

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2014 AND 2013**

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
BOARD OF TRUSTEES  
YEAR ENDED JUNE 30, 2014**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
BOARD OF TRUSTEES		
Mike Stensland	Chairperson	December 31, 2016
Diana Ruhl	Vice Chairperson	December 31, 2016
Amanda Wood	Secretary	December 31, 2014
Francis Fritz	Treasurer	December 31, 2014
Steve Howard	Member	December 31, 2016
HOSPITAL OFFICIALS		
Cherelle Montanye - Ireland	Chief Executive Officer	
Michael White	Chief Financial Officer	

## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Ellsworth Municipal Hospital dba: Hansen Family Hospital  
Iowa Falls, Iowa

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ellsworth Municipal Hospital dba: Hansen Family Hospital, an enterprise fund of the City of Iowa Falls, Iowa, and its discretely presented component unit, Hansen Family Hospital Foundation, which comprise the related statements of net position and balance sheets as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ellsworth Municipal Hospital dba: Hansen Family Hospital and its discretely presented component unit as of June 30, 2014 and 2013, and the results of its operations, changes in its net position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5-10 and budgetary schedule comparison of expenses on page 38 to be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Ellsworth Municipal Hospital dba: Hansen Family Hospital as a whole. The supplementary information on pages 39 through 46 is presented for the purpose 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Board of Trustees and Hospital Officials listing which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Board of Trustees  
Ellsworth Municipal Hospital dba: Hansen Family Hospital

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2014 on our consideration of Ellsworth Municipal Hospital dba: Hansen Family Hospital and its discretely presented component unit's internal control over financial reporting and on 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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Ellsworth Municipal Hospital dba: Hansen Family Hospital and its discretely presented component unit's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
December 23, 2014

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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

The Management's Discussion and Analysis offers the readers of Ellsworth Municipal Hospital's dba: Hansen Family Hospital (the Hospital) financial statements an overview and analysis of the Hospital's financial activities for the fiscal years ended June 30, 2014 and 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes, which begin on page 11.

**USING THIS ANNUAL REPORT**

The June 30, 2014 and 2013 financial reports include the following audited financial statements:

- Statements of Net Position
- Balance Sheets - Foundation
- Statements of Revenues, Expenses and Changes in Net Position
- Statements of Activities and Changes in Net Assets - Foundation
- Statements of Cash Flows
- Statements of Cash Flows - Foundation
- Notes to Financial Statements

**FINANCIAL HIGHLIGHTS**

- The Hospital's total assets decreased by \$1,529,589 or 3.4% in 2014, and increased by \$28,152,264 or 168% in 2013.
- The Hospital's net position decreased by \$585,989 or 3.9% in 2014, and increased by \$1,676,883 or 12.4% in 2013.
- The Hospital reported an operating loss of \$1,873,414 in 2014 and \$2,389,026 in 2013. Operating loss in 2014 decreased by \$515,612 over the loss reported in 2013. Operating income in 2013 decreased by \$2,761,947 compared to 2012.

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

Ellsworth Municipal Hospital's dba: Hansen Family Hospital financial statements report information on the Hospital using accounting methods similar to those used by private sector healthcare organizations. These statements offer short- and long-term information about its activities. The statement of net position includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Hospital's creditors (liabilities). The statement of net position also provides the basis for evaluating the capital structure of the Hospital and assesses the liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses and changes in net position. This statement measures the success of the Hospital's operations over the past two years and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Ellsworth Municipal Hospital dba: Hansen Family Hospital does not receive any funding from the City of Iowa Falls. Revenues and expenses are reported on an accrual basis, which means that revenues and expenses are recorded in the periods in which they are incurred.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (CONTINUED)**

Also supporting, supplementary information to the above statements is provided in:

- Schedules of Patient Service Revenue
- Schedules of Adjustments to Patient Service Revenues and Other Revenue
- Schedules of Operating Expenses
- Schedules of Aged Analysis of Accounting Receivable from Patients and Allowance for Doubtful Accounts
- Schedules of Inventories and Prepaid Expenses
- Schedules of Bond Investment Transactions

**FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL DBA: HANSEN FAMILY HOSPITAL**

The information from the statement of net position, statements of revenues, expenses and changes in net position, and the statements of cash flows have been summarized in the following tables. Tables 1 and 2 report on the net position of the Hospital and the changes in them. Increases or decreases in net position are one indicator of whether or not the Hospital's financial health is improving. Other non-financial factors can also have an effect on the Hospital's financial position. These can include such things as changes in Medicare and Medicaid regulations and reimbursement, changes with other third-party payors, as well as changes in Hardin County's economic environment and the surrounding areas.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current Assets	\$ 8,871,900	\$ 6,629,518	\$ 7,097,934
Noncurrent Assets	4,994,234	20,828,737	2,197,940
Capital Assets, Net	27,746,604	16,165,461	6,333,571
Other Assets	1,851,355	1,282,218	1,124,225
Total Assets	<u>\$ 43,464,093</u>	<u>\$ 44,905,934</u>	<u>\$ 16,753,670</u>
Liabilities:			
Current Liabilities	\$ 4,562,786	\$ 4,263,577	\$ 2,560,180
Long-Term Debt	24,290,820	25,444,881	672,897
Total Liabilities	28,853,606	29,708,458	3,233,077
Net Position:			
Net Investment in Capital Assets	2,855,642	5,628,155	5,186,094
Restricted:			
Expendable for Capital Improvements	1,864,935	1,531,075	935,679
By Bond Indentures	2,397,602	18,382,017	308,452
Unrestricted	7,492,308	(10,343,771)	7,090,368
Total Net Position	<u>14,610,487</u>	<u>15,197,476</u>	<u>13,520,593</u>
Total Liabilities and Net Position	<u>\$ 43,464,093</u>	<u>\$ 44,905,934</u>	<u>\$ 16,753,670</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL DBA: HANSEN FAMILY HOSPITAL (CONTINUED)**

A significant change in the Hospital's assets in 2014 are the noncurrent cash and investments; a decrease of \$15,834,503 or 76%; current assets; an increase of \$2,242,382 or 33.8%, and capital assets, net; an increase of \$11,581,143 or 70.3%.

In 2014, the Hospital's net position decreased by \$585,989 or 3.9%, as shown in Table 2. This decrease is made up of changes in net position invested in capital assets net of related debt and unrestricted net position.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenue:			
Net Patient Service Revenue	\$ 21,895,096	\$ 19,635,395	\$ 19,180,339
Other Revenues	611,162	566,516	781,396
Total Operating Revenues	<u>22,506,258</u>	<u>20,201,911</u>	<u>19,961,735</u>
Operating Expenses:			
Salaries and Wages	10,440,169	9,479,792	9,101,329
Employee Benefits	2,897,285	2,557,807	2,397,786
Supplies and Miscellaneous	8,368,006	7,361,873	7,128,896
Depreciation and Amortization	960,477	708,296	889,059
Interest Expense	116,037	42,791	71,744
Project Related Expenses	1,597,698	2,440,378	-
Total Operating Expenses	<u>24,379,672</u>	<u>22,590,937</u>	<u>19,588,814</u>
Operating Income (Loss)	(1,873,414)	(2,389,026)	372,921
Nonoperating Revenue	<u>409,061</u>	<u>500,474</u>	<u>361,891</u>
Excess (Deficit) of Revenues Over Expenses Before Capital Grants and Contributions	(1,464,353)	(1,888,552)	734,812
Capital Grants and Contributions	<u>877,364</u>	<u>3,565,435</u>	<u>461,031</u>
Increase in Net Position	(586,989)	1,676,883	1,195,843
Net Position, Beginning of Year	<u>15,197,476</u>	<u>13,520,593</u>	<u>12,324,750</u>
Net Position, End of Year	<u>\$ 14,610,487</u>	<u>\$ 15,197,476</u>	<u>\$ 13,520,593</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL DBA: HANSEN FAMILY HOSPITAL (CONTINUED)**

Net patient service revenue made up 97% in 2014, 97% in 2013 and 96% in 2012 of Ellsworth Municipal Hospital's dba: Hansen Family Hospital total operating revenue. To arrive at net patient service revenue, contractual adjustments have been made to gross patient service revenue due to agreements with third-party payors. Table 3 below shows the contractual adjustments that were recognized:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Patient Service Revenues	\$ 43,413,470	\$ 38,515,080	\$ 35,541,810
Contractual Adjustments and Provisions for Bad Debt	21,518,374	18,879,685	16,361,471
Net Patient Service Revenue	<u>\$ 21,895,096</u>	<u>\$ 19,635,395</u>	<u>\$ 19,180,339</u>
Contractual Adjustments as a Percent of Revenues	<u>49.57%</u>	<u>49.02%</u>	<u>46.03%</u>

Total operating expenses increased \$1,788,735, or 7.9%, in 2014 and increased \$3,002,123, or 15.33%, in 2013. The operating expenses are broken out by department on the schedules of operating expenses; please see pages 44-45 of the audited financial statements for this information.

Operating Loss was \$1,873,414, or 8.3% of total operating revenue (total operating revenue less total operating expenses divided by total operating revenue) in 2014 compared to loss of \$2,389,026 or 12%, in 2013.

