

# **Madison County Memorial Hospital**

Auditor's Report and Financial Statements

June 30, 2014 and 2013



**Madison County Memorial Hospital**  
**June 30, 2014 and 2013**

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## Independent Auditor's Report

Board of Trustees  
Madison County Memorial Hospital  
Winterset, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Madison County Memorial Hospital (Hospital), which comprise the balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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 audit 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 Madison County Memorial Hospital as of June 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 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.

**BKD, LLP**

# **Madison County Memorial Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2014 and 2013**

#### Introduction

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

#### Financial Highlights

- Cash and cash equivalents increased between 2014 and 2013 by \$888,868 or 60% and decreased \$102,685 or 6% between 2013 and 2012.
- Patient accounts receivable, net of allowances increased \$62,816 or 3% in 2014 compared to 2013 and increased \$195,558 or 11% in 2013 compared to 2012.
- The Hospital's net position increased \$1,053,546 or 7% in 2014 over 2013 and increased \$387,052 or 3% in 2013 over 2012.
- The Hospital reported an operating loss in 2014 and 2013 of \$584,895 and \$930,949, respectively. The operating loss in 2014 represents a decrease of \$346,054 from the operating loss reported in 2013. The loss in 2013 represents an increase of \$348,164 from the operating loss reported in 2012.

#### Using This Annual Report

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

#### ***The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Position***

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

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating.

Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***The Statement of Cash Flows***

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

### **The Hospital's Net Position**

The Hospital's net position is the difference between its assets, liabilities and deferred inflows of resources reported in the Balance Sheet. The Hospital's net position increased by \$1,053,546 or 7% in 2014 over 2013 as shown in Table 1.

**Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,025,852	\$ 1,963,036	\$ 1,767,478
Other current assets	5,876,580	4,229,032	5,636,469
Capital assets, net	16,617,281	17,575,353	18,765,955
Other noncurrent assets	<u>11,069,513</u>	<u>11,266,192</u>	<u>8,209,965</u>
Total assets	<u>\$ 35,589,226</u>	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>
<b>Liabilities</b>			
Current liabilities	\$ 3,308,459	\$ 3,224,344	\$ 2,382,385
Long-term debt	<u>13,948,944</u>	<u>14,542,786</u>	<u>15,188,978</u>
Total liabilities	<u>17,257,403</u>	<u>17,767,130</u>	<u>17,571,363</u>
<b>Deferred Inflows of Resources</b>	<u>1,952,819</u>	<u>1,941,025</u>	<u>1,870,098</u>
<b>Net Position</b>			
Net investment in capital assets	2,632,290	3,132,779	4,580,735
Restricted expendable	786,818	805,369	853,708
Unrestricted	<u>12,959,896</u>	<u>11,387,310</u>	<u>9,503,963</u>
Total net position	<u>16,379,004</u>	<u>15,325,458</u>	<u>14,938,406</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 35,589,226</u>	<u>\$ 35,033,613</u>	<u>\$ 34,379,867</u>

In 2014, the Hospital's assets increased due to investing the additional funds generated from operations between 2014 and 2013, which were included in cash and cash equivalents.

In 2013, the Hospital was an early adopter of GASB 65, *Items Previously Reported as Assets and Liabilities*. The Hospital's Plant Fund certificate of deposit investments were \$6,219,705 in 2012, which increased to \$9,652,141 in 2013 or 55%.

## Operating Results and Changes in the Hospital's Net Position

In 2014, the Hospital's net position increased by \$1,053,546 or 7% as shown in Table 2. This increase is made up of several different components.

**Table 2: Operating Results and Changes in Net Position**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 16,342,382	\$ 15,790,158	\$ 16,417,665
Other operating revenues	80,617	111,873	140,243
Total operating revenues	<u>16,422,999</u>	<u>15,902,031</u>	<u>16,557,908</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	9,272,465	9,328,096	9,461,598
Medical and professional fees	1,716,389	1,798,099	1,965,333
Depreciation and amortization	1,745,317	1,768,941	1,572,099
Other operating expenses	4,273,723	3,937,844	4,141,663
Total operating expenses	<u>17,007,894</u>	<u>16,832,980</u>	<u>17,140,693</u>
<b>Operating Loss</b>	<u>(584,895)</u>	<u>(930,949)</u>	<u>(582,785)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	1,944,932	1,870,116	1,835,015
Interest expense	(792,246)	(877,500)	(514,408)
Bond issuance costs	-	(63,681)	-
Interest subsidy income	183,066	187,006	100,488
Interest income	99,438	108,376	86,108
Rent income	40,209	32,408	31,424
Non-capital grants and contributions	122,743	56,130	57,035
Total nonoperating revenues	<u>1,598,142</u>	<u>1,312,855</u>	<u>1,595,662</u>
<b>Excess of Revenues Over Expenses, Before Capital Grants and Contributions</b>	1,013,247	381,906	1,012,877
<b>Capital Grants and Contributions</b>	<u>40,299</u>	<u>5,146</u>	<u>38,159</u>
<b>Increase in Net Position</b>	<u>\$ 1,053,546</u>	<u>\$ 387,052</u>	<u>\$ 1,051,036</u>

### **Operating Losses**

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2014, 2013 and 2012, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Madison County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients. The primary components of the change in operations from 2013 to 2014 are as follows:

In 2014, the operating loss decreased by \$346,054 as compared to 2013. Some of the factors contributing to the decreased operating loss were:

- The Hospital's net patient revenue increased 3.5% or \$552,224 from 2013 to 2014 primarily due to a significant increase in surgeries and pain management procedures of 102% or 458 procedures from 2013 to 2014.
- The Hospital appropriately managed operating expenses which increased only 1.04% or \$174,914 from 2013 to 2014. Salaries, wages and employee benefits decreased .6% or \$55,631 from 2013 to 2014 due to management closely evaluating open positions and in relation to patient volume and need of the facility.
- The Hospital closed Middle River Hospice agency on June 1, 2014 due to declining patient volumes. Another Hospice agency opened a full-time office on the Hospital campus to continue providing care for patients in the area. The overall financial impact will be positive for the Hospital as hospice care is considered a non-allowable service for Medicare patients under the Hospital's Critical Access Hospital status.

