ 215,769</u>	<u>181,647</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:		
Adult and pediatric-		
Medicare	1,752	2,067
Other	<u>980</u>	<u>955</u>
	2,732	3,022
Swing bed - skilled	345	602
Newborn	<u>274</u>	<u>229</u>
Total	<u><u>3,351</u></u>	<u><u>3,853</u></u>
Patient discharges:		
Adult and pediatric-		
Medicare	450	501
Other	<u>313</u>	<u>333</u>
	763	834
Swing bed - skilled	61	94
Newborn	<u>124</u>	<u>97</u>
Total	<u><u>948</u></u>	<u><u>1,025</u></u>
Average length of stay:		
Adult and pediatric-		
Medicare	3.89 days	4.13 days
Other	3.13 days	2.87 days
Swing bed - skilled	5.66 days	6.40 days
Newborn	2.21 days	2.36 days
Surgical procedures	3,639	3,655
Emergency room visits	6,774	7,089
Number of employees - full-time equivalents	204	214

**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  
Lakes Regional Healthcare  
Spirit Lake, 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 Lakes Regional Healthcare (Hospital) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 22, 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 auditing procedures appropriate in the circumstances for the purpose of expressing our opinion of the financial statements but not for the purpose of expressing our 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 of 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 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.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about 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, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance 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.

**Purpose of the 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 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.

*Spim Johnson, LLP*

Omaha, Nebraska,  
October 22, 2014.

# Lakes Regional Healthcare

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

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### Part I: Summary of the Independent Auditor's Results

- a. An unmodified opinion was issued on the financial statements.
- b. No significant deficiencies or material weaknesses in internal control over financial reporting were 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

#### *INSTANCES OF NON-COMPLIANCE:*

No matters were reported.

#### *INTERNAL CONTROL DEFICIENCIES:*

No deficiencies were identified that required disclosure.

### Part III: Other Findings Related to Required Statutory Reporting

#### **III-A-14**

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

#### **III-B-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-C-14**

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

#### **III-D-14**

*Business Transactions:* No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 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-E-14**

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

#### **III-F-14**

*Deposits and Investments:* 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 were noted.

## Lakes Regional Healthcare

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

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#### **III-G-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 timely after the completion of each quarter. The Hospital also publishes a schedule of salaries annually by category.

## **Lakes Regional Healthcare**

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

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This audit was performed by:

- Roger E. Thompson, FHFMA, CPA, Partner
- Joseph L. Harnisch, CPA, Senior Manager
- Eric J. Vrba, CPA, Staff Auditor
- Blake L. Berke, CPA, Staff Auditor