Other Operating Revenue increased by \$44,646, or 7.8%, in 2014 and decreased \$214,880 or 27.5%. Table 4 shows the detail for this line item.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Rent	\$ 128,915	\$ 128,915	\$ 128,915
Cafeteria	82,409	65,487	62,003
Foundation Services	68,001	14,812	59,239
Health Program	62,413	69,968	77,845
Lab Fees	24,899	22,471	25,992
Grants	1,180	15,429	34,758
Purchase Discounts and Rebates	84,080	36,996	50,655
Management Fees	44,006	35,638	35,852
Clinic Fees	49,510	42,193	36,495
Contributions for Operations	(5,172)	31,133	21,768
Therapy Services	13,065	18,005	14,397
Housekeeping Services	440	18,802	18,573
Healthy Hearts	3,872	10,888	14,524
Miscellaneous Pharmacy Sales	15,716	8,987	7,360
Vending Machines	1,354	1,791	3,962
Medical Records Transcripts	2,059	2,110	2,703
Laundry	235	670	432
Other	34,180	42,221	185,923
Total Other Revenues	<u>\$ 611,162</u>	<u>\$ 566,516</u>	<u>\$ 781,396</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL DBA: HANSEN FAMILY HOSPITAL (CONTINUED)**

**Hospital Statistical Data**

Table 5 reflects Ellsworth Municipal Hospital's dba: Hansen Family Hospital statistical data. Acute Patient Days decreased in 2014, by 166 days, or 9.6%, compared to the decrease of 599 days, or 25.8%, in 2013 and a decrease of 365 days, or 13.6%, in 2012. Swing Bed Days increased by 130 days, or 9.5% in 2014, decreased by 38 days, or 2.7% in 2013, and increased by 10 days, or 5.9% in 2012.

**Table 5: Statistical Data**

	2014	2013	2012
Patient Days:			
Acute -			
Adult, Pediatric, and OB	1,559	1,725	2,324
Swing Bed	1,497	1,367	1,405
Newborn	163	163	159
Totals	<u>3,219</u>	<u>3,255</u>	<u>3,888</u>
Admissions:			
Acute (Adult, Pediatric, OB and Intensive Care)	474	765	737
Swing Bed	159	141	177
Newborn	82	83	77
Totals	<u>715</u>	<u>989</u>	<u>991</u>
Discharges (Including Deaths):			
Acute (Adults, Pediatric, OB and Intensive Care)	474	516	739
Swing Bed	160	160	181
Newborn	82	83	79
Totals	<u>716</u>	<u>759</u>	<u>999</u>
Average Length of Stay:			
Acute	3	3	3
Swing Bed	9	9	8
Beds:			
Acute and Other	25	25	25
Occupancy Percentage:			
Acute, Based on 25 Beds in			
2013, 2012 and 2011, Respectively	17.1 %	18.9 %	25.5 %

**Ellsworth Municipal Hospital's dba: Hansen Family Hospital Cash Flows**

Ellsworth Municipal Hospital's dba: Hansen Family Hospital cash flows are consistent with the changes in operating income and financial performance, as discussed earlier.

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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2014 AND 2013**

**FINANCIAL ANALYSIS OF ELLSWORTH MUNICIPAL HOSPITAL DBA: HANSEN FAMILY HOSPITAL (CONTINUED)**

**Capital Assets**

At June 30, 2014, Ellsworth Municipal Hospital dba: Hansen Family Hospital had \$27,746,604 invested in capital assets, net of accumulated depreciation. In 2014, the Hospital expended \$15,558,600 to purchase property and equipment. In 2013 and 2012, the Hospital purchased property and equipment costing \$9,170,509 and \$1,093,036, respectively.

**Long-Term Debt**

Table 6 shows a summary of Ellsworth Municipal Hospital's dba: Hansen Family Hospital long-term debt outstanding.

As of June 30, 2014, the Hospital had \$25,426,378 in revenue notes and capital lease obligations outstanding. No new debt was issued during 2014, but during 2013 revenue bonds were issued. The Hospital debt issuances – revenue bonds – cannot be issued without approval from the City of Iowa Falls.

	2014	2013	2012
2012 Revenue Bonds	\$ 25,311,157	\$ 25,311,157	\$ -
1998 Revenue Bonds	-	-	741,784
Notes Payable	1,916	83,285	151,217
USDA Loans	3,487	44,286	140,489
Capital Lease	109,818	169,875	113,987
Total Long-Term Debt	<u>\$ 25,426,378</u>	<u>\$ 25,608,603</u>	<u>\$ 1,147,477</u>

**ECONOMIC FACTORS**

Ellsworth Municipal Hospital dba: Hansen Family Hospital continues to improve its operational and financial performance. During the Fiscal year 2014, we are highlighting the following items:

1. Medicare and Medicaid reimbursement rates
2. Move towards an ACO model

**Contacting the Hospital's Management**

This financial report is designed to present the public with a general overview of the Hospital's finances and operating activities. If you have questions or need additional information, please contact Administration at Ellsworth Municipal Hospital dba: Hansen Family Hospital at 920 S Oak Suite 1, Iowa Falls, Iowa 50126.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
STATEMENTS OF NET POSITION  
JUNE 30, 2014 AND 2013**

<b>ASSETS</b>	2014	2013
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 4,025,871	\$ 2,614,971
Current Portion of Noncurrent Cash and Investments	-	215,488
Patient Receivables, Less Allowance for Uncollectible Accounts (2014 - \$1,151,667 and 2013 - \$895,782)	3,710,002	3,061,218
Accounts Receivable - Other	419,728	235,810
Estimated Third-Party Payor Settlements Receivable	151,232	-
Inventories	489,865	435,645
Prepaid Expenses	75,202	66,386
Total Current Assets	8,871,900	6,629,518
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally Designated for Capital Acquisitions	535,053	706,389
Internally Designated for Health Benefits	240,125	209,256
Restricted by Contributors for Capital Improvements	1,667,474	1,531,075
Restricted by Bond Indenture	2,551,582	18,382,017
Noncurrent Cash and Investments	4,994,234	20,828,737
<b>CAPITAL ASSETS, NET</b>	27,746,604	16,165,461
<b>OTHER ASSETS</b>		
Investments in Affiliated Organizations	1,851,355	1,282,218
Total Other Assets	1,851,355	1,282,218
Total Assets	\$ 43,464,093	\$ 44,905,934

See accompanying Notes to Financial Statements.

<b>LIABILITIES AND NET POSITION</b>	<u>2014</u>	<u>2013</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 1,135,558	\$ 163,722
Accounts Payable - Trade	888,160	359,561
Accounts Payable - Construction	866,164	2,221,139
Estimated Health Claims Payable	188,789	158,656
Accrued Payroll and Related Withholdings	1,268,536	1,113,940
Third-Party Payor Settlement Payable	-	30,911
Accrued Interest Payable	215,579	215,648
Total Current Liabilities	<u>4,562,786</u>	<u>4,263,577</u>
<b>LONG-TERM DEBT, Less Current Maturities</b>		
Long-Term Debt	24,211,157	25,311,157
Obligations Under Capital Lease	79,663	133,724
Total Long-Term Debt	<u>24,290,820</u>	<u>25,444,881</u>
Total Liabilities	28,853,606	29,708,458
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>NET POSITION</b>		
Net Investment in Capital Assets	2,855,642	5,628,155
Restricted:		
Expendable for Capital Improvements	1,864,935	1,531,075
By Bond Indentures	2,397,602	18,382,017
Unrestricted	7,492,308	(10,343,771)
Total Net Position	<u>14,610,487</u>	<u>15,197,476</u>
Total Liabilities and Net Position	<u>\$ 43,464,093</u>	<u>\$ 44,905,934</u>

**HANSEN FAMILY HOSPITAL FOUNDATION  
BALANCE SHEETS  
JUNE 30, 2014 AND 2013**

<b>ASSETS</b>	2014	2013
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 689,542	\$ 459,286
Pledges Receivable - Current Portion	513,177	183,137
Interest Receivable	277	277
Total Current Assets	1,202,996	642,700
<b>NONCURRENT ASSETS</b>		
Investments	108,607	153,300
Beneficial Interest in Net Assets of Community Foundation	48,746	29,414
Pledges Receivable - Less Current Portion, Net	503,668	1,520,954
Land	-	322,137
Total Noncurrent Assets	661,021	2,025,805
Total Assets	\$ 1,864,017	\$ 2,668,505
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Due to Ellsworth Municipal Hospital	\$ 370,678	\$ 145,457
<b>NET ASSETS</b>		
Unrestricted	(147,937)	159,937
Temporarily Restricted	1,592,529	2,333,697
Permanently Restricted	48,747	29,414
Net Assets	1,493,339	2,523,048
Total Liabilities and Net Assets	\$ 1,864,017	\$ 2,668,505

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Net Patient Service Revenue (Net of Provision for Bad Debts of \$1,599,492 in 2014 and \$1,422,656 in 2013)	\$ 21,895,096	\$ 19,635,395
Other Revenues	611,162	566,516
Total Operating Revenues	<u>22,506,258</u>	<u>20,201,911</u>
<b>OPERATING EXPENSES</b>		
Salaries and Wages	10,440,169	9,479,792
Employee Benefits	2,897,285	2,557,807
Supplies and Miscellaneous	8,368,006	7,361,873
Depreciation and Amortization	960,477	708,296
Interest Expense	116,037	42,791
Accelerated Depreciation	1,597,698	1,597,698
Bond Issue Costs	-	842,680
Total Operating Expenses	<u>24,379,672</u>	<u>22,590,937</u>
<b>OPERATING LOSS</b>	(1,873,414)	(2,389,026)
<b>NONOPERATING REVENUES</b>		
Investment Income	54,971	52,140
Net Gain on Affiliated Organizations	418,397	441,754
Gain (Loss) on Disposal of Capital Assets	(64,307)	6,580
Nonoperating Revenues, Net	<u>409,061</u>	<u>500,474</u>
<b>DEFICIT OF REVENUES OVER EXPENSES BEFORE CAPITAL CONTRIBUTIONS</b>	(1,464,353)	(1,888,552)
<b>CAPITAL CONTRIBUTIONS</b>	<u>877,364</u>	<u>3,565,435</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	(586,989)	1,676,883
Net Position - Beginning of the Year	<u>15,197,476</u>	<u>13,520,593</u>
<b>NET POSITION - END OF THE YEAR</b>	<u>\$ 14,610,487</u>	<u>\$ 15,197,476</u>

See accompanying Notes to Financial Statements.