In 2013, the operating loss increased by \$348,164 as compared to 2012. Some of the factors contributing to the increased operating loss were:

- The Hospital experienced a shift from inpatient acute care to outpatient observation care from 2012 to 2013 which is typical for the industry. The Hospital's total patient days decreased 7% and outpatient observation hours increased 24% from 2012 to 2013.
- The Hospital appropriately decreased operating expenses as net patient revenue decreased 4% from 2012 to 2013.
- The sequestration cuts totaling \$27,000 reduced reimbursement from April 1 through June 30, 2013 for the Hospital.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income and interest expense which, in total, increased by \$285,287 or 22% from 2013 to 2014 and decreased by \$282,807 or 18% from 2012 to 2013. The increase in 2014 was primarily due to the Hospital being awarded a grant through the Health Resources and Services Administration (HRSA) to expand health coach services in six physician clinics within the Central Iowa Mercy Health Network. As the grantee, the Hospital received \$72,438 in 2014 for this grant. The decrease in 2013 was primarily due to increased interest expense related to revenue bonds and loans for the building project completed in 2012 and bond issuance costs associated with refunding 2005 debt at a lower interest rate in the spring of 2013.

### ***Contributions and Grants***

The Hospital received contributions and grants of \$122,743 from various individuals and grants in 2014, an increase of \$66,613 or 119% from 2013. The Hospital also received capital contributions of \$40,299 in 2014.

The Hospital received contributions and grants of \$56,130 and grants from various individuals and grants in 2013, a decrease of \$905 or 2% from 2012. The Hospital also received capital contributions of \$5,146 in 2013.

## ***The Hospital's Cash Flows***

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

## ***Capital Asset and Debt Administration***

### Capital Assets

At the end of 2014, the Hospital had approximately \$16,600,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Hospital purchased new capital assets costing \$771,460.

At the end of 2013, the Hospital had approximately \$17,600,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Hospital purchased new capital assets costing \$559,221.

### Debt

In 2014, the Hospital had \$14,564,944 in revenue notes and bonds and loans outstanding. The Hospital had no changes to debt other than normal payments in 2014.

In 2013, the Hospital had \$15,153,786 in revenue notes and bonds and loans outstanding. The Hospital refunded the 2005 debt in the spring of 2013 and issued Series 2013 bonds in the amount of \$2,210,000 to save interest expense over the life of the bonds.

## ***Factors Bearing on Madison County Memorial Hospital's Future***

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

- The Hospital relies heavily on the continuance of the Critical Access Hospital program and the associated cost reimbursement for Medicare and Medicaid patients. The Hospital is closely monitoring cost cutting measures at the Congressional level and will continue grass roots efforts to educate Congressional leaders about the detrimental impact significant changes to the Critical Access Hospital program would mean to the Hospital.

## ***Contacting the Hospital's Financial Management***

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.462.2373.

# Madison County Memorial Hospital

## Balance Sheets

June 30, 2014 and 2013

### Assets

	<u>2014</u>	<u>2013</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,375,991	\$ 1,487,123
Certificates of deposit	530,000	-
Assets held under bond indenture agreement	242,500	231,261
Patient accounts receivable, net of allowance; \$654,600 and \$640,200 in 2014 and 2013, respectively	2,025,852	1,963,036
Property taxes receivable	1,975,034	1,964,420
Other receivables	68,385	6,452
Supplies	324,581	300,175
Prepaid expenses	<u>360,089</u>	<u>239,601</u>
 Total current assets	 <u>7,902,432</u>	 <u>6,192,068</u>
 <b>Noncurrent Cash, Deposits, Investments and Other</b>		
Internally designated	9,864,379	10,035,778
Externally restricted		
Held under bond indenture agreement	1,447,634	1,431,187
By donors	<u>-</u>	<u>30,488</u>
	11,312,013	11,497,453
Less amount required to meet current obligations	<u>242,500</u>	<u>231,261</u>
	 <u>11,069,513</u>	 <u>11,266,192</u>
 <b>Capital Assets, Net of Accumulated Depreciation</b>	 <u>16,617,281</u>	 <u>17,575,353</u>
 <b>Total Assets</b>	 <u><u>\$ 35,589,226</u></u>	 <u><u>\$ 35,033,613</u></u>

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 616,000	\$ 611,000
Accounts payable	502,319	508,571
Accrued vacation	370,917	355,802
Accrued payroll and related liabilities	609,642	562,182
Accrued interest	65,581	66,296
Estimated amounts due to third-party payers	<u>1,144,000</u>	<u>1,120,493</u>
Total current liabilities	3,308,459	3,224,344
<b>Long-term Debt</b>	<u>13,948,944</u>	<u>14,542,786</u>
Total liabilities	<u>17,257,403</u>	<u>17,767,130</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>1,952,819</u>	<u>1,941,025</u>
<b>Net Position</b>		
Net investment in capital assets	2,632,290	3,132,779
Restricted-expendable for		
Debt service	786,818	774,881
Specific operating activities	-	30,488
Unrestricted	<u>12,959,896</u>	<u>11,387,310</u>
Total net position	<u>16,379,004</u>	<u>15,325,458</u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u><u>\$ 35,589,226</u></u>	<u><u>\$ 35,033,613</u></u>

