

# **Monroe County Hospital**

Auditor's Report and Financial Statements

June 30, 2014 and 2013



**Monroe County Hospital**  
**June 30, 2014 and 2013**

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## Independent Auditor's Report

Board of Trustees  
Monroe County Hospital  
Albia, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of Monroe County 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 Monroe County 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.

***Emphasis of Matter***

As discussed in Note 1 to the financial statements, in 2014, the Hospital implemented the provisions of GASB Statement No. 65, which changed its method of accounting for bond issuance costs and reporting of deferred outflows and inflows through retroactive application to prior year's financial statements. 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 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 basic 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 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 November 25, 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 do not 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*

Kansas City, Missouri  
November 25, 2014

# **Monroe County 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 Monroe County 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 \$1,267,354 or 747% and decreased between 2013 and 2012 by \$2,527,092 or 94%.
- The Hospital's net position increased \$296,644 or 5% in 2014 and decreased \$958,319 or 15% in 2013.
- The Hospital reported operating loss in 2014 and 2013 of \$474,488 and \$1,652,139, respectively.
- Net nonoperating revenues increased by \$77,312 or 11% in 2014 compared to 2013 and decreased by \$75,980 or 10% in 2013 compared to 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 and all liabilities and all deferred inflows and outflows 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 it. The Hospital's total net position—the difference between assets and liabilities—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 and liabilities and deferred inflows reported in the Balance Sheet. The Hospital's net position increased by \$296,644 or 5% in 2014 over 2013 and decreased by \$958,319 or 15% in 2013 over 2012 as shown in Table 1.

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,387,796	\$ 2,743,491	\$ 2,332,129
Other current assets	3,376,862	2,367,194	3,522,343
Capital assets, net	5,837,844	6,752,994	6,281,995
Other noncurrent assets	750,338	746,333	1,478,103
Total assets	<u>\$ 12,352,840</u>	<u>\$ 12,610,012</u>	<u>\$ 13,614,570</u>
<b>Liabilities</b>			
Current liabilities	\$ 2,675,576	\$ 2,948,831	\$ 2,497,423
Long-term debt and unearned revenue	<u>2,982,442</u>	<u>3,344,972</u>	<u>3,911,578</u>
Total liabilities	<u>5,658,018</u>	<u>6,293,803</u>	<u>6,409,001</u>
<b>Deferred Inflows of Resources - Property Taxes</b>	<u>890,014</u>	<u>808,045</u>	<u>739,086</u>
<b>Net Position</b>			
Net investment in capital assets	2,477,858	2,819,113	1,833,123
Restricted			
Expendable	485,927	477,978	1,063,164
Nonexpendable	179,880	179,880	179,880
Unrestricted	<u>2,661,143</u>	<u>2,031,193</u>	<u>3,390,316</u>
Total net position	<u>5,804,808</u>	<u>5,508,164</u>	<u>6,466,483</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 12,352,840</u>	<u>\$ 12,610,012</u>	<u>\$ 13,614,570</u>

In 2014, there was a reduction of patient accounts receivable that was held in the legacy billing system. Improved billing and charging practices further reduced accounts receivable. The Hospital also paid off the line of credit that was borrowed against in 2013 and early 2014. The Hospital added additional hardware required for the Electronic Health Records (EHR) information system; however, there was not an increase to capital assets. The Hospital elected to defer EHR incentive payments as unearned revenue, which are being amortized into revenue over the life of the EHR assets.

In 2013, a significant change in the Hospital's assets was the increase in net patient accounts receivable of \$411,362. The increase was due to the implementation of the electronic medical records system implemented during 2013. The Hospital also had a significant increase in Capital assets. This is related to additions of hardware related to the implementation of an Electronic Health Records (EHR) information system.

In 2013, a significant change in the Hospital's liabilities was the increase in accounts payable related to limited cash flow available due to the implementation of an EHR information system.

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

In 2014, the Hospital's net position increased by \$296,644 or 5% compared to the decrease of \$958,319 or 15% in 2013 as shown in Table 2. This increase is made up of several different components.

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
		<i>(As Restated)</i>	<i>(As Restated)</i>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 15,297,300	\$ 14,703,411	\$ 15,547,140
Other operating revenues	1,587,722	183,031	271,608
Total operating revenues	<u>16,885,022</u>	<u>14,886,442</u>	<u>15,818,748</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	9,312,949	9,123,957	8,957,860
Medical professional fees	2,283,489	2,611,967	2,379,954
Depreciation	1,205,831	877,572	705,160
Other operating expenses	4,557,241	3,925,085	3,674,660
Total operating expenses	<u>17,359,510</u>	<u>16,538,581</u>	<u>15,717,634</u>
<b>Operating Income (Loss)</b>	<u>(474,488)</u>	<u>(1,652,139)</u>	<u>101,114</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	809,104	740,062	668,056
Interest expense	(176,253)	(174,637)	(186,532)
Interest income	16,640	15,079	3,889
Non-capital grants and gifts	121,641	113,316	284,387
Total nonoperating revenues	<u>771,132</u>	<u>693,820</u>	<u>769,800</u>
<b>Excess (Deficiency) of Revenues and Expenses Before Capital Contributions</b>	296,644	(958,319)	870,914
<b>Capital Contributions</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ 296,644</u>	<u>\$ (958,319)</u>	<u>\$ 870,914</u>

### ***Operating Income (Loss)***

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2014 and 2013, the Hospital reported an operating loss. In 2012, the Hospital reported an operating income. This is consistent with the Hospital's recent operating history, except for 2013 which incurred additional losses due to expenses related to the implementation of an EHR system, as the Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss in 2014 is attributed to the following:

- Depreciation expense increased \$328,259 over 2013 due to having a full year of depreciation on the EHR capital assets that were implemented in 2013.
- In 2014, the Hospital implemented the 340B drug program and benefited from an increase of \$1,257,927 in other operating revenues. The Hospital also had an increase of \$456,332 in 340B program costs.

The operating loss for 2013 was \$1,652,139, a decrease of \$1,753,253 compared to operating income of \$101,114 in 2012. The primary components of the change in operations were:

- Net patient service revenue decreased \$843,729 or 5% over 2012 primarily due to a decrease in volume in both the Hospital and Clinic.
- An increase in the Hospital's professional fees of \$232,013 or 10%. This increase is related to adding 24/7 provider coverage in the ER.