**HANSEN FAMILY HOSPITAL FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Contributions	\$ 71,570	\$ 134,972	\$ -	\$ 206,542
Investment Income	22,900	-	-	22,900
Net Asset Released from Restrictions	876,140	(876,140)	-	-
Total Revenues	<u>970,610</u>	<u>(741,168)</u>	<u>-</u>	<u>229,442</u>
<b>EXPENSES</b>				
Donations to Ellsworth Municipal Hospital dba Hansen Family Hospital	881,548	-	-	881,548
Donations to Others	328,569	-	-	328,569
Contract Labor	68,002	-	-	68,002
Other Expense	365	-	-	365
Total Expenses	<u>1,278,484</u>	<u>-</u>	<u>-</u>	<u>1,278,484</u>
<b>DEFICIT OF REVENUES OVER EXPENSES</b>	<u>(307,874)</u>	<u>(741,168)</u>	<u>-</u>	<u>(1,049,042)</u>
Change in Beneficial Interest in Net Assets of the Community Foundation	-	-	21,380	21,380
Loss on Beneficial Interest in Net Assets of the Community Foundation	-	-	(2,047)	(2,047)
Total	<u>-</u>	<u>-</u>	<u>19,333</u>	<u>19,333</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(307,874)</u>	<u>(741,168)</u>	<u>19,333</u>	<u>(1,029,709)</u>
Net Assets - Beginning of Year	<u>159,937</u>	<u>2,333,697</u>	<u>29,414</u>	<u>2,523,048</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ (147,937)</u>	<u>\$ 1,592,529</u>	<u>\$ 48,747</u>	<u>\$ 1,493,339</u>
	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUES</b>				
Contributions	\$ 4,468	\$ 372,261	\$ -	\$ 376,729
Investment Income	13,743	-	-	13,743
Net Asset Released from Restrictions	3,567,446	(3,567,446)	-	-
Total Revenues	<u>3,585,657</u>	<u>(3,195,185)</u>	<u>-</u>	<u>390,472</u>
<b>EXPENSES</b>				
Donations to Ellsworth Municipal Hospital dba Hansen Family Hospital	3,567,446	-	-	3,567,446
Donations to Others	9,728	-	-	9,728
Contract Labor	34,579	-	-	34,579
Other Expense	1,187	-	-	1,187
Total Expenses	<u>3,612,940</u>	<u>-</u>	<u>-</u>	<u>3,612,940</u>
<b>DEFICIT OF REVENUES OVER EXPENSES</b>	<u>(27,283)</u>	<u>(3,195,185)</u>	<u>-</u>	<u>(3,222,468)</u>
Change in Beneficial Interest in Net Assets of the Community Foundation	-	-	14,433	14,433
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>(27,283)</u>	<u>(3,195,185)</u>	<u>14,433</u>	<u>(3,208,035)</u>
Net Assets - Beginning of Year	<u>187,220</u>	<u>5,528,882</u>	<u>14,981</u>	<u>5,731,083</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 159,937</u>	<u>\$ 2,333,697</u>	<u>\$ 29,414</u>	<u>\$ 2,523,048</u>

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Patients and Third-Party Payors	\$ 21,064,169	\$ 18,796,094
Cash Paid to Employees	(13,152,725)	(11,873,388)
Cash Paid to Suppliers	(7,902,512)	(8,551,118)
Other Receipts and Payments, Net	427,244	2,065,633
Net Cash Provided by Operating Activities	436,176	437,221
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of Capital Assets	(15,558,600)	(9,170,508)
Proceeds from issuance of Long-Term Debt	-	25,311,157
Principal Payments on Long-Term Debt	(182,225)	(995,849)
Bond Issue Costs on Long-Term Debt	-	(842,680)
Interest Payments on Long-Term Debt	(116,037)	(732,910)
Capital Grants and Contributions	877,364	3,565,435
Net Cash Provided (Used) by Capital and Related Financing Activities	(14,979,498)	17,134,645
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
(Increase) Decrease in Noncurrent Cash and Investments	16,049,991	(18,640,528)
(Increase) Decrease in the Current Portion of Noncurrent Cash and Investments	-	481,631
(Increase) Decrease in Investments in Affiliated Organizations	(150,740)	277,959
Interest Income	54,971	52,140
Net Cash Provided (Used) by Investing Activities	15,954,222	(17,828,798)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,410,900	(256,932)
Cash and Cash Equivalents - Beginning of Year	2,614,971	2,871,903
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 4,025,871	\$ 2,614,971

See accompanying Notes to Financial Statements.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income (Loss)	\$ (1,873,414)	\$ (2,389,026)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	2,558,175	2,305,994
Issuance Cost Expense	-	842,680
Interest Expense Considered Capital and Related Financing Activity	116,037	42,791
(Increase) Decrease in:		
Patient Receivables	(648,784)	(315,492)
Accounts Receivable - Other	(183,918)	(92,780)
Inventories	(54,220)	(32,165)
Prepaid Expenses	(8,816)	180,021
Increase (Decrease) in:		
Accounts Payable	528,530	254,796
Accrued Expenses	154,596	5,555
Accrued Health Claims Payable	30,133	158,656
Third-Party Payor Settlement Payable	(182,143)	(523,809)
Net Cash Provided by Operating Activities	<u>\$ 436,176</u>	<u>\$ 437,221</u>
<b>NONCASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Assets included in Accounts Payable	<u>\$ 1,656,146</u>	<u>\$ 2,221,139</u>

See accompanying Notes to Financial Statements.

**HANSEN FAMILY HOSPITAL FOUNDATION  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Decrease in Net Assets	\$ (1,029,709)	\$ (3,208,035)
Adjustments to Reconcile Decrease in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Change in Unrealized Gains and Losses on Investments	(15,284)	(1,625)
Change in Beneficial Interest in Net Assets of Community Foundation	(21,380)	(14,433)
Changes in Assets and Liabilities:		
Accrued Interest Receivable	-	22,012
Pledges Receivable	1,017,286	974,511
Due to Ellsworth Municipal Hospital	225,221	18,636
Net Cash Provided (Used) by Operating Activities	176,134	(2,208,934)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments	54,993	517,698
Contributions to Investments	-	(47,218)
Interest Capitalized to Certificates of Deposit	(871)	(656)
Net Cash Provided by Investing Activities	54,122	469,824
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	230,256	(1,739,110)
Cash and Cash Equivalents - Beginning of Year	459,286	2,198,396
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 689,542	\$ 459,286

See accompanying Notes to Financial Statements.

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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization**

The Hospital is the municipal hospital of the City of Iowa Falls, organized under Chapter 392, of the Code of Iowa. Services are provided primarily to residents of Hardin and surrounding counties in central Iowa. The Hospital is considered an enterprise fund of the City of Iowa Falls. Ellsworth Municipal Hospital dba: Hansen Family Hospital provides healthcare services in accordance with a Management Agreement which is discussed in Note 15.

**Tax Exempt Status**

Hansen Family Hospital Foundation is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hansen Family Hospital Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

Hansen Family Hospital Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Hansen Family Hospital Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

**Reporting Entity**

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

Hansen Family Hospital Foundation (the Foundation) is a not-for-profit entity legally separate from Ellsworth Municipal Hospital dba: Hansen Family Hospital. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is included as a discrete presentation due to the nature and significance of its relationship with the Hospital.

**Measurement Focus and Basis of Accounting**

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

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Measurement Focus and Basis of Accounting (Continued)**

Ellsworth Municipal Hospital's dba: Hansen Family Hospital financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB. The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended.

The Foundation's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Financial Accounting Standards Board (FASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

**Basis of Presentation**

The statement of net position (previously referred to as net assets) displays the Hospital's assets and liabilities, with the difference reported as net position.

Net position is reported in the following categories/components:

*Net investment in capital assets* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted Net Position*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

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

*Unrestricted net position consists of net position not meeting the definition of the preceding categories. The Unrestricted net position, often has constraints on resources imposed by management which can be removed or modified.*

When both restricted and unrestricted net position is available for use, generally it is the Health Center's policy to use restricted net position first.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

Management uses estimates and assumptions in preparing these financial statements in accordance with U.S. generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposit accounts, and savings accounts.

