

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
Orange City, Iowa**

**FINANCIAL REPORT**

**June 30, 2014**

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**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
OFFICIALS  
June 30, 2014**

**Before January 2014**

**Board of Trustees**

**Expiration of term**

Tim Zeutenhorst, Chairman	January, 2016
Randy Jacobsma, Vice Chairman	January, 2016
Brenda Richardson, Secretary	January, 2014
Jerry Henrich	January, 2016
Chris Immeker	January, 2014
Shirley Van Wechel	January, 2016
Russ Adams	January, 2014

**Chief Executive Officer**

Martin W. Guthmiller

**Director, Financial Services**

Dina A. Baas

**After January 2014**

**Board of Trustees**

**Expiration of term**

Randy Jacobsma, Chairman	January, 2016
Tim Zeutenhorst, Vice Chairman	January, 2016
Brenda Richardson, Secretary	January, 2018
Jerry Henrich	January, 2016
Chris Immeker	January, 2018
Shirley Van Wechel	January, 2016
Russ Adams	January, 2018

**Chief Executive Officer**

Martin W. Guthmiller

**Director, Financial Services**

Dina A. Baas



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Municipal Hospital, d/b/a Orange City Area Health System, a component unit of the City of Orange City, Iowa, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinions

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Municipal Hospital, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11, schedule of funding progress for the retiree health plan on page 36, and budgetary comparison schedule on page 37 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Supplementary Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange City Municipal Hospital and Orange City Area Health Foundation's basic financial statements. Other supplementary information included on pages 38-52 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2014 on our consideration of Orange City Municipal Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange City Municipal Hospital's internal control over financial reporting and compliance.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
November 18, 2014

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
Management's Discussion and Analysis**

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2014, 2013 and 2012. Please read it in conjunction with the Health System's financial statements, which follow this section.

**Financial Highlights**

- Total assets increased by \$4,607,672 from FY 2013 or 7.8% to \$63,890,042.
- Total assets whose use is limited increased by \$2,500,085 from FY 2013 or 51.4%.
- Total net position increased by \$326,694 from FY 2013, primarily due to an increase in net patient service revenue.
- Total long-term debt increased by \$4,887,610 from FY 2013.
- Net patient service revenue increased by \$1,043,565 from FY 2013, due to an increase in both inpatient and outpatient services.
- Expenses increased by \$1,980,020 from FY 2013, which is due to a net increase in other professional services, depreciation, and employee benefit costs.

**Overview of the Financial Statements**

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Area Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Required Financial Statements**

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

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 Health System operations over the past year and can be used to determine whether the Health System has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

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

## Orange City Area Health System's Net Position

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

A summary of Orange City Area Health System's balance sheets at June 30, 2014, 2013 and 2012 are presented in Table 1.

Table 1: Assets, Liabilities, and Net Position (in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Assets:</b>			
Current assets	\$15,402	\$13,007	\$14,006
Assets whose use is limited, net of current	7,366	4,866	11,035
Capital assets, net	40,992	41,296	30,979
Other assets	<u>130</u>	<u>113</u>	<u>118</u>
<b>Total assets</b>	<b><u>\$63,890</u></b>	<b><u>\$59,282</u></b>	<b><u>\$56,138</u></b>
<b>Liabilities:</b>			
Long-term debt outstanding	\$27,368	\$22,607	\$23,351
Other current and noncurrent liabilities	<u>6,324</u>	<u>6,804</u>	<u>5,744</u>
<b>Total liabilities</b>	<b><u>\$33,692</u></b>	<b><u>\$29,411</u></b>	<b><u>\$29,095</u></b>
<b>Net position:</b>			
Net investment in capital assets	\$12,742	\$17,934	\$ 6,952
Restricted	3,129	2,932	2,917
Unrestricted, as restated	<u>14,327</u>	<u>9,005</u>	<u>17,174</u>
<b>Total net position, as restated</b>	<b><u>\$30,198</u></b>	<b><u>\$29,871</u></b>	<b><u>\$27,043</u></b>

Increase in current assets is due to an increase in cash and cash equivalents and patient receivables. The increase in net capital assets is due to completion of construction on a new senior living facility, Prairie Ridge Care Center. Other current liabilities decreased as a result of paying final construction payables and related retainages. Table 4, and note 5 of the financial statements, document the net capital activity and ending balances of capital assets for 2014.