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

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital grants and gifts. Nonoperating revenues increased by \$77,312 or 11% in 2014 compared to 2013. Nonoperating revenues decreased by \$75,980 or 10% in 2013 compared to 2012. There were significant changes in 2013 or 2012, due to increases and decreases in noncapital gifts and grants.

### ***Contributions***

- The Hospital received contributions of \$121,641 in 2014, an increase of \$8,325 from 2013.
- The Hospital received contributions of \$113,316 in 2013, a decrease of \$171,071 from 2012.

### ***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 and 2013, discussed earlier.

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

### **Capital Assets**

At the end of 2014, the Hospital had \$5.8 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014, the Hospital acquired capital assets costing \$290,718.

At the end of 2013, the Hospital had \$6.8 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2013, the Hospital acquired capital assets costing \$1,359,439.

### **Debt**

At June 30, 2013 and 2012, the Hospital had \$3,359,986 and \$4,083,361, respectively, in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued new debt of \$149,014 in 2013 for a new lease. The Hospital has also borrowed against a line of credit in 2014 and 2013 in the amount of \$32,500 and \$98,356, respectively. The line of credit was paid off in 2014.

### ***Factors Bearing on Monroe County 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 641.932.2134.

**Monroe County Hospital**  
**Balance Sheets**  
**June 30, 2014 and 2013**

**Assets**

	<u>2014</u>	<u>2013</u>
		<i>(As Restated)</i>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,398,332	\$ 131,103
Certificates of deposit	482,276	478,217
Assets held under bond indenture agreement	36,198	36,073
Patient accounts receivable, net of allowance; 2014 - \$689,031, 2013 - \$604,768	2,387,796	2,743,491
Property taxes receivable	901,933	816,361
Estimated amounts due from third-party payers	112,000	509,000
Other receivables	102,856	44,309
Supplies	343,267	342,525
Prepaid expenses	-	9,606
	<u>5,764,658</u>	<u>5,110,685</u>
<b>Noncurrent Cash, Deposits and Investments</b>		
Internally designated for capital acquisitions	2,300	2,300
Externally restricted		
Held under bond indenture agreement	459,208	455,783
Investments held by the Foundation	62,919	62,919
By donors	179,880	179,880
	<u>704,307</u>	<u>700,882</u>
	<u>5,837,844</u>	<u>6,752,994</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>		
	<u>5,837,844</u>	<u>6,752,994</u>
<b>Other Assets</b>		
Other	27,991	27,411
Other Foundation assets	18,040	18,040
	<u>46,031</u>	<u>45,451</u>
<b>Total Assets</b>	<u><u>\$ 12,352,840</u></u>	<u><u>\$ 12,610,012</u></u>

## Liabilities, Deferred Inflows of Resources and Net Position

	<u>2014</u>	<u>2013</u> <i>(As Restated)</i>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 647,032	\$ 738,389
Line of credit	-	98,356
Accounts payable	612,539	1,103,111
Accrued vacation	442,457	449,210
Accrued payroll and related liabilities	502,089	545,887
Accrued interest	9,479	13,878
Unearned revenue	461,980	-
	<hr/>	<hr/>
Total current liabilities	2,675,576	2,948,831
<b>Unearned Revenue</b>	269,488	-
<b>Long-term Debt</b>	<hr/>	<hr/>
	2,712,954	3,344,972
	<hr/>	<hr/>
Total liabilities	5,658,018	6,293,803
<b>Deferred Inflows of Resources - Property Taxes</b>	<hr/>	<hr/>
	890,014	808,045
<b>Net Position</b>		
Net investment in capital assets	2,477,858	2,819,113
Restricted – expendable for debt service	485,927	477,978
Restricted – nonexpendable endowment	179,880	179,880
Unrestricted	2,661,143	2,031,193
	<hr/>	<hr/>
Total net position	5,804,808	5,508,164
	<hr/>	<hr/>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u>\$ 12,352,840</u>	<u>\$ 12,610,012</u>

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

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 16,351,892	\$ 15,454,579
Provision for uncollectible accounts	<u>(1,054,592)</u>	<u>(751,168)</u>
Net patient service revenue	15,297,300	14,703,411
Other	<u>1,587,722</u>	<u>183,031</u>
Total operating revenues	<u>16,885,022</u>	<u>14,886,442</u>
<b>Operating Expenses</b>		
Salaries and wages	7,224,159	7,047,263
Employee benefits	2,088,790	2,076,694
Medical professional fees	2,283,489	2,611,967
Supplies and expenses	2,295,828	1,589,326
General services	716,065	744,087
Administrative services	1,460,348	1,493,497
Depreciation	1,205,831	877,572
Insurance	<u>85,000</u>	<u>98,175</u>
Total operating expenses	<u>17,359,510</u>	<u>16,538,581</u>
<b>Operating Loss</b>	<u>(474,488)</u>	<u>(1,652,139)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	809,104	740,062
Interest expense	(176,253)	(174,637)
Investment income	16,640	15,079
Noncapital grants and gifts	<u>121,641</u>	<u>113,316</u>
Total nonoperating revenues	<u>771,132</u>	<u>693,820</u>
<b>Change in Net Position</b>	296,644	(958,319)
<b>Net Position, Beginning of Year, As Restated</b>	<u>5,508,164</u>	<u>6,466,483</u>
<b>Net Position, End of Year</b>	<u>\$ 5,804,808</u>	<u>\$ 5,508,164</u>