**Accounts Receivable**

Ellsworth Municipal Hospital dba: Hansen Family Hospital provides an allowance for uncollectible accounts based on the allowance method using management's judgment. Patients are not required to provide collateral for services rendered. Payment for services is required within 30 days of receipt of invoice or claim submitted. Accounts past due more than 120 days are individually analyzed for collectability. Amounts for which no payments have been received are written off using management's judgment on a per account basis. In addition, an allowance is estimated for other accounts based on historical experience of the Hospital. At June 30, 2014 and 2013, the allowance for uncollectible accounts was approximately \$1,152,000 and \$896,000, respectively.

**Inventories**

The inventories are recorded at the lower of cost or market using the latest invoice cost, which approximates the first-in, first-out method.

**Noncurrent Cash and Investments**

Noncurrent cash and investments includes assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Noncurrent cash and investments also includes assets held by the bank for use in an ongoing construction project.

**Capital Assets**

Capital assets are reported at cost, if purchased, or at fair market value on the date received, if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the property. It is the Hospital's policy to include amortization expense on assets acquired under capital leases with depreciation on owned assets. Capital expenditures greater than \$5,000 are capitalized and depreciated over the life of the asset. Capital expenditures less than \$5,000 are expensed when incurred.

**Compensated Absences**

Hospital employees accumulate a limited amount of earned but unused paid leave hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected paid leave payouts is recorded as accrued expenses on the statements of net position based on pay rates that are in effect at June 30, 2014 and 2013.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Patient Service Revenue**

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Medicare cost reports through June 30, 2011 have been settled by the intermediary.

**Contributions**

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

**Operating Revenues and Expenses**

Ellsworth Municipal Hospital's dba: Hansen Family Hospital statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from transactions associated with providing health care services – the Hospital's principal activity. Other revenues, including interest income, grants and contributions received for the purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

**Charity Care**

Ellsworth Municipal Hospital dba: Hansen Family Hospital provides care to patients who meet certain criteria under its charity care policy without a charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, an adjustment has been recorded to offset the revenue recorded. Charity care provided during the years ended June 30, 2014 and 2013 was \$431,613 and \$339,015, respectively.

**Electronic Health Record Incentive Payments**

As discussed in Note 4, the Hospital received funds under the Electronic Health Records (EHR) Incentive Program during 2012. The Hospital recognized the revenue ratably over the reporting period starting at the point when management was reasonably assured the Health Center met all meaningful use objectives and any other specific grant requirements that were applicable, e.g., electronic transmission of quality measures to CMS in the second and subsequent payment years.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Significant Future Accounting Pronouncements**

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The objective of this statement is to establish new accounting and financial reporting requirements for governments that provide their employees with pensions. The requirements in this statement will change how governments calculate and report the costs and obligations associated with pensions and improve the decision-usefulness of reported pension information and increase the transparency, consistency, and comparability of pension information across governments. This statement will be effective for the Hospital's fiscal year ending June 30, 2015. Management is evaluating the impact of adopting this statement but is not currently able to arrive at an estimate.

**Subsequent Events**

The Hospital has evaluated subsequent events through December 23, 2014, the date which the financial statements were available to be issued.

**NOTE 2 DESIGNATED NET POSITION**

Of the \$7,492,308 and (\$10,343,771) of unrestricted net position at June 30, 2014 and 2013, respectively, the board of trustees has designated the amounts below. Designated funds remain under the control of the board of trustees, which may at its discretion later use the funds for other purposes. Designated funds as found below are reflected in noncurrent cash and investments.

	2014	2013
For Capital Acquisitions	\$ 535,053	\$ 706,389
For Health Benefits	240,125	209,256
Total Designated Net Position	\$ 775,178	\$ 915,645

**NOTE 3 NET PATIENT SERVICE REVENUE**

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

**Medicare**

Ellsworth Municipal Hospital dba: Hansen Family Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicare beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been finalized by the Medicare intermediary through June 30, 2012.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 3 NET PATIENT SERVICE REVENUE (CONTINUED)**

**Medicaid**

Ellsworth Municipal Hospital dba: Hansen Family Hospital has received certification as a Critical Access Hospital (CAH) and receives reimbursement for services provided to Medicaid beneficiaries based on the cost of providing those services. Interim payment rates are established for inpatient and outpatient services, with settlement for over or under payments determined based on year-end cost reports. The Hospital's Medicaid cost reports have been finalized by the Medicaid intermediary through June 30, 2011.

**Other**

Ellsworth Municipal Hospital dba: Hansen Family Hospital has also entered into payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of patient service revenues and contractual adjustments is as follows:

	2014	2013
Total Patient Service Revenues	\$ 43,413,470	\$ 38,515,080
Contractual Adjustments:		
Medicare	11,924,044	11,333,994
Medicaid	2,437,751	1,822,724
Provision for Bad Debt	1,599,492	1,422,656
Other	5,557,087	4,300,311
Total Deductions	<u>21,518,374</u>	<u>18,879,685</u>
Net Patient Service Revenues	<u>\$ 21,895,096</u>	<u>\$ 19,635,395</u>

**NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM**

The Electronic Health Record (EHR) incentive program was enacted as part of the American Recovery and Reinvestment Act of 2009 (ARRA) and the Health Information Technology for Economic and Clinical Health (HITECH) Act. These Acts provided for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. The incentive payments are made based on a statutory formula and are contingent on the Hospital continuing to meet the escalating meaningful use criteria. For the first payment year, the Hospital must attest, subject to an audit, that it met the meaningful use criteria for a continuous 90-day period. For the subsequent payment year, the Hospital must demonstrate meaningful use for the entire year. The incentive payments are generally made over a four year period. For hospitals that do not start receiving meaningful use payments until federal fiscal year 2014 or 2015, the base payment amount will reduce in subsequent years by ¼, ½, and ¾.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 4 ELECTRONIC HEALTH RECORD INCENTIVE PROGRAM (CONTINUED)**

The Hospital demonstrated meaningful use to the 90-day period ended June 29, 2011 and received their first tentative incentive payment of \$104,000 in May 2012. The final amount of this payment will be determined based on information from the Hospitals' Medicare cost report. Events could occur that would cause the final payment to differ materially upon final settlement.

**NOTE 5 ESTIMATED AMOUNTS DUE FROM AND DUE TO CONTRACTING AGENCIES**

Ellsworth Municipal Hospital dba: Hansen Family Hospital has entered into reimbursement agreements with the Social Security Administration and Hospital Service, Inc. of Iowa for services rendered to Medicare, Medicaid and Wellmark patients. The reimbursements are based on the costs of caring for these patients as determined by cost findings prepared annually. However, reimbursements cannot exceed the charges for the patient service. Medicare and Medicaid allow any excess of cost over charges to be carried forward and recovered in the subsequent two years. Recovery is limited to the extent the cost finding for either year shows an excess of charges over costs.

Under the reimbursement agreements, interim payments at prevailing rates have been made to the Hospital during the year. The annual cost report indicated the agencies owed the Hospital approximately \$151,000 at June 30, 2014 and the Hospital owed the agencies approximately \$152,000 at June 30, 2013.

**NOTE 6 UNCONDITIONAL PROMISES TO GIVE**

Hansen Family Hospital Foundation has received promises to give from corporations and individuals in the community. Certain promises to give are receivable over a period of time. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate of 5.0%. Prior years rates were not computed.

The following is a summary of unconditional promises to give as of June 30, 2014 and 2013:

	2014	2013
Less than One Year	\$ 513,177	\$ 183,137
One to Five Years	1,258,827	2,276,113
	1,772,004	2,459,250
Less: Discount	(457,759)	(457,759)
Less: Allowance for Uncollectible Promises to Give	(297,400)	(297,400)
Unconditional Promises to Give, Net	\$ 1,016,845	\$ 1,704,091

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 FAIR VALUE MEASUREMENTS**

The Foundation has determined the fair value of certain assets and liabilities recognized or disclosed at fair value in the financial statements in accordance with the provisions of FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures*. ASC 820 provides a framework for measuring fair value under U.S. generally accepted accounting principles.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The accounting standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC 820 describes three levels of inputs that may be used to measure fair value:

*Level 1* – Quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable for the related asset or liability and are corroborated by market data.

*Level 3* – Unobservable inputs that are not corroborated by market data related to the asset or liability.