## Operating Results and Changes in Orange City Area Health System's Net position

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2014, 2013 and 2012. In 2014, net position increased by \$326,694 over the prior year. As you can see, this increase was attributable to contributions. Operating income was down due, in part, to increase costs incurred operating Prairie Ridge Care Center and related increased depreciation expense.

Table 2: Operating Results and Changes in Net position (in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenue	\$39,559	\$38,515	\$37,452
Other operating revenue	<u>2,427</u>	<u>2,171</u>	<u>2,040</u>
Total operating revenue	<u>41,986</u>	<u>40,686</u>	<u>39,492</u>
Operating Expenses:			
Salaries and benefits	23,168	22,549	21,793
Provision for depreciation and amortization	3,185	2,661	2,532
Other operating expenses	<u>14,335</u>	<u>13,498</u>	<u>12,440</u>
Total operating expenses	<u>40,688</u>	<u>38,708</u>	<u>36,765</u>
Operating income	1,298	1,978	2,727
Nonoperating gains (losses):			
Investment income	128	136	180
Interest expense	(1,331)	(1,256)	(1,285)
Other nonoperating gains (losses), net	<u>(96)</u>	<u>(31)</u>	<u>1</u>
Total nonoperating gains (losses)	<u>(1,299)</u>	<u>(1,151)</u>	<u>(1,104)</u>
Excess (deficit) of revenues over expenses before contributions	(1)	827	1,623
Contributions	<u>328</u>	<u>2,001</u>	<u>980</u>
Change in net position	327	2,828	2,603
Total net position, beginning, as restated	<u>29,871</u>	<u>27,043</u>	<u>24,440</u>
Total net position, ending, as restated	<u>\$30,198</u>	<u>\$29,871</u>	<u>\$27,043</u>

## Operating and Financial Performance

The following summarizes Orange City Area Health System’s statement of revenue, expenses and changes in net position between June 30, 2014, 2013 and 2012.

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

**Volume:** Hospital discharges for fiscal year 2014 were 936 compared to 1,000 in fiscal year 2013. Average length of stay decreased slightly. Patient days increased from 4,253 to 4,436 in 2014. In 2014, gross inpatient charges decreased from \$7,176,654 to \$6,998,436 in 2014. Gross outpatient charges increased from \$38,580,178 to \$37,763,569 in 2014.

**Price Increase:** As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2014.

**Payor Mix:** The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$13,263,716 in 2014 compared to \$12,710,792 in 2013. This represents 25% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2014, 2013 and 2012.

Table 3: Payor Mix

	Year ended June 30,		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	50.6%	49.4%	47.2%
Wellmark	24.7%	19.0%	23.5%
Medicaid	7.8%	6.8%	5.0%
Commercial Insurance	13.8%	21.9%	21.8%
Self Pay	<u>3.1%</u>	<u>2.9%</u>	<u>2.5%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

### Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, increased from 20,837 resident days in 2013 to 21,088 resident days in 2014. In addition, the Hospital leases office space located in the downtown campus to various organizations.

### Expenses

Fifty-seven percent of Orange City Area Health System’s expenses are attributed to salaries and benefits. Total salaries and benefits increased by approximately \$700,000, from \$22.5 million to \$23.2 million.

## Capital Assets and Debt Administration

### Capital Assets

At the end of 2014, Orange City Area Health System had approximately \$41 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2014, 2013 and 2012.