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

	<u>2014</u>	<u>2013</u>
		<i>(As Restated)</i>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 16,781,463	\$ 13,506,685
Payments to and on behalf of employees	(9,363,500)	(9,090,812)
Payments to suppliers and contractors	(7,265,133)	(6,083,893)
Other receipts, net	<u>1,533,961</u>	<u>153,523</u>
Net cash provided by (used in) operating activities	<u>1,686,791</u>	<u>(1,514,497)</u>
<b>Noncapital Financing Activities</b>		
Property taxes	805,501	740,062
Noncapital grants and gifts	<u>121,641</u>	<u>113,316</u>
Net cash provided by noncapital financing activities	<u>927,142</u>	<u>853,378</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from capital debt	32,500	98,356
Principal paid on capital debt and leases	(859,520)	(619,497)
Interest paid on capital debt and leases	(180,652)	(172,907)
Proceeds from sale of capital assets	-	3,000
Purchase of capital assets	<u>(348,063)</u>	<u>(1,180,933)</u>
Net cash used in capital and related financing activities	<u>(1,355,735)</u>	<u>(1,871,981)</u>
<b>Investing Activities</b>		
Investment income on deposits	16,640	15,129
Increase in deposits	<u>(7,484)</u>	<u>(9,121)</u>
Net cash provided by investing activities	<u>9,156</u>	<u>6,008</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	1,267,354	(2,527,092)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>169,476</u>	<u>2,696,568</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,436,830</u>	<u>\$ 169,476</u>

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

	<b>2014</b>	<b>2013</b>
		<i>(As Restated)</i>
<b>Reconciliation of Cash and Cash</b>		
<b>Equivalents to the Balance Sheets</b>		
Cash and cash equivalents in current assets	\$ 1,398,332	\$ 131,103
Assets held under bond indenture agreement	36,198	36,073
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	2,300	2,300
	\$ 1,436,830	\$ 169,476
 <b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided by Operating Activities</b>		
Operating loss	\$ (474,488)	\$ (1,652,139)
Depreciation and amortization	1,211,120	883,486
(Gain) loss on sale of capital assets	(503)	7,868
Changes in operating assets and liabilities		
Patient accounts receivable, net	355,695	(411,362)
Supplies	(742)	15,060
Estimated amounts due from and to third-party payers	397,000	(785,364)
Accounts payable and accrued expenses	248,230	487,791
Other assets and liabilities	(49,521)	(59,837)
Net cash provided by (used in) operating activities	\$ 1,686,791	\$ (1,514,497)
 <b>Supplemental Cash Flows Information</b>		
Capital assets included in accounts payable	\$ -	\$ 57,885
Capital assets acquired under capital leases	-	149,014

# Monroe County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

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

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

Monroe County 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 Monroe County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Monroe County area.

**Blended component unit.** The Hospital is the sole member of the Monroe County Health Care Foundation (Foundation), a legally separate not-for-profit corporation. The Foundation was formed to solicit and receive contributions along with related activities which carry out the mission of the Hospital. The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

##### ***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 and liabilities 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 and liabilities 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 savings and money market accounts.

# **Monroe County Hospital**

## **Notes to Financial Statements**

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

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

The Hospital received approximately 5% in 2014 and 2013, of its financial support from property tax revenues, 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.

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***

Investments in real estate investment trusts are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of 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.

# Monroe County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### **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	2 to 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest capitalized as part of the electronic health records project was \$0 and \$22,956 for the years ended June 30, 2014 and 2013, respectively.

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

Hospital policies permit most employees to accumulate paid time off benefits. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off. 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 four 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 required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets, or restricted net position.

# Monroe County Hospital

## Notes to Financial Statements

### June 30, 2014 and 2013

#### ***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.

#### ***Contributions***

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

#### ***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 \$389,309 and \$469,962 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.

#### ***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 factor, 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

# **Monroe County Hospital**

## **Notes to Financial Statements**

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

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 payments received for qualified EHR technology expenditures during 2014 and 2013, which was the period 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. The Hospital recorded revenue of \$611,580 and \$130,000, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013, respectively, related to Medicaid. The Hospital has elected to record the incentive payments from Medicare over the life of the related EHR technology. The Hospital has recorded unearned revenue, current portion, of \$461,980 and long-term revenue unearned of \$269,488 on the balance sheet at June 30, 2014.

#### ***Reclassifications***

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

#### ***Implementation of New Accounting Principle***

In 2014, the Hospital implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

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

Adoption of GASB 65 changed how the Hospital reports various debt issuance costs and deferred revenues related to property taxes, and resulted in the following reclassifications and restatements:

	<b>As Previously Reported 2013</b>	<b>Implementation of GASB 65</b>	<b>As Restated 2013</b>
<b>Balance Sheet Items Affected</b>			
Deferred financing costs, net of amortization	\$ 108,761	\$ (108,761)	\$ -
Deferred revenue for property taxes	808,045	(808,045)	-
Total current liabilities	3,756,876	(808,045)	2,948,831
Total liabilities	7,101,848	(808,045)	6,293,803
Deferred inflows of resources - property taxes	-	808,045	808,045
Net position			
Unrestricted	2,139,954	(108,761)	2,031,193
Total net position	5,616,925	(108,761)	5,508,164
<b>Statement of Revenues, Expenses and Changes in Net Position Items Affected</b>			
Interest expense	(193,277)	18,640	(174,637)
Net position, beginning of year	6,593,884	(127,401)	6,466,483
Change in net position	(976,959)	18,640	(958,319)
Net position, end of year	5,616,925	(108,761)	5,508,164
<b>Statement of Cash Flows Items Affected</b>			
Other receipts, net	172,163	(18,640)	153,523
Depreciation and amortization	902,126	(18,640)	883,486
Interest paid on capital debt and leases	(191,547)	18,640	(172,907)

# Monroe County 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 were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

The Hospital has been notified by the Medicare Administrative Contractor that Medicare cost reports have been reopened for 2008 through 2012 to re-evaluate 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 been recouped by the MAC; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 49% and 51% 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.

#### Note 3: Deposits, Investments and Interest 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 risk requires compliance with the provisions of state law.

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

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. The Hospital had no investments at June 30, 2014 and 2013. The Foundation had investments of \$62,919 in both 2014 and 2013 in real estate investment trusts.

***Summary of Carrying Values***

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

	<u>2014</u>	<u>2013</u>
Carrying value		
Deposits	\$ 2,558,194	\$ 1,283,356
Investments held by the Foundation	62,919	62,919
	<u>\$ 2,621,113</u>	<u>\$ 1,346,275</u>
Cash and cash equivalents	\$ 1,398,332	\$ 131,103
Certificates of deposit	482,276	478,217
Assets held under bond indenture agreement	36,198	36,073
Noncurrent cash, deposits and investments	704,307	700,882
	<u>\$ 2,621,113</u>	<u>\$ 1,346,275</u>

***Investment Income***

Investment income for the years ended June 30, 2014 and 2013 amounted to \$16,640 and \$15,079, respectively.