**Madison County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 17,316,841	\$ 16,582,474
Provision for uncollectible accounts	(974,459)	(792,316)
Net patient service revenue	16,342,382	15,790,158
Other	80,617	111,873
Total operating revenues	16,422,999	15,902,031
<b>Operating Expenses</b>		
Salaries and wages	7,150,335	7,227,219
Employee benefits	2,122,130	2,100,877
Medical professional fees	1,716,389	1,798,099
Supplies and expenses	1,897,195	1,837,953
General services	619,862	573,972
Administrative services	1,598,049	1,362,921
Depreciation and amortization	1,745,317	1,768,941
Insurance	158,617	162,998
Total operating expenses	17,007,894	16,832,980
<b>Operating Loss</b>	(584,895)	(930,949)
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	1,944,932	1,870,116
Interest expense	(792,246)	(877,500)
Bond issuance costs	-	(63,681)
Interest subsidy income	183,066	187,006
Interest income	99,438	108,376
Rent income	40,209	32,408
Noncapital grants and contributions	122,743	56,130
Total nonoperating revenues	1,598,142	1,312,855
<b>Excess of Revenues Over Expenses, Before Capital Grants and Contributions</b>	1,013,247	381,906
<b>Capital Grants and Contributions</b>	40,299	5,146
<b>Increase in Net Position</b>	1,053,546	387,052
<b>Net Position, Beginning of Year</b>	15,325,458	14,938,406
<b>Net Position, End of Year</b>	\$ 16,379,004	\$ 15,325,458

**Madison County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 16,303,073	\$ 18,024,093
Payments to suppliers and contractors	(6,067,026)	(5,677,533)
Payments to employees	(9,209,890)	(9,335,215)
Other receipts, net	85,017	114,547
Net cash provided by operating activities	1,111,174	3,125,892
<b>Noncapital Financing Activities</b>		
Property taxes	1,944,932	1,870,116
Noncapital grants and gifts	122,743	56,130
Other	40,209	32,408
Net cash provided by noncapital financing activities	2,107,884	1,958,654
<b>Capital and Related Financing Activities</b>		
Proceeds from issuance of capital debt	-	2,210,000
Discount on issuance of capital debt	-	(24,310)
Principal paid on capital debt and leases	(611,000)	(2,806,000)
Financing costs	-	(63,681)
Interest paid on capital debt and leases	(792,962)	(884,201)
Interest subsidy	182,820	188,434
Capital grants and contributions	40,299	5,146
Proceeds from sale of capital assets	3,154	374
Purchase of capital assets	(907,625)	(870,823)
Net cash used in capital and related financing activities	(2,085,314)	(2,245,061)
<b>Investing Activities</b>		
Interest on deposits and investments	99,438	108,376
Purchase of deposits and investments	(8,868,848)	(11,591,896)
Proceeds from disposition of deposits and investments	8,742,283	8,310,609
Net cash used in investing activities	(27,127)	(3,172,911)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,106,617	(333,426)
<b>Cash and Cash Equivalents, Beginning of Year</b>	1,274,753	1,608,179
<b>Cash and Cash Equivalents, End of Year</b>	\$ 2,381,370	\$ 1,274,753

**Madison County Memorial Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 2,375,991	\$ 1,267,611
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	5,379	7,142
	\$ 2,381,370	\$ 1,274,753
 <b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (584,895)	\$ (930,949)
Depreciation and amortization	1,745,317	1,768,941
(Gain)/Loss on sale of capital assets	3,220	(374)
Changes in operating assets and liabilities		
Receivables, net	(124,749)	(191,859)
Supplies	(24,406)	31,874
Estimated amounts due from and to third-party payers	23,507	2,429,493
Accounts payable and accrued expenses	193,668	(2,183)
Other current assets	(120,488)	20,949
Net cash provided by operating activities	\$ 1,111,174	\$ 3,125,892
 <b>Supplemental Cash Flows Information</b>		
Capital assets acquisitions included in accounts payable	\$ 47	\$ 136,212

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Madison County Memorial Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison County area.

##### ***Basis of Accounting and Presentation***

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

##### ***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, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2014 and 2013, cash equivalents consisted primarily of money market accounts.

##### ***Property Taxes***

The Hospital received approximately 11% of its financial support from property tax revenues for the years ended June 30, 2014 and 2013, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

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

***Risk Management***

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Investments and Investment Income***

All investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend, interest income and the realized gains and losses on investments carried at fair value.

***Patient Accounts Receivable***

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

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

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### ***Compensated Absences and Benefits***

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

### ***Net Position***

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

### ***Net Patient Service Revenue***

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

### ***Charity Care***

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$420,565 and \$643,267 for 2014 and 2013, respectively.

### ***Income Taxes***

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

# Madison County Memorial Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### ***Electronic Health Records Incentive Program***

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2014 and 2013, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenue of \$50,600 and \$125,955, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013, respectively.

#### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. These reclassifications had no effect on the change in net position.

# Madison County Memorial Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.
- **Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Administrative Contractor.

The Hospital had been notified by the Medicare Administrative Contractor (MAC) that Medicare cost reports have been reopened for 2008 through 2012 to reevaluate certain costs included in those cost reports. Management has evaluated the impact on the financial statements and provided for estimated amounts on years that have not been recouped by the MAC; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 50% and 55% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

# Madison County Memorial Hospital

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 3: Deposits, Investments and Investment Income

#### **Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2014 and 2013. 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.

#### **Investments**

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.

At June 30, 2014 and 2013, the Hospital had the following investments and maturities:

<u>Type</u>	<b>June 30, 2014</b>				
	<b><u>Maturities in Years</u></b>				
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
Money market funds	\$ 257,398	\$ 257,398	\$ -	\$ -	\$ -

<u>Type</u>	<b>June 30, 2013</b>				
	<b><u>Maturities in Years</u></b>				
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
Money market funds	\$ 611,198	\$ 611,198	\$ -	\$ -	\$ -

**Interest Rate Risk** – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments to maturities consistent with the needs and uses of the Hospital. The money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Credit Risk** – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2014 and 2013, the Hospital’s investments in money market funds were rated AAA by Standard & Poor’s.

**Concentration of Credit Risk** – The Hospital places no limit on the amount that may be invested in any one issuer. All money market funds are in Northern Institutional Government Fund for 2014 and 2013.