Table 4: Capital Assets (in Thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land	\$ 862	\$ 912	\$ 942
Land improvements	3,455	2,298	2,346
Buildings	19,152	17,297	17,653
Fixed equipment	36,593	23,183	23,415
Major moveable equipment	10,094	8,288	12,704
Construction in progress	<u>50</u>	<u>15,476</u>	<u>3,248</u>
Total	70,206	67,454	60,308
Less accumulated depreciation and amortization	<u>(29,214)</u>	<u>(26,158)</u>	<u>(29,329)</u>
Net capital assets	<u>\$40,992</u>	<u>\$41,296</u>	<u>\$30,979</u>

### Long -Term Debt

At June 30, 2014, Orange City Area Health System had \$27,367,540 in long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 9 to the Financial Statements.

**Performance Compared to Budget**

The following table compares fiscal year 2014 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Dollar Variance</u>
Gross patient service revenue	\$53,721	\$53,062	\$ (659)
Contractual adjustments	(12,809)	(12,771)	38
Provision for bad debts	(663)	(492)	171
Charity care	<u>(280)</u>	<u>(240)</u>	<u>40</u>
Net patient service revenue	39,969	39,559	(410)
Other operating revenue	<u>1,899</u>	<u>2,427</u>	<u>528</u>
Total operating revenue	41,868	41,986	118
Operating expenses	<u>40,616</u>	<u>40,688</u>	<u>72</u>
Operating income	1,252	1,298	46
Income from investments	76	128	52
Other nonoperating, including contributions	<u>(1,060)</u>	<u>(1,099)</u>	<u>(39)</u>
Excess of revenues over expenses	<u>\$ 268</u>	<u>\$ 327</u>	<u>\$ 59</u>

**Economic and Other Factors and Next Year’s Budget**

Orange City Area Health System’s Board and management considered many factors when setting the fiscal year 2014 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- Commercial insurance and health network reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Contribution receivable collections
- Rising costs of employee benefits

**Contacting Orange City Area Health System’s Finance Department**

Orange City Area Health System’s financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Area Health System’s accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Area Health System, 1000 Lincoln Circle SE, Orange City, IA 51041.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
BALANCE SHEETS**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 8,927,328	\$ 6,978,368
Assets whose use is limited, required for current liabilities	1,197,352	1,000,418
Patient receivables, less allowance for contractual adjustments and uncollectible accounts		
2014 \$2,275,000; 2013 \$2,150,000	4,624,431	4,470,124
Estimated third-party payor settlements	200,000	100,000
Inventories	434,406	402,130
Prepaid expenses	18,434	56,304
Total current assets	<u>15,401,951</u>	<u>13,007,344</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	4,948	1,726
Certificates of deposit	4,464,364	1,954,026
U.S. Government agency securities	6,943	7,803
Accrued interest receivable	15,779	11,796
	<u>4,492,034</u>	<u>1,975,351</u>
Designated by board for deferred compensation		
Mutual funds	<u>942,322</u>	<u>958,443</u>
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	1,197,352	1,001,379
Certificates of deposit	1,925,500	1,924,539
	<u>3,122,852</u>	<u>2,925,918</u>
Restricted by donors for specific purpose		
Cash	6,125	6,602
Total assets whose use is limited	<u>8,563,333</u>	<u>5,866,314</u>
Less assets whose use is limited and that are required for current liabilities	1,197,352	1,000,418
Noncurrent assets whose use is limited	<u>7,365,981</u>	<u>4,865,896</u>
<b>CAPITAL ASSETS</b>	70,205,810	67,454,050
Less accumulated depreciation	29,214,019	26,158,098
Total capital assets	<u>40,991,791</u>	<u>41,295,952</u>
<b>OTHER ASSETS</b>	<u>130,319</u>	<u>113,178</u>
Totals	<u>\$63,890,042</u>	<u>\$59,282,370</u>

See Notes to Financial Statements.