**Monroe County 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	\$ 1,281,355	\$ 1,271,817
Medicaid	230,837	193,027
Other third-party payers	750,383	979,484
Patients	814,252	903,931
	3,076,827	3,348,259
Less allowance for uncollectible accounts	689,031	604,768
	<b>\$ 2,387,796</b>	<b>\$ 2,743,491</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	\$ 47,600	\$ -	\$ -	\$ -	\$ 47,600
Land improvements	766,789	-	-	-	766,789
Buildings and leasehold improvements	6,392,216	-	-	-	6,392,216
Fixed equipment	4,938,138	-	-	-	4,938,138
Major movable equipment	7,889,853	290,178	6,183	-	8,173,848
Construction in progress	17,500	-	-	-	17,500
	20,052,096	290,178	6,183	-	20,336,091
Less accumulated depreciation					
Land improvements	673,419	12,581	-	-	686,000
Buildings and leasehold improvements	3,651,217	169,196	-	-	3,820,413
Fixed equipment	3,875,221	137,594	-	-	4,012,815
Major movable equipment	5,099,245	886,460	5,680	(1,006)	5,979,019
	13,299,102	1,205,831	5,680	(1,006)	14,498,247
Capital assets, net	<b>\$ 6,752,994</b>	<b>\$ (915,653)</b>	<b>\$ 503</b>	<b>\$ 1,006</b>	<b>\$ 5,837,844</b>

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
<b>2013</b>					
Land	\$ 47,600	\$ -	\$ -	\$ -	\$ 47,600
Land improvements	745,730	22,592	1,533	-	766,789
Buildings and leasehold improvements	6,517,256	9,292	134,332	-	6,392,216
Fixed equipment	4,862,971	136,054	60,887	-	4,938,138
Major movable equipment	6,197,710	1,183,349	303,744	812,538	7,889,853
Construction in progress	821,886	8,152	-	(812,538)	17,500
	<u>19,193,153</u>	<u>1,359,439</u>	<u>500,496</u>	<u>-</u>	<u>20,052,096</u>
Less accumulated depreciation					
Land improvements	660,199	14,753	1,533	-	673,419
Buildings and leasehold improvements	3,610,229	175,321	134,333	-	3,651,217
Fixed equipment	3,796,953	139,155	60,887	-	3,875,221
Major movable equipment	4,843,777	548,343	292,875	-	5,099,245
	<u>12,911,158</u>	<u>877,572</u>	<u>489,628</u>	<u>-</u>	<u>13,299,102</u>
Capital assets, net	<u>\$ 6,281,995</u>	<u>\$ 481,867</u>	<u>\$ 10,868</u>	<u>\$ -</u>	<u>\$ 6,752,994</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.

**Note 7: Line of Credit**

In 2013, the Hospital entered into a \$500,000 revolving bank line of credit expiring June 30, 2014 for the purchase of capital assets. At June 30, 2014 and 2013, there was \$0 and \$98,356 borrowed against this line, respectively. The Hospital borrowed additional amounts of \$32,500 in 2014. The line was collateralized by inventory, equipment, accounts (including but not limited to all health-care insurance receivables), and investments, etc. as defined in the Commercial Security Agreement. The interest rate on the line is 4.6% and is payable quarterly. The line was paid off in 2014.

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

**Note 8: 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	Additions	2014		Ending Balance	Current Portion
			Deductions			
Long-term debt						
Hospital revenue refunding bonds, Series 2007 (A)	\$ 2,835,000	\$ -	\$ (300,000)		\$ 2,535,000	\$ 315,000
Capital lease obligations (B)	254,525	-	(162,814)		91,711	57,243
Note payable to bank (C)	1,016,499	-	(265,850)		750,649	274,789
Less unamortized bond discount	(22,663)	-	5,289		(17,374)	-
Total long-term debt	<u>\$ 4,083,361</u>	<u>\$ -</u>	<u>\$ (723,375)</u>		<u>\$ 3,359,986</u>	<u>\$ 647,032</u>
	Beginning Balance	Additions	2013		Ending Balance	Current Portion
			Deductions			
Long-term debt						
Hospital revenue refunding bonds, Series 2007 (A)	\$ 3,125,000	\$ -	\$ (290,000)		\$ 2,835,000	\$ 300,000
Capital lease obligations (B)	199,566	149,014	(94,055)		254,525	150,779
Note payable to bank (C)	1,251,941	-	(235,442)		1,016,499	287,610
Less unamortized bond discount	(28,577)	-	5,914		(22,663)	-
Total long-term debt	<u>\$ 4,547,930</u>	<u>\$ 149,014</u>	<u>\$ (613,583)</u>		<u>\$ 4,083,361</u>	<u>\$ 738,389</u>

(A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating \$4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.30% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.

The Series 2007 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of \$435,785.

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

The Series 2007 indenture agreement also requires certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service Reserve Fund are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

As of June 30, 2013, the Hospital was not in compliance with the following debt covenant:

Maintaining a Coverage Ratio of 1.25. The Hospital was required to hire a Management Consultant within 30 days following the delivery of the June 30, 2013 audit report, to make a written report evaluating the performance of the Hospital and to recommend corrective measures.

The Hospital calculated Coverage Ratio at June 30, 2014 was greater than 1.25.

- (B) At rates of imputed interest of 3.5% to 5.0%, maturing through 2016 and collateralized by leased equipment. Equipment under capital leases is as follows:

	<b>2014</b>	<b>2013</b>
Equipment	\$ 513,347	\$ 513,347
Less accumulated depreciation	250,481	184,714
	\$ 262,866	\$ 328,633

- (C) Due January 29, 2017; principal and interest payable monthly in the amount of \$24,565; interest rate is 2.99%. The note is for the electronic health records project and secured by the related assets for the project.