**Summary of Carrying Values**

The carrying values of deposits and investments are included in the balance sheets as follows:

	<b>2014</b>	<b>2013</b>
Carrying value		
Deposits	\$ 13,944,931	\$ 12,357,949
Investments	257,398	611,198
Other	15,675	15,429
	<u>\$ 14,218,004</u>	<u>\$ 12,984,576</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 2,375,991	\$ 1,487,123
Certificates of deposit	530,000	-
Assets held under bond indenture agreement	242,500	231,261
Noncurrent cash, deposits, investments and other	11,069,513	11,266,192
	<u>\$ 14,218,004</u>	<u>\$ 12,984,576</u>

**Investment Income**

Investment income for the years ended June 30 consisted of:

	<b>2014</b>	<b>2013</b>
Interest income	<u>\$ 99,438</u>	<u>\$ 108,376</u>

# Madison County Memorial Hospital

## Notes to Financial Statements

June 30, 2014 and 2013

### Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2014 and 2013 consisted of:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 905,336	\$ 915,701
Medicaid	140,829	108,876
Other third-party payers	781,232	710,324
Patients	853,055	868,335
	2,680,452	2,603,236
Less allowance for uncollectible accounts	654,600	640,200
	<b>\$ 2,025,852</b>	<b>\$ 1,963,036</b>

### Note 5: Capital Assets

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

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers/ Adjustments</b>	<b>Ending Balance</b>
<b>2014</b>					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	1,422,534		(14,898)		1,407,636
Buildings and leasehold improvements	11,787,111				11,787,111
Fixed equipment	10,128,409			7,371	10,135,780
Major movable equipment	5,114,800		(148,115)	802,550	5,769,235
Construction in progress		771,460		(767,000)	4,460
	28,457,900	771,460	(163,013)	42,921	29,109,268
Less accumulated depreciation					
Land improvements	(457,687)	(78,260)	9,310		(526,637)
Buildings and leasehold improvements	(3,853,459)	(464,423)			(4,317,882)
Fixed equipment	(3,051,301)	(534,755)			(3,586,056)
Major movable equipment	(3,520,100)	(645,721)	147,330	(42,921)	(4,061,412)
	(10,882,547)	(1,723,159)	156,640	(42,921)	(12,491,987)
Capital assets, net	<b>\$ 17,575,353</b>	<b>\$ (951,699)</b>	<b>\$ (6,373)</b>	<b>\$ -</b>	<b>\$ 16,617,281</b>

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
<b>2013</b>					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	1,427,344		(4,810)		1,422,534
Buildings and leasehold improvements	11,821,673		(34,562)		11,787,111
Fixed equipment	10,077,195		(10,162)	61,376	10,128,409
Major movable equipment	4,800,175	136,210	(183,220)	361,635	5,114,800
Construction in progress	-	423,011		(423,011)	-
	<u>28,131,433</u>	<u>559,221</u>	<u>(232,754)</u>	<u>-</u>	<u>28,457,900</u>
Less accumulated depreciation					
Land improvements	(383,996)	(78,501)	4,810		(457,687)
Buildings and leasehold improvements	(3,419,210)	(468,811)	34,562		(3,853,459)
Fixed equipment	(2,524,257)	(537,206)	10,162		(3,051,301)
Major movable equipment	<u>(3,038,015)</u>	<u>(665,305)</u>	<u>183,220</u>		<u>(3,520,100)</u>
	<u>(9,365,478)</u>	<u>(1,749,823)</u>	<u>232,754</u>	<u>-</u>	<u>(10,882,547)</u>
Capital assets, net	<u>\$ 18,765,955</u>	<u>\$ (1,190,602)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,575,353</u>

**Note 6: Medical Malpractice Insurance**

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital provides tail coverage to certain employed physicians practicing at the Hospital upon termination of the physician's contract. The Hospital is liable for any medical liability claims as of the effective date of the physician's contract for which it is self-insured. As of June 30, 2014, there is no claim exposure to the Hospital due to no physician contracts being terminated.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 7: Long-term Obligations**

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2014 and 2013:

	Beginning Balance	2014		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Rural economic development loan (B)	\$ 288,000	\$ -	\$ (36,000)	\$ 252,000	\$ 36,000
Hospital revenue bonds					
Series 2010A (C)	7,295,000	-	(280,000)	7,015,000	285,000
Taxable hospital revenue bonds					
Series 2010B (D)	5,575,000	-	-	5,575,000	-
Hospital revenue refunding bonds					
Series 2013 (E)	2,160,000	-	(295,000)	1,865,000	295,000
Total long-term debt	15,318,000	\$ -	\$ (611,000)	14,707,000	\$ 616,000
Less unamortized discount	(164,214)			(142,056)	
	<u>\$ 15,153,786</u>			<u>\$ 14,564,944</u>	
	Beginning Balance	2013		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Hospital revenue and refunding notes Series 2005 (A)	\$ 2,450,000	\$ -	\$ (2,450,000)	\$ -	\$ -
Rural economic development loan (B)	324,000	-	(36,000)	288,000	36,000
Hospital revenue bonds					
Series 2010A (C)	7,565,000	-	(270,000)	7,295,000	280,000
Taxable hospital revenue bonds					
Series 2010B (D)	5,575,000	-	-	5,575,000	-
Hospital revenue refunding bonds					
Series 2013 (E)	-	2,210,000	(50,000)	2,160,000	295,000
Total long-term debt	15,914,000	\$ 2,210,000	\$ (2,806,000)	15,318,000	\$ 611,000
Less unamortized discount	(159,022)			(164,214)	
	<u>\$ 15,754,978</u>			<u>\$ 15,153,786</u>	

- (A) Hospital Revenue and Refunding Notes, Series 2005, originally aggregating \$4,000,000. Total notes of \$2,150,000 mature serially through 2015 bearing interest at 3.85% to 4.65%. The remaining notes consist of \$1,640,000 term notes bearing interest at 5.00% due June 1, 2020.

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2014 and 2013**

The term notes are subject to mandatory sinking fund payments prior to maturing serially through June 1, 2020 at a redemption price of 100% of principal plus accrued interest; collateralized by net revenues of the Hospital. The notes maturing on or after June 1, 2014 were subject to redemption by the Hospital, prior to their stated maturity in whole or in part on June 1, 2013 or any date thereafter at a redemption price equal to 100% of the principal amount thereof plus accrued interest. The Hospital redeemed the notes on June 1, 2013 and issued new Series 2013 bonds.