		<b>June 30</b>	
<b>LIABILITIES AND NET POSITION</b>		<b>2014</b>	<b>2013</b>
<b>CURRENT LIABILITIES</b>			
Current maturities of long-term debt		\$ 881,842	\$ 755,001
Accounts payable			
Trade		1,432,482	1,434,267
Construction		-	1,071,091
Accrued payroll and vacation pay		1,948,232	1,840,056
Payroll taxes		318,549	127,601
Accrued interest payable		468,444	412,703
Estimated third-party payor settlements		225,000	100,000
Deposits		<u>57,000</u>	<u>55,000</u>
Total current liabilities		<u>5,331,549</u>	<u>5,795,719</u>
<b>LONG-TERM DEBT</b>			
Hospital revenue capital loan notes		28,249,382	23,361,772
Less current maturities		<u>881,842</u>	<u>755,001</u>
Total long-term debt		<u>27,367,540</u>	<u>22,606,771</u>
<b>OTHER LIABILITIES</b>			
Deferred compensation liability		942,322	958,443
Other post-employment benefits		<u>50,500</u>	<u>50,000</u>
Total other liabilities		<u>992,822</u>	<u>1,008,443</u>
Total liabilities		33,691,911	29,410,933
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>NET POSITION</b>			
Net investment in capital assets		12,742,409	17,934,180
Restricted		3,128,977	2,932,520
Unrestricted, as restated		<u>14,326,745</u>	<u>9,004,737</u>
Total net position		<u>30,198,131</u>	<u>29,871,437</u>
Totals		<u>\$63,890,042</u>	<u>\$59,282,370</u>

See Notes to Financial Statements.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>NET PATIENT SERVICE REVENUE</b> , net of provisions for bad debts 2014 \$492,306; 2013 \$500,842	\$39,558,689	\$38,515,124
<b>OTHER REVENUE</b>	<u>2,427,040</u>	<u>2,170,871</u>
Total revenue	<u>41,985,729</u>	<u>40,685,995</u>
<b>EXPENSES</b>		
Nursing service	10,510,829	9,711,374
Other professional service	16,752,161	16,129,150
General service	2,011,942	1,956,480
Fiscal and administrative service and unassigned expenses	8,227,801	8,249,856
Provision for depreciation	<u>3,184,800</u>	<u>2,660,653</u>
Total expenses	<u>40,687,533</u>	<u>38,707,513</u>
Operating income	<u>1,298,196</u>	<u>1,978,482</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
Investment income	128,017	136,155
Interest and amortization expense	(1,330,993)	(1,256,393)
Nonoperating income from auxiliary activity, net	(477)	220
Loss on disposal of capital assets	<u>(96,181)</u>	<u>(31,157)</u>
Total nonoperating gains (losses)	<u>(1,299,634)</u>	<u>(1,151,175)</u>
Excess (deficit) of revenues over expenses before contributions	(1,438)	827,307
<b>CONTRIBUTIONS</b>	<u>328,132</u>	<u>2,001,037</u>
Change in net position	326,694	2,828,344
<b>TOTAL NET POSITION</b>		
Beginning, as restated	<u>29,871,437</u>	<u>27,043,093</u>
Ending	<u>\$30,198,131</u>	<u>\$29,871,437</u>

See Notes to Financial Statements.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$39,429,382	\$38,487,973
Cash paid to suppliers for goods and services	(14,316,832)	(13,478,325)
Cash paid to employees for services	(22,918,885)	(21,720,412)
Other operating revenue received	<u>2,445,232</u>	<u>2,166,023</u>
Net cash provided by operating activities	<u>4,638,897</u>	<u>5,455,259</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating income from auxiliary activities, net	<u>(477)</u>	<u>220</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of capital assets	(4,168,541)	(12,696,412)
Proceeds from sale of capital assets	148,909	23,476
Proceeds from issuance of long-term debt	5,699,999	-
Principal paid on long-term debt	(822,811)	(675,000)
Restricted contributions	328,132	2,001,037
Interest paid on long-term debt	<u>(1,290,024)</u>	<u>(1,252,443)</u>
Net cash (used in) capital and related financing activities	<u>(104,336)</u>	<u>(12,599,342)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	(3,292,755)	(2,489,787)
Proceeds from maturities of certificates of deposit	781,455	4,473,139
Proceeds from maturity of U.S. Government Securities	860	1,102
Interest received	<u>124,034</u>	<u>148,631</u>
Net cash provided by (used in) investing activities	<u>(2,386,406)</u>	<u>2,133,085</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,147,678</b>	<b>(5,010,778)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Beginning	<u>7,988,075</u>	<u>12,998,853</u>
Ending	<u>\$10,135,753</u>	<u>\$ 7,988,075</u>