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

Scheduled principal and interest payments on the Hospital revenue bonds Series 2007 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	\$ 434,375	\$ 315,000	\$ 119,375
2016	435,043	330,000	105,043
2017	434,863	345,000	89,863
2018	433,820	360,000	73,820
2019	431,900	375,000	56,900
2020-2021	869,215	810,000	59,215
	<u>\$ 3,039,216</u>	<u>\$ 2,535,000</u>	<u>\$ 504,216</u>

Scheduled principal and interest payments on the Note Payable to Bank 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	\$ 294,782	\$ 274,789	\$ 19,993
2016	294,781	284,028	10,753
2017	193,715	191,832	1,883
	<u>\$ 783,278</u>	<u>\$ 750,649</u>	<u>\$ 32,629</u>

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

The following is a schedule by year of future minimum lease payments under the capital lease including interest, together with the present value of the future minimum lease payments as of June 30, 2014:

<b>Year Ending June 30,</b>	<b>Amount</b>
2015	\$ 59,918
2016	34,954
Total minimum lease payments	94,872
Less amount representing interest	3,161
Less current amounts	57,243
Present value of future minimum lease payments	\$ 34,468

**Note 9: Restricted Net Position**

At June 30, 2014 and 2013, restricted expendable net assets of \$485,927 and \$477,978, respectively, were available for debt service reserve and sinking funds related to indenture agreements.

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After the time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

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

**Note 10: Condensed Combining Information**

The following tables include condensed information for the Hospital and its component unit as of June 30, 2014 and 2013.

**Condensed Balance Sheets**

	<b>June 30, 2014</b>			
	<b>Monroe County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
Current assets	\$ 5,565,706	\$ 198,952	\$ -	\$ 5,764,658
Capital assets	5,837,844	-	-	5,837,844
Other assets	669,379	260,839	(179,880)	750,338
Total assets	<u>\$ 12,072,929</u>	<u>\$ 459,791</u>	<u>\$ (179,880)</u>	<u>\$ 12,352,840</u>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 2,675,576	\$ -	\$ -	\$ 2,675,576
Noncurrent liabilities	2,982,442	-	-	2,982,442
Total liabilities	<u>5,658,018</u>	<u>-</u>	<u>-</u>	<u>5,658,018</u>
<b>Deferred Inflows of Resources - Property Taxes</b>				
	<u>890,014</u>	<u>-</u>	<u>-</u>	<u>890,014</u>
<b>Net Position</b>				
Net investment in capital assets	2,477,858	-	-	2,477,858
Unrestricted	2,381,232	279,911	-	2,661,143
Restricted-expendable for debt service	485,927	-	-	485,927
Restricted-nonexpendable endowment	179,880	179,880	(179,880)	179,880
Total net position	<u>5,524,897</u>	<u>459,791</u>	<u>(179,880)</u>	<u>5,804,808</u>
Total liabilities and net position	<u>\$ 12,072,929</u>	<u>\$ 459,791</u>	<u>\$ (179,880)</u>	<u>\$ 12,352,840</u>

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

	<b>June 30, 2013</b>			
	<b>Monroe</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
	<b>County Hospital</b>			
	<i>(As Restated)</i>			
<b>Assets</b>				
Current assets	\$ 4,924,401	\$ 186,284	\$ -	\$ 5,110,685
Capital assets	6,752,994	-	-	6,752,994
Other assets	665,374	260,839	(179,880)	746,333
	<b>\$ 12,342,769</b>	<b>\$ 447,123</b>	<b>\$ (179,880)</b>	<b>\$ 12,610,012</b>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 2,948,831	\$ -	\$ -	\$ 2,948,831
Noncurrent liabilities	3,344,972	-	-	3,344,972
	<b>6,293,803</b>	<b>-</b>	<b>-</b>	<b>6,293,803</b>
<b>Deferred Inflows of Resources -</b>				
<b>Property Taxes</b>	<b>808,045</b>	<b>-</b>	<b>-</b>	<b>808,045</b>
<b>Net Position</b>				
Net investment in capital assets	2,819,113	-	-	2,819,113
Unrestricted	1,763,950	267,243	-	2,031,193
Restricted-expendable for debt service	477,978	-	-	477,978
Restricted-nonexpendable endowment	179,880	179,880	(179,880)	179,880
	<b>5,240,921</b>	<b>447,123</b>	<b>(179,880)</b>	<b>5,508,164</b>
	<b>\$ 12,342,769</b>	<b>\$ 447,123</b>	<b>\$ (179,880)</b>	<b>\$ 12,610,012</b>

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

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

	Year Ended June 30, 2014			
	Monroe County Hospital	Foundation	Eliminations	Total
<b>Operating Revenue</b>				
Net patient service revenue	\$ 15,297,300	\$ -	\$ -	\$ 15,297,300
Other	1,587,722	-	-	1,587,722
Total operating revenues	<u>16,885,022</u>	<u>-</u>	<u>-</u>	<u>16,885,022</u>
<b>Operating Expenses</b>				
Other operating expenses	16,122,192	95,034	(63,547)	16,153,679
Depreciation and amortization	1,205,831	-	-	1,205,831
Total operating expenses	<u>17,328,023</u>	<u>95,034</u>	<u>(63,547)</u>	<u>17,359,510</u>
<b>Operating Loss</b>	<u>(443,001)</u>	<u>(95,034)</u>	<u>63,547</u>	<u>(474,488)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	11,005	5,635	-	16,640
Interest expense	(176,253)	-	-	(176,253)
Property tax revenue	809,104	-	-	809,104
Noncapital contributions	19,574	102,067	-	121,641
Total nonoperating revenues	<u>663,430</u>	<u>107,702</u>	<u>-</u>	<u>771,132</u>
<b>Excess of Revenues Over Expenses, Before Capital Contributions</b>	220,429	12,668	63,547	296,644
<b>Capital Contributions</b>	<u>63,547</u>	<u>-</u>	<u>(63,547)</u>	<u>-</u>
<b>Change in Net Position</b>	283,976	12,668	-	296,644
<b>Net Position, Beginning of Year</b>	<u>5,240,921</u>	<u>447,123</u>	<u>(179,880)</u>	<u>5,508,164</u>
<b>Net Position, End of Year</b>	<u><u>\$ 5,524,897</u></u>	<u><u>\$ 459,791</u></u>	<u><u>\$ (179,880)</u></u>	<u><u>\$ 5,804,808</u></u>