The Hospital completed the early redemption of the 2005 notes to obtain an economic gain (difference between the present values of the old debt and new debt service payments) of \$146,274.

- (B) Noninterest-bearing loan due December 16, 2020; payable \$36,000 annually, collateralized by net revenues of the Hospital.
- (C) Hospital Revenue Bonds, Series 2010A, originally aggregating \$7,565,000. Total bonds mature serially through 2026 bearing interest at 1.55% to 5.10%, collateralized by net revenues of the Hospital.
- (D) Taxable Hospital Revenue Bonds, Series 2010B (Recovery Zone Economic Development Bonds – Direct Payout), originally aggregating \$5,575,000. Total bonds mature serially starting in 2027 through 2031 bearing interest at 7.15% to 8.25%. The Hospital is eligible for subsidy payments of 45% of the amount of interest payments, collateralized by net revenues of the Hospital.
- (E) Hospital Revenue Refunding Bonds, Series 2013, originally aggregating \$2,210,000. Total bonds mature serially through 2020 bearing interest at 0.95% to 2.65%, collateralized by net revenues of the Hospital.

#### ***Revenue Notes Payable - Series 2005***

The Series 2005 Note Resolution provides that a Debt Service Reserve Fund be maintained in the amount set forth in the Loan Agreement (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$0 at June 30, 2014 and 2013. The bonds were redeemed in 2013.

#### ***Revenue Bonds Payable - Series 2010***

The Series 2010 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$800,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$819,879 and \$814,908 at June 30, 2014 and 2013, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

#### ***Revenue Refunding Bonds Payable - Series 2013***

The Series 2013 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$370,020 and \$370,008 at June 30, 2014 and 2013, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

The debt service requirements for the Hospital Revenue Notes and Bonds Series 2010 and Series 2013 as of June 30, 2014, are as follows:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2015	\$ 1,363,629	\$ 580,000	\$ 783,629
2016	1,362,238	590,000	772,238
2017	1,363,353	605,000	758,353
2018	1,367,193	625,000	742,193
2019	1,363,335	640,000	723,335
2020-2024	7,093,903	3,930,000	3,163,903
2025-2029	7,047,120	5,110,000	1,937,120
2030-2031	2,573,206	2,375,000	198,206
	<u>\$ 23,533,977</u>	<u>\$ 14,455,000</u>	<u>\$ 9,078,977</u>

The debt service requirements as of June 30, 2014 are as follows for the Rural Economic Development Loan:

<b>Year Ending June 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>
2015	\$ 36,000	\$ 36,000
2016	36,000	36,000
2017	36,000	36,000
2018	36,000	36,000
2019	36,000	36,000
2020-2021	72,000	72,000
	<u>\$ 252,000</u>	<u>\$ 252,000</u>

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 8: Restricted and Designated Net Position**

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

	<b>2014</b>	<b>2013</b>
Debt service	\$ 786,818	\$ 774,881
Specific operating activities		
Hospice	-	17,787
Other	-	12,701
Total restricted expendable net position	\$ 786,818	\$ 805,369

**Note 9: Pension Plan**

***Plan Description***

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), 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 for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

***Funding Policy***

Plan members are required to contribute 5.95% and 5.78% of their annual covered salaries and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$621,825, \$616,657 and \$578,844, respectively, equal to the required contributions for each year.

**Note 10: Network Administration and Services Agreement**

The Hospital has entered into an agreement with another health care organization to provide administration and support services along with other services to the Hospital. Total fees of \$884,866 and \$761,492 were incurred for the years ended June 30, 2014 and 2013, respectively.

**Madison County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

**Note 11: Operating Leases**

Noncancellable operating leases for equipment expire in various years through 2016.

Future minimum lease payments at June 30, 2014 were:

2015	\$ 117,288
2016	<u>97,740</u>
Future minimum lease payments	<u><u>\$ 215,028</u></u>

Rental expense for all operating leases was \$251,536 and \$298,064 for the years ended June 30, 2014 and 2013, respectively.

**Note 12: Budget and Budgetary Accounting**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2014:

	<u>Actual</u>	<u>Accrual Adjustments</u>	<u>Cash Basis</u>	<u>Budget</u>
Amount to be raised by taxation	\$ 1,944,932	\$ -	\$ 1,944,932	\$ 1,941,025
Other revenues/receipts	<u>16,908,754</u>	<u>(101,242)</u>	<u>16,807,512</u>	<u>16,509,596</u>
	18,853,686	(101,242)	18,752,444	18,450,621
Expenses/disbursements	<u>17,800,140</u>	<u>48,774</u>	<u>17,848,914</u>	<u>17,985,596</u>
	1,053,546	(150,016)	903,530	465,025
Balance, beginning of year	<u>15,325,458</u>	<u>104,080</u>	<u>15,429,538</u>	<u>15,429,538</u>
Balance, end of year	<u><u>\$ 16,379,004</u></u>	<u><u>\$ (45,936)</u></u>	<u><u>\$ 16,333,068</u></u>	<u><u>\$ 15,894,563</u></u>