See Notes to Financial Statements.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
STATEMENTS OF CASH FLOWS (continued)**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,298,196	\$ 1,978,482
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	3,184,800	2,660,653
Physician advances, net of refunds	(81,000)	(20,000)
Physician advances forgiven	44,583	41,042
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(154,307)	312,849
Increase (decrease) in estimated third-party payor settlements	25,000	(340,000)
Decrease in other receivables, net of nonoperating activities	16,192	12,125
(Increase) decrease in inventories	(32,276)	21,952
Decrease in prepaid expenses	37,870	36,796
Increase in accounts payable, net of amounts for capital assets	48,215	249,499
Increase in other post-employment benefits	500	2,000
Increase in accrued payroll and vacation pay	58,176	423,138
Increase in payroll taxes	190,948	93,696
Increase (decrease) in deposits	<u>2,000</u>	<u>(16,973)</u>
Net cash provided by operating activities	<u>\$ 4,638,897</u>	<u>\$ 5,455,259</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS</b>		
Per balance sheets		
Current assets, cash and cash equivalents	\$ 8,927,328	\$ 6,978,368
Assets whose use is limited		
Designated by board for plant replacement and expansion	4,948	1,726
Restricted for payment of revenue notes and interest	1,197,352	1,001,379
Restricted by donors for specific purpose	<u>6,125</u>	<u>6,602</u>
Total per statements of cash flows	<u>\$10,135,753</u>	<u>\$ 7,988,075</u>

**Orange City Area Health Foundation**  
**(A Component Unit of Orange City Municipal Hospital)**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>June 30</b>	
<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
Cash	\$ 238,492	\$ 180,943
Certificates of deposit	-	20,998
Capital campaign contributions receivable, net of discount 2014 \$22,000; 2013 \$58,300 and allowance 2014 and 2013 \$85,000	293,320	634,027
Land	232,391	232,391
Other	50,000	-
Total assets	\$ 814,203	\$1,068,359
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>	\$ -	\$ -
<b>NET ASSETS</b>		
Unrestricted	386,837	239,550
Temporarily restricted	427,366	828,809
Total net assets	814,203	1,068,359
Total liabilities and net assets	\$ 814,203	\$1,068,359

See Notes to Financial Statements.

**Orange City Area Health Foundation**  
**(A Component Unit of Orange City Municipal Hospital)**  
**STATEMENTS OF ACTIVITIES**