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

	<b>Year Ended June 30, 2013</b>			
	<b>Monroe County Hospital</b>	<b>Foundation</b>	<b>Eliminations</b>	<b>Total</b>
	<i>(As Restated)</i>			
<b>Operating Revenue</b>				
Net patient service revenue	\$ 14,703,411	\$ -	\$ -	\$ 14,703,411
Other	183,031	-	-	183,031
Total operating revenues	<u>14,886,442</u>	<u>-</u>	<u>-</u>	<u>14,886,442</u>
<b>Operating Expenses</b>				
Other operating expenses	15,614,450	134,588	(88,029)	15,661,009
Depreciation and amortization	877,572	-	-	877,572
Total operating expenses	<u>16,492,022</u>	<u>134,588</u>	<u>(88,029)</u>	<u>16,538,581</u>
<b>Operating Loss</b>	<u>(1,605,580)</u>	<u>(134,588)</u>	<u>88,029</u>	<u>(1,652,139)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	9,945	5,134	-	15,079
Interest expense	(174,637)	-	-	(174,637)
Property tax revenue	740,062	-	-	740,062
Noncapital contributions	32,213	81,332	(229)	113,316
Total nonoperating revenues	<u>607,583</u>	<u>86,466</u>	<u>(229)</u>	<u>693,820</u>
<b>Excess (Deficiency) of Revenues Over Expenses, Before Capital Contributions</b>	(997,997)	(48,122)	87,800	(958,319)
<b>Capital Contributions</b>	<u>87,800</u>	<u>-</u>	<u>(87,800)</u>	<u>-</u>
<b>Change in Net Position</b>	(910,197)	(48,122)	-	(958,319)
<b>Net Position, Beginning of Year</b>	<u>6,151,118</u>	<u>495,245</u>	<u>(179,880)</u>	<u>6,466,483</u>
<b>Net Position, End of Year</b>	<u>\$ 5,240,921</u>	<u>\$ 447,123</u>	<u>\$ (179,880)</u>	<u>\$ 5,508,164</u>

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

**Condensed Statements of Cash Flows**

	Year Ended June 30, 2014			
	Monroe County Hospital	Foundation	Eliminations	Total
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ 1,774,370	\$ (87,579)	\$ -	\$ 1,686,791
<b>Net Cash Provided by Noncapital Financing Activity</b>	825,075	102,067	-	927,142
<b>Net Cash Used in Capital and Related Financing Activities</b>	(1,355,735)	-	-	(1,355,735)
<b>Net Cash Provided by Investing Activities</b>	5,229	3,927	-	9,156
<b>Change in Cash and Cash Equivalents</b>	1,248,939	18,415	-	1,267,354
<b>Cash and Cash Equivalents, Beginning of Year</b>	159,643	9,833	-	169,476
<b>Cash and Cash Equivalents, End of Year</b>	\$ 1,408,582	\$ 28,248	\$ -	\$ 1,436,830

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

	Year Ended June 30, 2013			
	Monroe County Hospital <i>(As Restated)</i>	Foundation	Eliminations	Total
<b>Net Cash Provided by (Used in) Operating Activities</b>	\$ (1,372,072)	\$ (142,425)	\$ -	\$ (1,514,497)
<b>Net Cash Provided by Noncapital Financing Activity</b>	772,047	81,331	-	853,378
<b>Net Cash Used in Capital and Related Financing Activities</b>	(1,871,981)	-	-	(1,871,981)
<b>Net Cash Provided by Investing Activities</b>	2,599	3,409	-	6,008
<b>Change in Cash and Cash Equivalents</b>	(2,469,407)	(57,685)	-	(2,527,092)
<b>Cash and Cash Equivalents, Beginning of Year</b>	2,629,050	67,518	-	2,696,568
<b>Cash and Cash Equivalents, End of Year</b>	\$ 159,643	\$ 9,833	\$ -	\$ 169,476

**Note 11: 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. Management records an estimate of the amount of ultimate expected loss, if any, for each. No such amounts were recorded at June 30, 2014 or 2013. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Note 12: 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. Pension expense is recorded for the amount the Hospital is contractually required to contribute for the year. The plan provides retirement and death benefits, which are established by state statute, to plan members and beneficiaries. The plan 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.

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

**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 the plan for 2014, 2013 and 2012 were \$607,135, \$693,668 and \$511,533, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.93% of annual covered salary for 2014.

**Note 13: Network Administration and Support Services Agreement**

The Hospital has entered into an agreement with another health care organization for network administration and support services. Administration and support services fees of \$516,002 and \$593,894 were incurred for the years ended June 30, 2014 and 2013, respectively.

**Note 14: 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 a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the Hospital, for the year ended June 30, 2014:

	<b>Actual</b>	<b>Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 809,104	\$ -	\$ 809,104	\$ 808,044
Other revenues/receipts	<u>16,979,148</u>	<u>752,695</u>	<u>17,731,843</u>	<u>17,590,284</u>
Total revenues/receipts	17,788,252	752,695	18,540,947	18,398,328
Expenses/disbursements	<u>17,504,276</u>	<u>(247,488)</u>	<u>17,256,788</u>	<u>17,433,040</u>
Change in net position	283,976	1,000,183	1,284,159	965,288
Balance, beginning of year	<u>5,240,921</u>	<u>(1,016,932)</u>	<u>4,223,989</u>	<u>4,223,989</u>
Balance, end of year	<u><u>\$ 5,524,897</u></u>	<u><u>\$ (16,749)</u></u>	<u><u>\$ 5,508,148</u></u>	<u><u>\$ 5,189,277</u></u>

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

**Note 15: Operating Leases**

Noncancellable operating leases for equipment expire in various years through 2018. Future minimum lease payments at June 30, 2014 were:

2015		\$	118,668
2016			118,668
2017			118,668
2018			118,668
			118,668
Future minimum lease payments		\$	474,672

Rent expense for the material operating leases was \$143,003 and \$145,458 for the years ended June 30, 2014 and 2013, respectively.