The following assets and liabilities are measured at fair value on a recurring basis at June 30, 2014 and 2013:

	Quoted Prices in Active Markets (Level 1)	Other Inputs Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2014			
Assets:			
Investments in Mutual Funds	\$ 47,483	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	48,746
Total Assets	<u>\$ 47,483</u>	<u>\$ -</u>	<u>\$ 48,746</u>
	Quoted Prices in Active Markets (Level 1)	Other Inputs Observable (Level 2)	Unobservable Inputs (Level 3)
June 30, 2013			
Assets:			
Investments in Mutual Funds	\$ 92,176	\$ -	\$ -
Beneficial interest in Net Assets of Community Foundation	-	-	29,414
Total Assets	<u>\$ 92,176</u>	<u>\$ -</u>	<u>\$ 29,414</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 7 FAIR VALUE MEASUREMENTS (CONTINUED)**

The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses. The amount of gains and losses related to fair value measurements using Level 3 inputs, including both realized and unrealized gains and losses, during the years ended June 30, 2014 and 2013 were classified as follows in the statement of activities and changes in net assets:

Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3)		
	2014	2013
Balance at July 1	\$ 29,414	\$ 14,981
Total Gains or Losses (Realized/Unrealized)	(2,047)	\$ -
Transfers to the Foundation	730	4,152
Excess of Revenues Over Expenses	20,649	10,281
Balance at June 30,	<u>\$ 48,746</u>	<u>\$ 29,414</u>

**NOTE 8 PATIENT RECEIVABLES**

Patient receivables reported as current assets by the Hospital at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Receivable from Patients and Their Insurance Carriers	\$ 3,389,474	\$ 1,752,378
Receivable from Medicare	1,250,982	1,961,367
Receivable from Medicaid	221,213	243,255
Total Patient Receivables	4,861,669	3,957,000
Less: Allowance for Doubtful Accounts	(1,151,667)	(895,782)
Patient Receivables, Net	<u>\$ 3,710,002</u>	<u>\$ 3,061,218</u>

**NOTE 9 DEPOSITS AND INVESTMENTS**

The Hospital's deposits at June 30, 2014 and 2013 were entirely covered by Federal depository insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the board of trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

**ELLSWORTH MUNICIPAL HOSPITAL  
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**NOTE 9 DEPOSITS AND INVESTMENTS (CONTINUED)**

Deposits and investments consisted of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Checking and Savings Accounts	\$ 4,025,871	\$ 2,614,971
Certificates of Deposit	2,433,340	2,673,070
Deposits	182,861	7,061,421
Federal Home Loan Bank	150,032	3,046,257
Federal National Mortgage Association	1,418,732	4,397,233
Federal Home Loan Mortgage Corp	200,226	2,753,533
Federal Farm Credit Bank	600,269	1,099,846
Interest Receivable	8,774	12,865
	<u>\$ 9,020,105</u>	<u>\$ 23,659,196</u>

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 4,025,871	\$ 2,614,971
Current Portion of Assets Limited as to Use	-	215,488
Noncurrent Cash and Investments	4,994,234	20,828,737
Total Deposits	<u>\$ 9,020,105</u>	<u>\$ 23,659,196</u>

	<u>2014</u>	<u>2013</u>
Cash	\$ 689,542	\$ 459,286
Certificates of Deposit	61,124	61,124
Mutual Funds	47,483	92,176
	<u>\$ 798,149</u>	<u>\$ 612,586</u>

Included in the following balance sheet captions:

Cash and Cash Equivalents	\$ 689,542	\$ 459,286
Investments	108,607	153,300
Total Deposits	<u>\$ 798,149</u>	<u>\$ 612,586</u>

- Federal Home Loan Bank: Consists of discount notes and notes with interest rates of 0.875% to 5.375% maturing from 2014 to 2021 and have AAA ratings by Standard & Poor's.
- Federal National Mortgage Association: Consists of discount notes and notes with interest rates of 1.5% to 4.375% maturing from 2013 to 2021 and have AAA ratings by Standard & Poor's.
- Federal Home Loan Mortgage Corp: Consists of a discount notes with interest rates of 2.00% - 3.00% maturing in 2016 and has an AAA rating by Standard & Poor's.
- Federal Farm Credit Bank: Consists of discount notes with interest rates ranging from 1.80% to 6.03% and have AAA ratings by Standard & Poor's.

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 9 DEPOSITS AND INVESTMENTS (CONTINUED)**

As of June 30, 2014 and 2013, accrued interest of \$22,677 and \$88,230, respectively, is included in Noncurrent Cash and Investments in the previous schedules.

For the years ended June 30, 2014 and 2013, investment returns are as follows:

	2014	2013
Interest and Dividend Income	\$ 20,456	\$ 69,820
Realized and Unrealized Loss on Investments	(3,884)	(17,680)
Total	<u>\$ 16,572</u>	<u>\$ 52,140</u>

**NOTE 10 CAPITAL ASSETS**

Summaries of capital assets for the years ended June 30, 2014 and 2013 are as follows:

	Balance July 1, 2013	Additions	Retirements / Transfers	Balance June 30, 2014
<b>CAPITAL ASSETS</b>				
Land and Land Improvements	\$ 691,757	\$ -	\$ (74,782)	\$ 616,975
Building	5,079,058	-	19,639,645	24,718,703
Fixed Equipment	6,978,837	-	(4,199,361)	2,779,476
Major Movable Equipment	5,041,214	208,550	2,879,749	8,129,513
Construction in Progress	13,005,087	14,785,055	(27,737,235)	52,907
Totals	30,795,953	<u>\$ 14,993,605</u>	<u>\$ (9,491,984)</u>	36,297,574
<b>ACCUMULATED DEPRECIATION</b>				
Land Improvements	476,136	\$ 15,428	\$ (74,782)	416,782
Building	4,092,570	1,223,525	(4,363,554)	952,541
Fixed Equipment	6,014,860	933,584	(4,199,361)	2,749,083
Major Movable Equipment	4,046,926	385,638	-	4,432,564
Totals	14,630,492	<u>\$ 2,558,175</u>	<u>\$ (8,637,697)</u>	8,550,970
<b>CAPITAL ASSETS, NET</b>	<u>\$ 16,165,461</u>			<u>\$ 27,746,604</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 10 CAPITAL ASSETS (CONTINUED)**

	Balance July 1, 2012	Additions	Retirements / Transfers	Balance June 30, 2013
<b>CAPITAL ASSETS</b>				
Land and Land Improvements	\$ 691,757	\$ -	\$ -	\$ 691,757
Building	5,079,058	-	-	5,079,058
Fixed Equipment	6,978,837	-	-	6,978,837
Major Movable Equipment	4,899,025	324,278	(182,089)	5,041,214
Construction in Progress	1,152,974	11,852,113	-	13,005,087
Totals	18,801,651	<u>\$ 12,176,391</u>	<u>\$ (182,089)</u>	30,795,953
<b>ACCUMULATED DEPRECIATION</b>				
Land Improvements	460,248	\$ 15,888	\$ -	476,136
Building	3,078,190	1,014,380	-	4,092,570
Fixed Equipment	5,010,215	1,004,645	-	6,014,860
Major Movable Equipment	3,919,427	265,280	(137,781)	4,046,926
Totals	12,468,080	<u>\$ 2,300,193</u>	<u>\$ (137,781)</u>	14,630,492
<b>CAPITAL ASSETS, NET</b>	<u>\$ 6,333,571</u>			<u>\$ 16,165,461</u>

Construction in Progress at year-end consists of costs related to the change in software to Cerner. This upgrade is internally financed and will be implemented in fiscal 2015. Interest expense was capitalized in the amount of \$632,783 and \$700,702 during the years ended June 30, 2014 and 2013, respectively. Interest income from tax exempt bond funded construction funds was capitalized in the amount of \$40,446 and \$16,387 during the years ended June 30, 2014 and 2013, respectively.

**NOTE 11 LONG-TERM DEBT**

A schedule of changes in the Hospital's long-term debt for 2014 and 2013 is as follows:

	Balance June 30, 2013	Additions	Payments	Balance June 30, 2014	Amounts Due Within One Year
2012 Revenue Bonds	\$ 25,000,000	\$ -	\$ -	\$ 25,000,000	\$ 1,100,000
Notes Payable:					
Iowa Falls State Bank	61,500	-	61,500	-	-
Ackley Bank	21,785	-	19,869	1,916	1,916
USDA Loan	44,286	-	40,799	3,487	3,487
Total Notes and Loans	25,127,571	-	122,168	25,005,403	1,105,403
Net Unamortized Premium on Bonds	311,157	-	-	311,157	-
Capital Lease Obligation	169,875	-	60,057	109,818	30,155
Total Long-Term Debt	<u>\$ 25,608,603</u>	<u>\$ -</u>	<u>\$ 182,225</u>	<u>\$ 25,426,378</u>	<u>\$ 1,135,558</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

	Balance June 30, 2012	Additions	Payments	Balance June 30, 2013	Amounts Due Within One Year
2012 Revenue Bonds	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000	\$ -
1998 Revenue Bonds	741,784		741,784	-	-
Notes Payable:					
Iowa Falls State Bank	91,183	-	29,683	61,500	35,546
Ackley Bank	60,034	-	38,249	21,785	21,785
USDA Loan	140,489	-	96,203	44,286	44,286
Total Notes and Loans	1,033,490	25,000,000	905,919	25,127,571	101,617
Net Unamortized Premium on Bonds	-	311,157	-	311,157	-
Capital Lease Obligation	113,987	145,818	89,930	169,875	62,105
Total Long-Term Debt	<u>\$ 1,147,477</u>	<u>\$ 25,456,975</u>	<u>\$ 995,849</u>	<u>\$ 25,608,603</u>	<u>\$ 163,722</u>

**2012 Hospital Revenue Bonds Payable**

Hospital Revenue Bonds, Series 2012 (Ellsworth Municipal Hospital Project) payable to Ackley State Bank and Green Belt Bank and Trust were issued October 1, 2012, in accordance with Chapter 384 of the Code of Iowa. The bond issuance advance refunded the 1998 Hospital Revenue bonds which was paid in full and is providing funds for the purchase of land and for the construction of a new hospital facility on the purchased land. Interest only payments are due through June of 2015. The Hospital has pledged future revenues, net of specified operating expenses, to repay the bonds. The Hospital is required to meet certain financial covenants related to the revenue bonds payable. The bonds are payable solely from revenue from the operations of the Hospital and are payable through 2032.