# **Madison County Memorial Hospital**

## **Notes to Financial Statements**

**June 30, 2014 and 2013**

### **Note 13: Contingencies**

#### ***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

## **Supplementary Information**

# Madison County Memorial Hospital

## Schedules of Patient Service Revenues

### Years Ended June 30, 2014 and 2013

	2014				2013			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
<b>Daily Patient Services</b>								
Medical and surgical	\$ 2,196,946	\$ 1,389,630	\$ 807,316	\$ -	\$ 2,359,842	\$ 1,402,170	\$ 957,672	\$ -
Swing-bed	672,840	-	-	672,840	854,400	-	-	854,400
	<u>2,869,786</u>	<u>1,389,630</u>	<u>807,316</u>	<u>672,840</u>	<u>3,214,242</u>	<u>1,402,170</u>	<u>957,672</u>	<u>854,400</u>
<b>Nursing Services</b>								
Operating and recovery rooms	2,138,158	37,847	2,095,383	4,928	1,188,169	10,318	1,177,851	-
Emergency room	3,854,280	70,778	3,783,502	-	3,637,241	72,754	3,564,487	-
	<u>5,992,438</u>	<u>108,625</u>	<u>5,878,885</u>	<u>4,928</u>	<u>4,825,410</u>	<u>83,072</u>	<u>4,742,338</u>	<u>-</u>
<b>Other Professional Services</b>								
Laboratory	4,920,649	402,644	4,484,594	33,411	4,626,659	418,090	4,139,454	69,115
Central services and supplies	1,069,895	95,824	938,911	35,160	802,319	65,387	664,400	72,532
Blood administration	85,044	35,409	47,223	2,412	90,884	26,006	62,466	2,412
Electrocardiology	179,656	11,256	167,998	402	166,043	9,500	156,163	380
Echocardio/Vascular	423,893	31,556	390,363	1,974	461,885	32,942	427,394	1,549
Stress test	96,757	-	96,757	-	74,535	-	74,535	-
Radiology	2,085,039	74,246	2,000,737	10,056	1,744,128	107,540	1,628,942	7,646
MRI	1,192,150	37,781	1,150,960	3,409	901,605	3,742	897,863	-
Mammography	264,876	-	264,876	-	211,047	-	211,047	-
CT	2,451,166	210,276	2,228,357	12,533	2,201,316	267,785	1,919,271	14,260
Chronic disease management	362,092	-	362,092	-	397,884	-	397,410	474
Nuclear medicine	181,787	-	181,787	-	202,581	1,656	200,925	-
Pharmacy	2,543,128	468,635	1,872,878	201,615	3,055,559	490,073	2,239,673	325,813
Intravenous therapy	307,371	141,696	154,374	11,301	383,476	176,417	146,492	60,567
Anesthesiology	465,814	10,575	453,445	1,794	328,620	5,309	323,311	-
Respiratory therapy	112,640	91,200	320	21,120	132,276	102,982	1,208	28,086
Physical therapy	694,522	24,586	568,343	101,593	645,631	23,744	499,528	122,359
Occupational therapy	167,410	6,929	97,715	62,766	177,266	9,604	111,597	56,065
Speech therapy	15,949	3,952	8,322	3,675	15,704	5,424	8,355	1,925

See Independent Auditor's Report

**Madison County Memorial Hospital**  
**Schedules of Patient Service Revenues (Continued)**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>				<u>2013</u>			
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing-Bed</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Swing-Bed</u>
Health Trust Physicians Clinic	\$ 3,838,663	\$ 196,961	\$ 3,614,493	\$ 27,209	\$ 3,551,453	\$ 196,368	\$ 3,322,738	\$ 32,347
Earlham Medical Clinic	417,387	-	417,387	-	386,439	-	386,439	-
Outpatient Clinic	27,177	-	27,177	-	182,707	1,572	181,565	(430)
Chemotherapy	15,541	-	15,541	-	37,562	-	37,562	-
Sleep study	60,168	-	60,168	-	100,843	-	100,843	-
Dietitian patient revenue	1,376	-	1,376	-	1,682	-	1,682	-
Middle River Hospice	1,256,721	-	1,256,721	-	1,939,681	-	1,939,681	-
	<u>23,236,871</u>	<u>1,843,526</u>	<u>20,862,915</u>	<u>530,430</u>	<u>22,819,785</u>	<u>1,944,141</u>	<u>20,080,544</u>	<u>795,100</u>
<b>Gross Patient Service Revenue</b>	32,099,095	<u>\$ 3,341,781</u>	<u>\$ 27,549,116</u>	<u>\$ 1,208,198</u>	30,859,437	<u>\$ 3,429,383</u>	<u>\$ 25,780,554</u>	<u>\$ 1,649,500</u>
<b>Contractual Adjustments</b>	(14,832,854)				(14,402,918)			
<b>Electronic Health Records</b>								
<b>Incentive Program Revenue</b>	<u>50,600</u>				<u>125,955</u>			
<b>Net Patient Service Revenue</b>								
<b>before Provision for</b>								
<b>Uncollectible Accounts</b>	17,316,841				16,582,474			
<b>Provision for Uncollectible Accounts</b>	<u>(974,459)</u>				<u>(792,316)</u>			
<b>Net Patient Service Revenue</b>	<u>\$ 16,342,382</u>				<u>\$ 15,790,158</u>			

**Madison County Memorial Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
Cafeteria	\$ 48,666	\$ 49,142
Medical records	10,260	9,046
Other	6,311	23,736
Gain (loss) on disposal of property and equipment	(3,220)	374
Health Trust Physicians Clinic other revenue	18,600	29,575
	\$ 80,617	\$ 111,873

**Madison County Memorial Hospital**  
**Schedules of Operating Expenses**  
**Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Medical and surgical	\$ 988,066	\$ 892,196	\$ 95,870	\$ 1,020,863	\$ 913,118	\$ 107,745
Emergency room	961,074	404,730	556,344	959,385	394,912	564,473
Operating and recovery rooms	337,782	270,526	67,256	314,838	222,848	91,990
Nursing administration	119,393	99,790	19,603	151,057	147,421	3,636
	<u>2,406,315</u>	<u>1,667,242</u>	<u>739,073</u>	<u>2,446,143</u>	<u>1,678,299</u>	<u>767,844</u>
<b>Other Professional Services</b>						
Laboratory	617,748	256,035	361,713	616,415	253,730	362,685
Central services and supplies	254,233	79,989	174,244	187,412	76,524	110,888
Blood administration	37,253	-	37,253	34,668	-	34,668
Electrocardiology	4,188	3,977	211	3,552	3,317	235
Echocardio/Vascular	78,466	-	78,466	112,172	-	112,172
Stress test	13,092	9,842	3,250	12,665	9,595	3,070
Radiology	305,744	246,709	59,035	304,142	235,894	68,248
MRI	97,778	525	97,253	74,220	374	73,846
Mammography	40,554	13,811	26,743	31,004	14,457	16,547
CT	263,483	16,089	247,394	262,254	16,424	245,830
Chronic disease management	171,105	149,069	22,036	173,440	150,890	22,550
Nuclear medicine	32,062	403	31,659	33,586	331	33,255
Pharmacy	757,656	36,200	721,456	743,040	37,223	705,817
Intravenous solutions	12,779	-	12,779	14,962	-	14,962
Anesthesiology	290,454	242,088	48,366	257,612	243,579	14,033
Respiratory therapy	24,660	-	24,660	27,376	-	27,376
Physical therapy	205,526	14,739	190,787	203,454	13,426	190,028
Occupational therapy	56,097	1,160	54,937	63,899	1,658	62,241
Speech therapy	11,368	82	11,286	9,226	102	9,124
Health Trust Physicians Clinic	2,283,200	1,952,615	330,585	2,224,748	1,895,737	329,011
Earlham Medical Clinic	244,460	222,003	22,457	257,398	224,380	33,018
Outpatient Clinic	159,503	97,567	61,936	152,209	102,392	49,817
Chemotherapy	1,848	1,310	538	3,818	3,111	707