**Note 16: 340B Drug Pricing Program**

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term. The Hospital recorded \$1,257,927 in other revenues for the 340B Program in 2014.

**Note 17: Future Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for the Hospital which provide its employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the balance sheet is expected to include a liability for the government’s proportionate share of the employee pension plan.

## **Supplementary Information**

**Monroe County Hospital**  
**Schedules of Patient Service Revenues – Hospital**  
**Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Daily Patient Services</b>						
Acute nursing care	\$ 1,318,418	\$ 1,318,418		\$ 1,655,595	\$ 1,655,595	
Extended care	48,935	48,935		59,160	59,160	
Skilled care	280,154	280,154		320,421	320,421	
	<u>1,647,507</u>	<u>1,647,507</u>		<u>2,035,176</u>	<u>2,035,176</u>	
<b>Nursing Services</b>						
Operating room	2,162,442	939,576	\$ 1,222,866	1,588,141	359,316	\$ 1,228,825
Recovery room	379,410	45,654	333,756	197,795	22,781	175,014
Emergency room	2,682,835	27,285	2,655,550	2,638,548	36,602	2,601,946
	<u>5,224,687</u>	<u>1,012,515</u>	<u>4,212,172</u>	<u>4,424,484</u>	<u>418,699</u>	<u>4,005,785</u>
<b>Other Professional Services</b>						
Central services and supplies	7,322		7,322	84,762		84,762
Hospice	645,567		645,567	785,421		785,421
Ambulance	1,319,871	20,307	1,299,564	1,242,397	20,642	1,221,755
Laboratory	4,272,753	383,622	3,889,131	3,868,845	379,002	3,489,843
Radiology	1,157,960	52,692	1,105,268	1,014,707	55,012	959,695
Electrocardiology	118,458	12,652	105,806	203,071	26,706	176,365
Respiratory therapy	613,599	421,435	192,164	557,033	355,754	201,279
Pharmacy	1,841,127	578,938	1,262,189	2,579,509	976,435	1,603,074
Anesthesiology	419,886	80,533	339,353	370,545	56,452	314,093
Physical therapy	1,038,960	111,617	927,343	968,756	146,800	821,956
Speech therapy	102,017	6,707	95,310	86,229	13,161	73,068
CT scan and MRI	3,483,165	228,325	3,254,840	3,298,571	267,174	3,031,397
Cardiac rehab	201,204		201,204	138,562		138,562
Occupational therapy	187,563	72,619	114,944	197,916	103,075	94,841
Outpatient clinic	251,581		251,581	705,826		705,826
Physician clinic	4,072,672		4,072,672	3,414,458		3,414,458
	<u>19,733,705</u>	<u>1,969,447</u>	<u>17,764,258</u>	<u>19,516,608</u>	<u>2,400,213</u>	<u>17,116,395</u>
<b>Gross Patient Service Revenue</b>	26,605,899	\$ 4,629,469	\$ 21,976,430	25,976,268	\$ 4,854,088	\$ 21,122,180
<b>Contractual Adjustments</b>	(10,865,587)			(10,651,689)		
<b>Electronic Health Records Program Incentive Revenue</b>	611,580			130,000		
<b>Net Patient Service Revenue before Provision for Uncollectible Accounts</b>	16,351,892			15,454,579		
<b>Provision for Uncollectible Accounts</b>	(1,054,592)			(751,168)		
<b>Net Patient Service Revenue</b>	<u>\$ 15,297,300</u>			<u>\$ 14,703,411</u>		

See Independent Auditor's Report

**Monroe County Hospital**  
**Schedules of Other Revenues – Hospital**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cafeteria	\$ 68,059	\$ 44,225
Medical records	395	317
Rent	40,137	37,759
340B pharmacy revenue	1,257,927	-
Other	<u>221,204</u>	<u>100,730</u>
	<u>\$ 1,587,722</u>	<u>\$ 183,031</u>

**Monroe County Hospital**  
**Schedules of Operating Expenses – Hospital**  
**Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Medical and surgical	\$ 1,029,644	\$ 944,975	\$ 84,669	\$ 1,075,820	\$ 978,373	\$ 97,447
Emergency room	1,386,198	590,134	796,064	1,343,860	585,885	757,975
Operating and recovery rooms	780,728	341,224	439,504	782,651	375,577	407,074
Nursing administration	109,394	81,437	27,957	131,604	-	131,604
	<u>3,305,964</u>	<u>1,957,770</u>	<u>1,348,194</u>	<u>3,333,935</u>	<u>1,939,835</u>	<u>1,394,100</u>
<b>Other Professional Services</b>						
Laboratory	539,379	231,213	308,166	575,578	258,870	316,708
Radiology	326,378	271,804	54,574	339,552	272,286	67,266
Respiratory therapy	117,225	65,754	51,471	132,245	75,185	57,060
Pharmacy	1,172,668	74,462	1,098,206	732,206	133,814	598,392
Anesthesiology	136,788		136,788	138,606		138,606
Physical therapy	471,042		471,042	435,407		435,407
Speech pathology	67,576		67,576	55,895		55,895
CT scan	138,092		138,092	202,976		202,976
Ultrasound	95,737	60,768	34,969	91,671	58,122	33,549
Mammography	7,080		7,080	9,855		9,855
MRI	74,517		74,517	63,750		63,750
Nuclear scanning	28,646		28,646	26,283		26,283
Cardiac rehab	46,720	38,181	8,539	54,288	52,010	2,278
Occupational therapy	95,081		95,081	99,675		99,675
Medical records	184,778	158,116	26,662	182,924	153,662	29,262
Outpatient clinic	46,371	33,466	12,905	216,006	66,869	149,137
Physician clinic	2,818,463	2,343,140	475,323	2,375,386	1,998,522	376,864
Hospice	307,612	209,967	97,645	326,952	235,542	91,410
Ambulance	315,157	271,316	43,841	315,697	262,877	52,820
	<u>6,989,310</u>	<u>3,758,187</u>	<u>3,231,123</u>	<u>6,374,952</u>	<u>3,567,759</u>	<u>2,807,193</u>
<b>General Services</b>						
Operation of plant	603,673	158,422	445,251	607,807	152,755	455,052
Dietary	427,012	257,094	169,918	439,936	259,600	180,336
Environmental services	189,839	157,058	32,781	209,632	164,134	45,498
Housekeeping	68,115		68,115	63,201	-	63,201
	<u>1,288,639</u>	<u>572,574</u>	<u>716,065</u>	<u>1,320,576</u>	<u>576,489</u>	<u>744,087</u>
<b>Administrative Services</b>	2,364,489	935,628	1,428,861	2,410,118	963,180	1,446,938
<b>Employee Benefits</b>	2,088,790		2,088,790	2,076,694		2,076,694
<b>Depreciation</b>	1,205,831		1,205,831	877,572		877,572
<b>Insurance</b>	85,000		85,000	98,175		98,175
	<u>\$ 17,328,023</u>	<u>\$ 7,224,159</u>	<u>\$ 10,103,864</u>	<u>\$ 16,492,022</u>	<u>\$ 7,047,263</u>	<u>\$ 9,444,759</u>