	<u>Year ended June 30, 2014</u>			<u>Year ended June 30, 2013</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 51,234	\$ 25,665	\$ 76,899	\$ 80,136	\$ 30,003	\$ 110,139
Special events	24,420	-	24,420	20,900	-	20,900
Interest income	161	-	161	514	-	514
Net assets released from restrictions	<u>427,108</u>	<u>(427,108)</u>	<u>-</u>	<u>1,135,421</u>	<u>(1,135,421)</u>	<u>-</u>
Total support and revenue	<u>502,923</u>	<u>(401,443)</u>	<u>101,480</u>	<u>1,236,971</u>	<u>(1,105,418)</u>	<u>131,553</u>
<b>EXPENSES</b>						
Contributions and scholarship	<u>347,914</u>	<u>-</u>	<u>347,914</u>	<u>1,341,980</u>	<u>-</u>	<u>1,341,980</u>
Fundraising event	7,702	-	7,702	3,525	-	3,525
Other	<u>20</u>	<u>-</u>	<u>20</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>355,636</u>	<u>-</u>	<u>355,636</u>	<u>1,345,505</u>	<u>-</u>	<u>1,345,505</u>
<b>CHANGE IN NET ASSETS</b>	<u>147,287</u>	<u>(401,443)</u>	<u>(254,156)</u>	<u>108,534</u>	<u>(1,105,418)</u>	<u>(1,213,952)</u>
<b>NET ASSETS</b> , beginning of year	<u>239,550</u>	<u>828,809</u>	<u>1,068,359</u>	<u>348,084</u>	<u>1,934,227</u>	<u>2,282,311</u>
<b>NET ASSETS</b> , end of year	<u>\$ 386,837</u>	<u>\$ 427,366</u>	<u>\$ 814,203</u>	<u>\$ 239,550</u>	<u>\$ 828,809</u>	<u>\$1,068,359</u>

See Notes to Financial Statements.

**Orange City Area Health Foundation  
(A Component Unit of Orange City Municipal Hospital)  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (254,156)	\$(1,213,952)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
(Increase) decrease in capital campaign contributions receivable	<u>340,707</u>	<u>829,880</u>
Net cash provided by (used in) operating activities	<u>86,551</u>	<u>(384,072)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of certificates of deposit	-	(159)
Proceeds from sale of certificates of deposit	20,998	-
Purchase of other asset	<u>(50,000)</u>	<u>-</u>
Net cash (used in) investing activities	<u>(29,002)</u>	<u>(159)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	57,549	(384,231)
<b>CASH</b>		
Beginning	<u>180,943</u>	<u>565,174</u>
Ending	<u>\$ 238,492</u>	<u>\$ 180,943</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Hospital is the municipal hospital of the City of Orange City, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2014 and 2013, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation. The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

**New Accounting Standard Adopted**

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

**Measurement Focus and Basis of Accounting**

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

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

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting Standards**

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

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *Financial Accounting Standards Board Accounting Standards Codification*. Under this Topic, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had \$427,366 of temporarily restricted net assets at June 30, 2014. These net assets are to be used for the benefit of the Hospital, primarily for the Prairie Ridge Care Center campaign, hospice services, or scholarships for eligible Hospital employees.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2014.

**Accounting Estimates and Assumptions**

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

**Restatement**

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

Net position at July 1, 2012, as previously reported	\$27,100,142
Adjustment, adoption of Statement No. 65	<u>(57,049)</u>
Net position at July 2012, as restated for Statement No. 65	<u>\$27,043,093</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments and Investment Income**

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Open-end mutual funds Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company) Publicly traded mutual funds	Amortized cost Fair value based on quoted market prices
Debt securities Negotiable certificates of deposit and U.S. Government Agency Securities Maturity of one year or less when purchased Maturity of more than one year when purchased	Amortized cost Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

**Capital Assets**

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded as additions at fair value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

**Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market.

**Contributions Receivable**

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Contributions**

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Foundation's Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**Net Position**

Net position is presented in the following three components:

**Net investment in capital assets**

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

**Restricted net position**

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

**Unrestricted net position**

Unrestricted net position has no externally imposed restrictions on use.

When the Hospital has both restricted and unrestricted resources available to finance a particular program or project, it is the Hospital's policy to use restricted resources before unrestricted resources..

**Cash and Cash Equivalents**

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT amount to be cash equivalents.

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

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

**Net Patient Service Revenue**

Patient service revenue is reported at the Hospital's established rates. 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.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Credit Policy**

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

**Charity Care**

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

**Credit Risk**

The Foundation had amounts on deposit with a financial institution in excess of FDIC insurance limits at various times throughout the year.