The 2012 Hospital Revenue Bonds consist of the following:

<u>Description</u>	<u>2014</u>	<u>2013</u>
Variable Rate (.550% - 2.80%) R-1 Bond, Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	\$ 2,000,000	\$ 2,000,000
Variable Rate (2.50% - 3.25%) R-2 Bond, Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	20,000,000	20,000,000
Fixed Rate (5.00%) R-3 Bond (Green Belt Bank & Trust), Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	1,500,000	1,500,000
Fixed Rate (5.00%) R-4 Bond (Ackley State Bank), Due in bi-annual Installments, increasing year to year beginning 2015, including interest through fiscal year 2032	1,500,000	1,500,000
Total	<u>\$ 25,000,000</u>	<u>\$ 25,000,000</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

**2012 Hospital Revenue Bonds Payable (Continued)**

The bond resolution of the Series 2012 bonds requires the establishment of the following Bond Funds:

Project Fund – into which the Hospital was to initially deposit the bond funds, whereas withdrawals from the fund are limited to written draw requests signed by authorized representatives.

Debt Service Reserve Fund – into which the Hospital was initially required to deposit an amount equal to the sum of \$1,861,515.

Capitalized Interest Fund – into which the Hospital was required to pay monthly interest fees into the fund and transfer funds to the Interest fund to the extent funds were made available.

Interest Fund – into which the Hospital is to deposit funds to pay interest on the revenue bonds and is to be maintained throughout the life of the bond.

Sinking Fund – into which the Hospital is to deposit funds to pay interest and principal on the revenue bonds and is to be maintained throughout the life of the bond.

**1998 Hospital Revenue Bonds Payable**

City of Iowa Falls Hospital Revenue Bonds, payable to Iowa Falls State Bank and Green Belt Bank and Trust issued November 1, 1998, in accordance with Chapter 384, Code of Iowa, with interest of 5%. Interest only payments were paid monthly through May 1, 2000, with interest and principal payments due monthly thereafter. Monthly deposits into a sinking fund are required for payment of interest and principal. A debt service reserve fund, which is to be maintained at a minimum of \$284,725, is fully funded. The Hospital is required to meet certain financial covenants related to the revenue bonds payable. Funds obtained from the 2012 Hospital Revenue Bonds paid the bonds in full as of October 2012.

**Notes Payable**

Hospital Note Payable from the Iowa Falls State Bank was issued April 26, 2010 with monthly payments of principal and interest of \$2,800 through April 2015 with an interest rate of 5.15%. The note was paid off during fiscal year 2014.

Hospital Note Payable from Ackley State Bank was issued November 30, 2010 with monthly payments of principal and interest of \$3,361 through December 2013. An interest rate of 5.05% remains charged on the note.

**USDA Loan**

A USDA letter of credit was entered into June 27, 2008 and requires monthly payments of principal and interest of \$8,218 through December 2013. An interest rate of 2.49% is charged on the loan.

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

**Obligations Under Capital Lease**

The Hospital, through the City of Iowa Falls, leases certain equipment under a capital lease arrangement. The lease has a term of five years with an effective interest rate of 5.18%, and requires monthly payments of \$6,716.

Ultrasound equipment lease was entered into during 2013. The lease term of five years, with an effective interest rate of 5.15% and requires monthly payments of \$2,750.

The total cost of the leased equipment under the capital lease obligation is \$354,948. Amortization of the equipment was \$60,057 and \$56,907, and accumulated amortization was \$202,488 and \$142,431 for the years ended June 30, 2014 and 2013, respectively.

The aggregate future principal and interest payment requirements for the next five years for long-term debt are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,105,403	\$ 745,395	\$ 30,155	\$ 4,893
2016	1,130,000	719,514	29,589	3,411
2017	1,160,000	686,006	31,150	1,850
2018	1,190,000	654,730	18,924	326
2019	1,220,000	622,293	-	-
2020-2024	6,535,000	2,366,869	-	-
2025-2029	7,485,000	1,243,727	-	-
2030-2032	5,180,000	218,473	-	-
Total	<u>\$ 25,005,403</u>	<u>\$ 7,257,007</u>	<u>\$ 109,818</u>	<u>\$ 10,480</u>

**Operating Leases - Equipment**

The Hospital, through the City of Iowa Falls, leases certain equipment under operating lease arrangement. Future operating lease obligations relating to equipment through 2018 are below.

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2015	\$ 173,472
2016	170,472
2017	140,156
2018	137,400

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 11 LONG-TERM DEBT (CONTINUED)**

**Operating Leases - Rental Agreements**

The Hospital has entered into a rental agreement effective March 2009 and ending March 2024. The rental agreement is for the clinic building in Ackley, and includes a requirement to pay annual property taxes. The following schedule represents the commitment for future rent payments:

Year Ending June 30,	Amount
2015	\$ 139,394
2016	139,394
2017	139,394
2018	139,394
2019	139,394
2020 - 2024	696,970
Total Rent Payments	\$ 1,393,940

Total lease expense for the years ended June 30, 2014 and 2013, for all operating leases; including both equipment and clinic building rental was \$278,311 and \$370,349, respectively.

**NOTE 12 PENSION AND RETIREMENT BENEFITS**

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

Plan members are required to contribute 5.95% of their annual salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$879,000, \$749,000, and \$675,000, respectively, equal to the required contributions for each year.

**NOTE 13 INVESTMENTS IN AFFILIATED ORGANIZATIONS**

The Hospital has investments in two organizations, both of which are accounted for on the equity method. The following is a summary of these investments:

**Iowa Falls Clinic**

The Hospital is in a joint venture agreement with Mercy Medical Center – North Iowa to operate the Iowa Falls Clinic (the Clinic). The Clinic provides, develops, and coordinates all manner of clinical medical services to residents, visitors, and employees of Hardin County and the surrounding area.

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
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**NOTE 13 INVESTMENTS IN AFFILIATED ORGANIZATIONS (CONTINUED)**

**Iowa Falls Clinic (Continued)**

The Hospital is a 50% owner of this Clinic and shares income or losses from clinic operations. The Hospital's share of income, \$300,405 in 2014 and \$428,370 in 2013, have been included in nonoperating revenues. The Hospital received an equity distribution of \$-0- and \$200,000 in the years ended June 30, 2014 and 2013, respectively.

The Hospital provides space and contracted services for the daily operations of the Clinic. Rent revenue and contracted services for the years ended June 30, 2014 and 2013 was \$803,969 and \$1,112,649, respectively. As of June 30, 2014, the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$219,157 for these services. As of June 30, 2013, the Hospital's records reflected a receivable from the Iowa Falls Clinic of \$68,419 for these services.

Summarized financial information from the financial statements of Iowa Falls Clinic as of and for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Assets	\$ 3,204,760	\$ 2,344,981
Current Liabilities	\$ 466,827	\$ 193,601
Unrestricted Net Assets	2,737,933	2,151,380
Total Liabilities and Net Assets	\$ 3,204,760	\$ 2,344,981
Net Revenues	\$ 3,807,650	\$ 4,187,091
Net Gain	\$ 586,553	\$ 474,961

**Greenbelt Home Care**

The Hospital has a 30% interest in a joint venture of Greenbelt Home Care and shares any income or loss in this percentage. The Hospital has contributed \$106,890 of capital to this joint venture, loaned \$3,507 and forgave a loan in the amount of \$27,143. The Hospital's share of the joint ventures gains are \$117,992 in 2014 and \$13,384 in 2013 and have been included in nonoperating revenues.

**NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED FOUNDATION NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets at June 30, 2014 and 2013, represent funds that are restricted by donors for the following purposes:

	2014	2013
Construction of a New Hospital Facility	\$ 1,592,529	\$ 2,333,697

**ELLSWORTH MUNICIPAL HOSPITAL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

**NOTE 14 TEMPORARILY AND PERMANENTLY RESTRICTED FOUNDATION NET ASSETS  
(CONTINUED)**

**Permanently Restricted Net Assets**

Permanently restricted net assets at June 30, 2014 and 2013, represents contributions received by a third party for the benefit of Ellsworth Municipal Hospital dba: Hansen Family Hospital, which are permanently restricted as:

	2014	2013
Beneficial Interest in Net Assets of Community Foundation	\$ 48,747	\$ 29,414

The Community Foundation Endowment consists of donor-restricted funds designated for the Foundation. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**NOTE 15 RELATED ORGANIZATION**

**Master Affiliation Agreement**

The Hospital has a Master Affiliation Agreement with Mercy Medical Center – North Iowa (MMC-NI) to provide hospital, physician, and other health care services in Iowa Falls and the North Central Iowa Region. As a part of this Master Affiliation Agreement, the Hospital entered into a Professional Service Agreement with MMC-NI whereby MMC-NI provides professional medical services for the Hospital. Amounts paid to MMC-NI for the provision of these services amounted to \$329,471 and \$585,362 for the years ended June 30, 2014 and 2013, respectively.

The Hospital has a contractual arrangement with MMC-NI, under which MMC-NI provides an administrator, director of nursing, management consultation, and other services to Ellsworth Municipal Hospital dba: Hansen Family Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of Ellsworth Municipal Hospital dba: Hansen Family Hospital. Expenses for the administrative and management services received were \$380,307 and \$451,232 for the years ended June 30, 2014 and 2013, respectively.