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

**Schedules of Patient Receivables**

	Amounts		Percent to Total	
	2014	2013	2014	2013
Days Since Discharge or date of service				
0 – 30	\$ 2,512,574	\$ 2,306,155	49%	43%
31 – 60	762,015	946,983	15%	18%
61 – 90	598,303	783,994	12%	14%
91 – 120	249,842	512,040	5%	9%
121 and over	956,653	885,546	19%	16%
	<u>5,079,387</u>	<u>5,434,718</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	2,002,560	2,086,459		
Allowance for uncollectible accounts	<u>689,031</u>	<u>604,768</u>		
	<u>2,691,591</u>	<u>2,691,227</u>		
	<u>\$ 2,387,796</u>	<u>\$ 2,743,491</u>		

**Allowance for Uncollectible Accounts**

	2014	2013
Balance, beginning of year	\$ 604,768	\$ 490,496
Provision for year	1,054,592	751,168
Recoveries of accounts previously written off	151,000	265,336
	<u>1,810,360</u>	<u>1,507,000</u>
Less accounts written off	<u>1,121,329</u>	<u>902,232</u>
Balance, end of year	<u>\$ 689,031</u>	<u>\$ 604,768</u>

**Monroe County Hospital**  
**Schedules of Supplies and Prepaid Expenses – Hospital**  
**Years Ended June 30, 2014 and 2013**

**Supplies**

	<b>2014</b>	<b>2013</b>
General	\$ 175,834	\$ 176,640
Pharmacy	164,471	163,551
	<b>\$ 340,305</b>	<b>\$ 340,191</b>

**Prepaid Expenses**

	<b>2014</b>	<b>2013</b>
Insurance	\$ -	\$ 9,606

## **Other Supplementary Information**

**Monroe County Hospital**  
**Schedule of Officials**  
**June 30, 2014**

Name	Title	Term Expires December 31
<b>Board of Trustees</b>		
Marilee Scieszinski	Chair	2014
Lorraine Starcevic	Vice Chair	2016
Lana Kaldenberg	Secretary	2014
Mike Spieler	Member	2016
Matt Foster	Member	2016
Jason Summers	Member	2018
Joseph Bates	Member	2018
<b>Hospital Officials</b>		
Todd Willert*	Chief Executive Officer	
Jessica Hoepker	Chief Financial Officer	

\* (Resigned Subsequent to June 30, 2014)

**Monroe County 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	565	682
Medicaid	58	47
Private and other	259	243
	882	972
<b>Medicare and Medicaid Percent</b>	70.6%	75.0%
<b>Percent of Occupancy (Acute)</b>	10.0%	10.7%
<b>Discharges (Exclusive of Swing-bed)</b>		
Medicare	170	216
Medicaid	16	13
Private and other	73	76
	259	305
<b>Average Length of Stay in Days</b>	3.4	3.2

**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  
Monroe County Hospital  
Albia, 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 Monroe County 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 November 25, 2014, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

***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 and Other Matters***

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

We noted certain matters that we reported to the Hospital's management in a separate letter dated November 25, 2014.

### ***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.

### ***Publication of Bills Allowed***

Chapter 347.13(14) of the Code of Iowa states "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..." We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

***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 communication is not suitable for any other purpose.

*BKD, LLP*

Kansas City, Missouri  
November 25, 2014

**Monroe County 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  
Monroe County Hospital  
Albia, Iowa

In planning and performing our audit of the financial statements of Monroe County Hospital as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

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 of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

### ***Deficiencies***

#### **Segregation of Duties**

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the Chief Financial Officer and Controller have incompatible duties within the cash receipts transaction cycle and cash disbursements cycle. Both employees have duties, which allow them access to assets and recording responsibilities.

The Hospital should consider limiting, to the extent possible, individuals having access to assets and recording responsibilities.

### Audit Journal Entries

During the course of performing the audit, we identified adjustments and proposed journal entries to the financial statements affecting the Hospital's accounts receivable and allowances, other receivables, capital assets, accounts payable, deferred inflows and long-term debt. These items were not previously identified by management's internal controls.

## **Other Matters**

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

### ***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 impact on the Hospital in 2014 was approximately \$93,000. 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.

We recommend the Hospital monitor its compliance with the EHR program.

### ***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, its continued eligibility to participate in the program and make certain that comprehensive and accurate policies and procedures are being followed and kept current.

### ***Conversion to ICD-10***

The United States Department of Health and Human Services (HHS) has issued a rule finalizing October 1, 2015 as the new compliance date for health care providers, health plans and health care clearing Houses to transition to ICD-10. This process will convert coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after the conversion date cannot be paid. The conversion will improve the information reported regarding a patients'

medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

We recommend Hospital management evaluate the impact of ICD-10 on the Hospital and develop a strategic plan to address these changes and the implementation process.

### ***Future Accounting Pronouncements***

The Governmental Accounting Standards Board has issued several new standards within the past few years. While most of the new standards will have minimal impact on the Hospital, we have noted below the standard we believe will have the most impact on the Hospital.

- Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB No. 27* – Effective for the Hospital’s fiscal year ending June 30, 2015

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This communication is intended solely for the information and use of management, 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  
November 25, 2014