**Income Taxes**

The Foundation's management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns, for tax years 2010 and after, which are open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

**Reclassifications**

Certain reclassifications have been made in the Foundation's 2013 financial statements to conform to the 2014 presentation. These reclassifications had no impact on the total change in net assets and total ending net assets.

**Subsequent Events**

The Foundation has evaluated subsequent events through November 18, 2014, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2014, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C 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; warrants or improvement certificates of a drainage district; and common stocks.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS (continued)**

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2014, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	<u>Maturities</u>	
Investments		
Edward D. Jones & Co., money market funds	Daily	\$ 4,308
Negotiable certificates of deposit	09/16/14 - 09/08/15	6,389,864
U.S. Government agency securities	11/15/28 - 11/01/31	6,943
Mutual funds	Daily	942,322
Iowa Public Agency Investment Trust	Daily	<u>1,197,352</u>
Totals		<u>\$8,540,789</u>

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

**NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST**

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. However, this does not apply to the Series 2012 Capital loan note. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$1,925,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

	<u>Year ended June 30, 2014</u>			<u>Year ended June 30, 2013</u>		
	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
<b>BALANCE</b> , beginning	\$1,925,500	\$1,000,418	\$2,925,918	\$1,925,500	\$ 984,901	\$2,910,401
Transfers from current assets						
cash and cash equivalents	-	2,124,756	2,124,756	-	1,942,888	1,942,888
Interest income	-	66	66	-	71	71
Payment of notes and interest	<u>-</u>	<u>(1,927,888)</u>	<u>(1,927,888)</u>	<u>-</u>	<u>(1,927,442)</u>	<u>(1,927,442)</u>
<b>BALANCE</b> , ending	<u>\$1,925,500</u>	<u>\$1,197,352</u>	<u>\$3,122,852</u>	<u>\$1,925,500</u>	<u>\$1,000,418</u>	<u>\$2,925,918</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 PATIENT RECEIVABLES**

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2014</u>	<u>2013</u>
Receivable from patients	\$1,753,534	\$1,620,062
Receivable from insurance carriers	2,731,097	2,485,918
Receivable from Medicare	1,862,846	2,069,462
Receivable from Medicaid	551,954	444,682
Total patient receivables	6,899,431	6,620,124
Less allowances for contractual and other adjustments	(2,275,000)	(2,150,000)
 Totals	 <u>\$4,624,431</u>	 <u>\$4,470,124</u>

**NOTE 5 CAPITAL ASSETS**

A summary of changes in the Hospital's capital assets for the year ended June 30, 2014 and 2013 follows:

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Land	\$ 912,036	\$ -	\$ (50,000)	\$ -	\$ 862,036
Land improvements	2,297,809	36,166	-	1,120,625	3,454,600
Buildings	17,296,892	86,600	(380,969)	2,149,519	19,152,042
Fixed equipment	23,182,897	162,297	-	13,248,115	36,593,309
Major movable equipment	8,288,424	363,894	-	1,441,279	10,093,597
Construction in progress	<u>15,475,992</u>	<u>2,533,772</u>	<u>-</u>	<u>(17,959,538)</u>	<u>50,226</u>
Totals	67,454,050	3,182,729	(430,969)	-	70,205,810
Less accumulated depreciation and amortization	<u>(26,158,098)</u>	<u>(3,184,800)</u>	<u>128,879</u>	<u>-</u>	<u>(29,214,019)</u>
 Net capital assets	 <u>\$41,295,952</u>	 <u>\$ (2,071)</u>	 <u>\$ (302,090)</u>	 <u>\$ -</u>	 <u>\$40,991,791</u>