**Madison County Memorial Hospital**  
**Schedules of Operating Expenses (Continued)**  
**Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 16,148	\$ 619	\$ 15,529	\$ 28,920	\$ 1,342	\$ 27,578
Middle River Hospice	466,177	289,829	176,348	551,562	323,353	228,209
Medical records	222,122	158,707	63,415	247,085	154,832	92,253
Social services	15,279	15,104	175	21,504	21,464	40
Observation care	65,294	65,294	-	101,782	101,782	-
	<u>6,748,277</u>	<u>3,873,766</u>	<u>2,874,511</u>	<u>6,754,125</u>	<u>3,885,917</u>	<u>2,868,208</u>
<b>General Services</b>						
Operation of plant	630,223	156,958	473,265	567,430	151,425	416,005
Dietary	303,443	211,178	92,265	307,922	206,151	101,771
Housekeeping	197,047	142,715	54,332	195,703	139,507	56,196
	<u>1,130,713</u>	<u>510,851</u>	<u>619,862</u>	<u>1,071,055</u>	<u>497,083</u>	<u>573,972</u>
<b>Administrative Services</b>	<u>2,696,525</u>	<u>1,098,476</u>	<u>1,598,049</u>	<u>2,528,841</u>	<u>1,165,920</u>	<u>1,362,921</u>
<b>Employee Benefits</b>	<u>2,122,130</u>		<u>2,122,130</u>	<u>2,100,877</u>		<u>2,100,877</u>
<b>Depreciation</b>	<u>1,745,317</u>		<u>1,745,317</u>	<u>1,768,941</u>		<u>1,768,941</u>
<b>Insurance</b>	<u>158,617</u>		<u>158,617</u>	<u>162,998</u>		<u>162,998</u>
	<u>\$ 17,007,894</u>	<u>\$ 7,150,335</u>	<u>\$ 9,857,559</u>	<u>\$ 16,832,980</u>	<u>\$ 7,227,219</u>	<u>\$ 9,605,761</u>

**Madison County Memorial Hospital**  
**Schedules of Patient Receivables and**  
**Allowance for Uncollectible Accounts**  
**Years Ended June 30, 2014 and 2013**

**Schedules of Patient Receivables**

	Amounts		Percent to Total	
	2014	2013	2014	2013
Days Since Discharge				
0 – 60	\$ 2,768,387	\$ 2,726,816	70%	71%
61 – 120	549,677	626,767	14%	16%
121 – 180	345,441	237,256	9%	6%
181 – 365	235,154	180,298	6%	5%
366 and over	34,093	89,999	1%	2%
	<u>3,932,752</u>	<u>3,861,136</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	1,252,300	1,257,900		
Allowance for uncollectible accounts	<u>654,600</u>	<u>640,200</u>		
	<u>1,906,900</u>	<u>1,898,100</u>		
	<u>\$ 2,025,852</u>	<u>\$ 1,963,036</u>		

**Allowance for Uncollectible Accounts**

	2014	2013
Balance, beginning of year	\$ 640,200	\$ 582,200
Provision for year	974,459	792,316
Recoveries of accounts previously written off	<u>143,025</u>	<u>147,462</u>
	1,757,684	1,521,978
Less accounts written off	<u>1,103,084</u>	<u>881,778</u>
Balance, end of year	<u>\$ 654,600</u>	<u>\$ 640,200</u>

**Madison County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**June 30, 2014 and 2013**

**Supplies**

	<b>2014</b>	<b>2013</b>
General	\$ 166,818	\$ 164,162
Pharmacy	148,809	128,843
Other	8,954	7,170
	\$ 324,581	\$ 300,175

**Prepaid Expenses**

	<b>2014</b>	<b>2013</b>
Insurance	\$ 125,661	\$ 66,929
Maintenance and other	234,428	172,672
	\$ 360,089	\$ 239,601

**Madison County Memorial Hospital**  
**Schedule of Activity for Assets Limited**  
**as to Use for Construction and**  
**Capital Loan Note Related Accounts**  
**Year Ended June 30, 2014**

	<b>Balance</b>			<b>Balance</b>
	<b>June 30, 2013</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2014</b>
Held under capital loan note agreements				
Bond Reserve Fund (2010)	\$ 814,908	\$ 4,971	\$ -	\$ 819,879
2010A Bond Interest & Principal	189,651	596,926	594,427	192,150
2010B Bond Interest & Principal	21,501	439,577	438,587	22,491
2010B Bond Interest Subsidy	14,989	246	-	15,235
Proceeds 2013 Bond	21	35	56	-
2013 Bond Interest & Principal	20,109	346,995	339,245	27,859
Bond Reserve Fund (2013)	370,008	12	-	370,020
	<u>\$ 1,431,187</u>	<u>\$ 1,388,762</u>	<u>\$ 1,372,315</u>	<u>\$ 1,447,634</u>