**Due to MMC-NI**

As of June 30, 2014 and 2013, the Hospital records reflect a balance due to MMC-NI of \$158,543 and \$154,793, respectively, which is recorded for the various services related to these agreements.

**Hansen Family Hospital Foundation**

The Foundation was organized under the provisions of the Internal Revenue Code Section 501(c)(3). The Foundation is organized and operated exclusively to benefit Ellsworth Municipal Hospital dba: Hansen Family Hospital. As of June 30, 2014 and 2013 the Foundation had a payable to the Hospital in the amount of \$370,678 and \$145,457, respectively, which is recorded with other receivables on the statement of net position of the Hospital. The Foundation made contributions to the Hospital during the years ended June 30, 2014 and 2013 of \$881,548 and \$3,567,446, respectively.

**ELLSWORTH MUNICIPAL HOSPITAL  
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JUNE 30, 2014 AND 2013**

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

**Hospital Risk Management**

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. There has been no significant reduction in insurance coverage from the previous year in any of the Hospital's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Malpractice Insurance**

The Hospital has insurance coverage to provide protection for professional liability losses on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently will be uninsured.

**Self-Funded Employee Health Insurance Plan**

Starting in January of 2013, the Hospital elected to self-insure their employee health insurance program. The Hospital has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual claims and to provide claims processing and other administrative duties. Claims are accrued as incurred. The amounts charged to expense include administrative fees, stop-loss insurance premiums, claims paid, and accruals for claims incurred but not paid at the end of the year.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
BUDGETARY COMPARISON SCHEDULE  
YEAR ENDED JUNE 30, 2014**

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2014 (Hospital only, excluding Foundation):

	Total per Hospital Statements	Budget	Amount Over Budget
Expenses	\$ 24,379,672	\$ 24,307,361	\$ 72,311

This budgetary comparison is presented as Required Supplementary Information in accordance with *Government Auditing Standards*. In accordance with the Code of Iowa, the board of trustees annually adopts a budget which is filed with the City Clerk of Iowa Falls to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. For the year ended June 30, 2014, the Hospital's expenditures exceeded the amount budgeted.

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**OTHER SUPPLEMENTARY INFORMATION**

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULES OF PATIENT SERVICE REVENUES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	Total	
	2014	2013
<b>PATIENT CARE SERVICES</b>		
Medical and Surgical	\$ 2,764,376	\$ 2,796,809
Intensive Care Unit	7,648	13,862
Swing Bed	1,055,410	950,657
Nursery	121,344	115,721
Total	<u>3,948,778</u>	<u>3,877,049</u>
<b>OTHER PROFESSIONAL SERVICES</b>		
Operating Room	2,557,917	2,063,168
Recovery Room	79,671	57,338
Labor and Delivery Room	144,408	140,786
Anesthesiology	1,039,255	941,122
Radiology	7,836,868	6,239,940
Laboratory	8,400,158	7,230,177
Respiratory Therapy	933,458	901,301
Intravenous Therapy	118,735	-
Cardiac Rehabilitation	209,422	201,561
Physical Therapy	1,064,117	1,133,923
Occupational Therapy	394,773	388,591
Speech Therapy	144,717	159,457
Electrocardiology	667,410	511,079
Medical and Surgical Supplies	1,461,454	1,318,213
Pharmacy	4,004,880	4,273,362
Emergency Room	4,750,479	4,486,004
Surgical Clinic	782,764	735,057
Psychiatrist	175,808	185,063
Clinic	3,787,274	3,754,270
Pain Clinic	842,823	-
Women Health Clinic	83,322	-
Psychiatric Counseling	380,737	228,361
Diabetic Education	35,855	28,273
Total	<u>39,896,305</u>	<u>34,977,046</u>
Charity Care	<u>(431,613)</u>	<u>(339,015)</u>
Total Patient Service Revenues	43,413,470	38,515,080
Adjustments to Patient Services Revenues	<u>(21,518,374)</u>	<u>(18,879,685)</u>
Net Patient Service Revenues	<u>\$ 21,895,096</u>	<u>\$ 19,635,395</u>

Inpatient		Outpatient	
2014	2013	2014	2013
\$ 1,409,702	\$ 1,582,819	\$ 1,354,674	\$ 1,213,990
7,648	13,862	-	-
1,055,410	950,657	-	-
121,344	115,721	-	-
<u>2,594,104</u>	<u>2,663,059</u>	<u>1,354,674</u>	<u>1,213,990</u>
237,728	278,605	2,320,189	1,784,563
12,701	11,115	66,970	46,223
141,836	137,978	2,572	2,808
173,089	207,371	866,166	733,751
488,904	334,905	7,347,964	5,905,035
778,350	1,061,911	7,621,808	6,168,266
238,023	307,235	695,435	594,066
-	-	118,735	-
-	1,240	209,422	200,321
306,265	302,849	757,852	831,074
267,812	241,129	126,961	147,462
24,349	18,720	120,368	140,737
48,613	44,773	618,797	466,306
160,737	178,386	1,300,717	1,139,827
1,056,124	1,319,810	2,948,756	2,953,552
61,179	60,832	4,689,300	4,425,172
-	-	782,764	735,057
-	-	175,808	185,063
-	-	3,787,274	3,754,270
-	-	842,823	-
-	-	83,322	-
-	-	380,737	228,361
-	-	35,855	28,273
<u>3,995,710</u>	<u>4,506,859</u>	<u>35,900,595</u>	<u>30,470,187</u>
<u>\$ 6,589,814</u>	<u>\$ 7,169,918</u>	<u>\$ 37,255,269</u>	<u>\$ 31,684,177</u>

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**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULES OF ADJUSTMENTS TO PATIENT SERVICE REVENUES  
AND OTHER REVENUES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>ADJUSTMENTS TO PATIENT SERVICE REVENUES</b>		
Contractual Adjustments - Medicare	\$ 11,924,044	\$ 11,333,994
Contractual Adjustments - Medicaid	2,437,751	1,822,724
Provision for Bad Debt	1,599,492	1,422,656
Other Allowances and Adjustments	<u>5,557,087</u>	<u>4,300,311</u>
 Total Adjustments	 <u><u>\$ 21,518,374</u></u>	 <u><u>\$ 18,879,685</u></u>
<b>OTHER REVENUES</b>		
Guest Meals	\$ 82,409	\$ 65,487
Transition Grant/Telemedicine Grant	1,180	15,429
Medical Record Transcripts	2,059	2,110
Vending Machines	1,354	1,791
Purchase Discounts and Rebates	84,080	36,996
Miscellaneous Pharmacy Sales	15,716	8,987
Laundry	235	670
Health Program	62,413	69,968
Physical Therapy Service	13,065	18,005
Clinic Fees	49,510	42,193
Rent Income	128,915	128,915
Lab Fees	24,899	22,471
Management Fees	44,006	35,638
Other	<u>101,321</u>	<u>117,856</u>
 Total Other Revenues	 <u><u>\$ 611,162</u></u>	 <u><u>\$ 566,516</u></u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULES OF OPERATING EXPENSES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	Total	
	2014	2013
Employee Benefits	\$ 2,897,285	\$ 2,557,807
Administrative and General	2,646,337	2,462,271
Central Supply	25,855	31,265
Operation of Plant	607,417	547,978
Laundry and Linen	71,091	59,174
Housekeeping	202,345	185,383
Nursing Administration	153,498	221,864
Dietary	392,301	367,251
Medical Records	420,165	305,126
Adults and Pediatrics	2,099,825	1,946,331
Nursery	68,623	62,573
Operating and Recovery Room	854,512	769,029
Labor and Delivery Room	91,095	83,869
Anesthesiology	45,127	33,502
Nonphysician Anesthetists	364,285	334,434
Radiology	1,423,001	1,220,738
Laboratory	1,220,610	1,079,430
Respiratory Therapy	199,920	138,214
Physical Therapy	372,465	365,553
Occupational Therapy	123,509	131,726
IV Therapy	1,250	-
Speech Pathology	79,664	78,958
Electrocardiology	60,707	49,564
Medical and Surgical Supplies	327,979	340,128
Pharmacy and Intravenous Therapy	990,116	944,467
Cardiac Rehabilitation	72,204	92,292
Clinics	2,411,193	2,550,675
Marketing and Community Health Promotions	438,874	370,838
Diabetic Education	36,972	44,325
Partial Hospital Psychiatric	568	21
Outreach Clinic	59,114	32,552
Surgical Clinic	490,734	500,020
Women Health Clinic	148,108	-
Pain Clinic	408,960	-
Psychiatric Counseling	115,666	128,339
Chemical Dependency	64,886	-
Emergency	1,634,419	1,354,252
Enterostomal Therapy	84,780	9,523
Depreciation and Amortization Expense	2,558,175	3,148,674
Interest Expense	116,037	42,791
<b>Total Expenses</b>	<b>\$ 24,379,672</b>	<b>\$ 22,590,937</b>

Salaries		Other	
2014	2013	2014	2013
\$ -	\$ -	\$ 2,897,285	\$ 2,557,807
1,067,240	1,021,871	1,579,097	1,440,400
1,765	13,342	24,090	17,923
146,972	129,587	460,445	418,391
12,980	24,215	58,111	34,959
165,017	157,359	37,328	28,024
148,361	134,314	5,137	87,550
195,328	234,839	196,973	132,412
320,724	279,401	99,441	25,725
1,815,696	1,709,020	284,129	237,311
64,264	58,668	4,359	3,905
416,794	397,582	437,718	371,447
56,930	63,079	34,165	20,790
-	-	45,127	33,502
342,002	333,714	22,283	720
451,814	377,763	971,187	842,975
587,740	487,276	632,870	592,154
118,853	81,731	81,067	56,483
350,724	347,957	21,741	17,596
117,971	118,791	5,538	12,935
-	-	1,250	-
74,892	73,795	4,772	5,163
14,658	10,737	46,049	38,827
-	-	327,979	340,128
230,440	202,632	759,676	741,835
65,890	85,229	6,314	7,063
1,478,309	1,321,975	932,884	1,228,700
216,962	179,345	221,912	191,493
35,609	43,555	1,363	770
-	-	568	21
49,413	23,632	9,701	8,920
437,395	448,363	53,339	51,657
136,572	-	11,536	-
-	-	408,960	-
109,195	119,738	6,471	8,601
64,886	-	-	-
1,070,543	1,000,282	563,876	353,970
74,230	-	10,550	9,523
-	-	2,558,175	3,148,674
-	-	116,037	42,791
<u>\$ 10,440,169</u>	<u>\$ 9,479,792</u>	<u>\$ 13,939,503</u>	<u>\$ 13,111,145</u>

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULES OF AGE ANALYSIS OF ACCOUNTS RECEIVABLE FROM PATIENTS  
AND ALLOWANCE FOR DOUBTFUL ACCOUNTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

Age of Accounts (by Date of Discharge)	2014		2013	
	Amount	Percent	Amount	Percent
1-30 Days (Includes Patients in Hospital June 30)	\$ 3,774,129	51.78 %	\$ 3,121,707	55.96 %
31-60 Days	1,253,908	17.21	598,335	10.73
61-90 Days	459,447	6.31	370,950	6.65
91 Days and Over	1,799,389	24.70	1,486,142	26.66
Total Accounts Receivable	<u>7,286,873</u>	<u>100.00 %</u>	<u>5,577,134</u>	<u>100.00 %</u>

**ALLOWANCES**

Contractual -				
Medicare	1,169,269		938,607	
Medicaid	381,612		138,396	
Commercial	874,323		543,131	
Doubtful Accounts	1,151,667		895,782	
Net Accounts Receivable	<u>\$ 3,710,002</u>		<u>\$ 3,061,218</u>	

Net Patient Service Revenue per Calendar Day	<u>\$ 59,987</u>	<u>\$ 53,796</u>
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Days of Net Patient Service Revenue in Accounts Receivable at Year-End	<u>62</u>	<u>57</u>
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**Analysis of Allowance for Doubtful Accounts**

	2014		2013	
	Amount	Percent of Net Patient Service Revenue	Amount	Percent of Net Patient Service Revenue
Beginning Balance	\$ 895,782		\$ 837,827	
Add:				
Provision for Doubtful Accounts	1,599,492	8.15 %	1,422,656	7.25 %
Recoveries Previously Written Off	198,204	1.01	208,276	1.06
	<u>2,693,478</u>		<u>2,468,759</u>	
Deduct:				
Accounts Written Off	<u>(1,541,811)</u>	(7.85)	<u>(1,572,977)</u>	(8.01)
Ending Balance	<u>\$ 1,151,667</u>		<u>\$ 895,782</u>	

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULES OF INVENTORIES AND PREPAID EXPENSES  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
<b>INVENTORIES</b>		
Central Stores	\$ 44,202	\$ 47,842
Pharmacy	289,726	280,970
Dietary	10,604	11,995
Operating Room and Central Sterile Supply	132,688	72,790
Laboratory	12,479	22,048
Total Inventories	\$ 489,699	\$ 435,645
<b>PREPAID EXPENSES</b>		
Insurance	\$ 32,149	\$ 15,728
Service Contracts	33,336	39,927
Dues	9,717	10,731
Total Prepaid Expenses	\$ 75,202	\$ 66,386

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULE OF BOND INVESTMENT TRANSACTIONS  
YEAR ENDED JUNE 30, 2014**

	Balance July 1, 2013	Additions	(Retirements)	Balance June 30, 2014
Debt Service Reserve Fund				
2012 Hospital Revenue Bonds	\$ 1,847,364	\$ 17,553	\$ -	\$ 1,864,917
Interest Fund				
2012 Hospital Revenue Bonds	760,366	732,953	(1,479,417)	13,902
Project Fund				
2012 Hospital Revenue Bonds	15,774,287	10,349	(15,249,757)	534,879
Sinking Fund				
2012 Hospital Revenue Bonds	-	137,884	-	137,884
Totals	<u>\$ 18,382,017</u>	<u>\$ 898,739</u>	<u>\$ (16,729,174)</u>	<u>\$ 2,551,582</u>



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

Board of Trustees  
Ellsworth Municipal Hospital dba: Hansen Family Hospital  
Iowa Falls, Iowa

We have audited the financial statements of Ellsworth Municipal Hospital dba: Hansen Family Hospital, as of and for the year ended June 30, 2014 and its discretely presented component unit, Hansen Family Hospital Foundation, as of June 30, 2014, and have issued our report thereon dated December 23, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses listed as 2014-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses listed as 2014-002 to be significant deficiencies.

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Responses to Findings**

Ellsworth Municipal Hospital's dba: Hansen Family Hospital responses to findings identified in our audit are described in the accompanying schedule of findings and responses. While we have expressed our conclusions on the Ellsworth Municipal Hospital's dba: Hansen Family Hospital responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

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



**CliftonLarsonAllen LLP**

Austin, Minnesota  
December 23, 2014

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**Part I: Findings Related to Financial Statements:**

Material Weakness:

**2014-001 Preparation of Financial Statements**

**Criteria:** A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**Condition:** Ellsworth Municipal Hospital dba: Hansen Family Hospital does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statements of cash flows, as required by GAAP. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size.

**Cause:** We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP can be considered costly and ineffective.

**Effect:** The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. It is the responsibility of the Hospital's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Recommendation:** We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

**Response:** This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

**Conclusion:** Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2014**

**Part I: Findings Related to the Financial Statements (Continued):**

Significant Deficiency:

**2014-002 Segregation of Duties**

**Criteria:** One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

**Condition:** Certain employees perform duties that are incompatible.

**Cause:** A limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

**Effect:** Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

**Recommendation:** We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, Ellsworth Municipal Hospital dba: Hansen Family Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

**Response:** Management agrees with the finding and has reviewed the operating procedures of the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

**Conclusion:** Response accepted.

**ELLSWORTH MUNICIPAL HOSPITAL  
DBA: HANSEN FAMILY HOSPITAL  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
YEAR ENDED JUNE 30, 2014**

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-14      Official Depository Banks  
A resolution of official depository banks has not been approved by the governing board.  
**Recommendation:** Pass an annual resolution naming the official depositories of the Hospital.  
**Response:** We will pass an annual resolution naming the official depositories of the Hospital.  
**Conclusion:** Response is accepted.
- II-B-14      Certified Budget  
Hospital expenditures during the year ended June 30, 2014 exceeded the budgeted amount in the business type activities due to additional expenditures for the new hospital facility project. Chapter 384.20 of the code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."  
**Recommendation:** the budget should be amended in accordance with Chapter 384.18 of the code of Iowa before disbursements were allowed to exceed the budget.  
**Response:** We will amend in the future, if applicable.  
**Conclusion:** Response accepted.
- II-D-14      Travel Expense  
No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- II-E-14      Business Transactions  
No business transactions between the Hospital and Hospital officials and/or employees were noted.
- II-F-14      Board Minutes  
Board minutes were examined and appeared to give an accurate account of business transacted by the board.
- II-G-14      Deposits and Investments  
We reviewed the Hospital's investment procedures and noted all investments to be in compliance with the state statutes regarding investments. We noted the Hospital does not have a current investment policy in accordance with:  
**Recommendation:** Pass an annual resolution naming the official depositories of the Hospital.  
**Response:** We will pass an annual resolution naming the official depositories of the Hospital.  
**Conclusion:** Response accepted.

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## INDEPENDENT AUDITORS' REPORT ON DEBT AGREEMENT COVENANTS

Board of Trustees  
Ellsworth Municipal Hospital dba: Hansen Family Hospital  
Iowa Falls, Iowa

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Ellsworth Municipal Hospital dba: Hansen Family Hospital as of June 30, 2014, and have issued our report thereon dated December 23, 2014.

In connection with our audit, nothing came to our attention that caused us to believe that the Hospital was not in compliance with any of the terms, covenants, provisions, or conditions of Section Fifteen "Patient rates and Charges" of the loan agreement dated October 1, 2012, relating to the issue of Hospital Revenue Bonds with Ackley State Bank and Green Belt Bank and Trust, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the board of trustees, management of Ellsworth Municipal Hospital dba: Hansen Family Hospital, and the City of Iowa Falls, Iowa and is not intended to be and should not be used by anyone other than these specified parties.

**CliftonLarsonAllen LLP**

Austin, Minnesota  
December 23, 2014