## **Other Supplementary Information**

**Madison County Memorial Hospital**  
**Schedule of Officials**  
**Year Ended June 30, 2014**

Name	Title	Term Expires
<b>Board of Trustees</b>		
Mary Corkrean	Chairwoman	2014
Tom Collins	Vice Chairman	2016
Beverlee Bell	Secretary/Treasurer	2016
Rich Corkrean	Member	2018
Bob Waldron	Member	2014
Cathy Simon	Member	2014
Dick Weidman	Member	2018
<b>Hospital Officials</b>		
Marcia Hendricks	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

**Madison County Memorial Hospital**  
**Schedules of Financial and Statistical Data**  
**Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Patient Days (Exclusive of Swing-bed)</b>		
Medicare	784	860
Medicaid	18	20
Private and other	221	212
	1,023	1,092
<b>Medicare and Medicaid Percent</b>	78.4%	80.6%
<b>Percent of Occupancy (Acute)</b>	11%	12%
<b>Discharges (Exclusive of Swing-bed)</b>		
Medicare	229	222
Medicaid	8	12
Private and other	71	68
	308	302
<b>Average Length of Stay in Days</b>	3.3	3.6

**Madison County Memorial Hospital**  
**Schedule of Insurance Coverage**  
**Year Ended June 30, 2014**

Chubb – Federal Insurance Company

Policy No. 3538-81-95, expiring January 1, 2015

Blanket building and contents	\$ 33,831,424
Loss of income and extra expense	9,641,981
Personal property in-transit	250,000
Personal property at a temporary storage site	250,000
Nuclear hazard	5,000,000
Valuable papers	1,030,000
Accounts receivable	412,000
EDP Media/Software	515,000
Earthquake	5,000,000
Depositors forgery	250,000

Policy No. 7324-54-55, expiring January 1, 2015

Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	25,000

ProAssurance

Comprehensive hospital liability, expiring January 1, 2015

Hospital professional liability, Policy No. CH332	1,000,000/3,000,000
General liability, Policy No. CH332	1,000,000/3,000,000
Employee benefits, Policy No. CH332	1,000,000/3,000,000
Excess Liability: 01/01/2014 – 03/01/2014	
Excess Medical Liability: Policy No.: CH333	4,000,000/4,000,000
Umbrella Liability: Policy No.: CH333	4,000,000/4,000,000
Excess Liability: 03/01/2014 – 01/01/2015	
Excess Medical Liability, Policy No. CH333	5,000,000/5,000,000
Umbrella Liability, Policy No. CH333	5,000,000/5,000,000

Chubb – Federal Insurance Company

Policy No. 6802-0186, expiring January 1, 2015

Directors' and officers' liability	4,000,000/4,000,000
Employee Practices Liability	4,000,000/4,000,000

Chubb – Federal Insurance Company

Policy No. 8223-2759, expiring January 1, 2015

Cyber liability	1,000,000
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Travelers

Policy No. 105890785, expiring February 1, 2015

Crime/ Employee Theft	1,000,000
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**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Financial Statements  
Performed in Accordance with *Government Auditing Standards***

Board of Trustees  
Madison County Memorial Hospital  
Winterset, 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 Madison County Memorial Hospital (Hospital), which comprise the balance sheet as of June 30, 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 29, 2014.

***Internal Control Over Financial Reporting***

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

***Compliance***

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*.

### ***Compliance with Certain Provisions of Iowa Law***

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2014. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

### ***Official Depository Banks***

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

### ***Certified Budget***

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2014 did not exceed amounts budgeted.

### ***Questionable Expenditures***

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

### ***Travel Expense***

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

### ***Business Transactions***

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

### ***Trustee Minutes***

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

### ***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.

***Unclaimed Property***

The Hospital is required to evaluate the need to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

***Disbursements for Equipment and Supplies***

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

***Compensation of Hospital Administrator, Assistants and Employees***

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

***Internal Revenue Service Information Returns and Outside Services***

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

***Purpose of this Report***

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

***BKD, LLP***

Kansas City, Missouri  
October 29, 2014

**Madison County Memorial Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2014**

**Reference  
Number**

**Finding**

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No matters are reportable.

Board of Trustees and Management  
Madison County Memorial Hospital  
Winterset, Iowa

During our audit of the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2014, we observed the following matters and offer these comments and suggestions. The matters discussed herein are not considered to be material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting.

### ***Medicare Reimbursement***

Certain provisions of the Federal Government's Budget Control Act of 2011 went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The American Taxpayer Relief Act of 2012 postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2023. The estimated annual impact of sequestration for the Hospital is \$103,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

### ***Electronic Health Records Meaningful Use Audits***

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests, we recommend all EHR payment audits be handled separately from other cost report reviews.
- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.

- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

### **340B Drug Pricing Program Integrity Initiative**

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, has resulted in over 200 audits since 2012 and the agency expects to double the number of audits performed each year. The results of the audits are made public on the HRSA website and include instances of non-compliance that may result in paybacks requiring a public letter to drug manufacturers for recoupment. The integrity initiatives also include the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers including attestation that the covered entity has complied with all program requirements and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

With the increased scrutiny and complexity of the program, we recommend the Hospital regularly review its compliance with the program and make certain that comprehensive and accurate policies and procedures are being followed and kept current.

### **Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions***

In June 2012, the Governmental Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement amends accounting for participating employers in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, defined contribution plans and plans with insured benefits. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed. Finally, the statement includes guidance on accounting for special funding situations where an entity other than the employer government is legally responsible for plan contributions.

The statement requires employers participating in cost-sharing multiple-employer plans to recognize their proportional share of the plan's collective net pension liability, pension expense and deferred outflows of resources and deferred inflows of resources in the employer's financial statements. The pension expense would no longer be based on the contractual required contribution or contributions actually made, but would be actuarially determined. This would result in the pension expense and liability being recognized as benefits are earned by employees, and is expected to increase current pension expense along with the recognition of the proportional share of the net pension liability. Note disclosures and required supplementary information would also be expanded.

The statement will be effective for the Hospital in the fiscal year ending June 30, 2015. The changes will require retroactive restatement of all prior periods presented. We recommend the Hospital monitor these changes in order to evaluate the impact on the financial statements.

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This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

*BKD, LLP*

Kansas City, Missouri  
October 29, 2014