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2013</u>
Land	\$ 942,036	\$ -	\$ (30,000)	\$ -	\$ 912,036
Land improvements	2,345,509	5,934	(53,634)	-	2,297,809
Buildings	17,652,859	91,017	(446,984)	-	17,296,892
Fixed equipment	23,415,248	-	(232,351)	-	23,182,897
Major movable equipment	12,703,675	724,356	(5,139,607)	-	8,288,424
Construction in progress	<u>3,248,402</u>	<u>12,227,590</u>	<u>-</u>	<u>-</u>	<u>15,475,992</u>
Totals	60,307,729	13,048,897	(5,902,576)	-	67,454,050
Less accumulated depreciation and amortization	<u>(29,329,049)</u>	<u>(2,660,653)</u>	<u>5,831,604</u>	<u>-</u>	<u>(26,158,098)</u>
 Net capital assets	 <u>\$30,978,680</u>	 <u>\$10,388,244</u>	 <u>\$ (70,972)</u>	 <u>\$ -</u>	 <u>\$41,295,952</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 CAPITAL ASSETS (continued)**

During the year ended June 30, 2014, the Health System completed construction on an 85,000 square foot, 83 bed replacement senior living facility known as Prairie Ride Care Center. The total cost of the facility, including equipment, was approximately \$18,000,000.

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2014 and 2013 follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2014</b>
Land	\$ <u>232,391</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>232,391</u>
	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2013</b>
Land	\$ <u>232,391</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>232,391</u>

**NOTE 6 CONTRIBUTIONS RECEIVABLE**

At June 30, 2014 the Foundation's contributions receivable consisted of contributions pledged for the replacement nursing home facility.

A summary of the activity in contributions receivable for the year ended June 30, 2014 is as follows:

Beginning contributions receivable	\$ 634,027
Contributions made during the year	12,941
Payments received	(389,948)
Decrease in discount of future payments receivable	<u>36,300</u>
Ending contributions receivable	<u>\$ 293,320</u>

Contributions receivable at June 30, 2014, are expected to be received during the years ending June 30, as follows: 2015 \$220,000; 2016 \$73,320.

**NOTE 7 OTHER ASSET**

The Foundation invested \$50,000 in a limited liability company (LLC) during the year ended June 30, 2014, which represents an approximately 1.9% ownership in the LLC. This LLC was established to invest in a new hotel that has been built adjacent to the Health System's hospital campus.

**NOTE 8 RELATED PARTY CONTRIBUTION**

Included within contributions on the accompanying statements of revenues, expenses, and changes in net position for the year ended June 30, 2013 is \$682,595 of revenue received from the City of Orange City specifically to fund costs associated with the replacement nursing home facility. The Hospital will not be required to repay these proceeds to the City of Orange City.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 LONG-TERM DEBT**

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 3.90% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2014 is \$4,530,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2014 is \$18,280,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,000,000 of Hospital Revenue Capital Loan Notes Series 2012 dated June 13, 2012, to finance the constructing and equipping Prairie Ridge Care Center. The notes call for interest only payments, calculated at an initial interest rate of 3.5%, commencing on September 1, 2012, and on each March 1 and September 1 thereafter until semiannual principal and interest payments are required. Principal and interest payments will be required on the earlier date of March 1, 2014 or six months following substantial completion of the facility. Principal payments shall be made in accordance with a twenty-five year, straight-line amortization, payment schedule through September 1, 2038, the maturity date of the notes. The notes contain an interest reset provision beginning on June 1, 2019, and on June 1 every five years subsequent thereto, in which the interest rate will be adjusted to a product of 3% above the constant maturity of the United States 5-year Treasury Note as published by the Wall Street Journal, multiplied by .65%, subject to an interest rate cap of 9.5% and a floor of 3.5%. The interest rate at June 30, 2014 is 3.5%. The notes may be called for redemption by the issuer and paid before maturity on any date, in whole or in part, and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to date of call. The balance outstanding at June 30, 2014 is \$5,632,189.

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2039. As of June 30, 2014 the remaining principal and interest on the Series 2012, 2008 and 2007 was \$44,872,894, net of unamortized discount of \$192,807. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2014 and 2013:

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Change in net position	\$ 326,694	\$2,828,344
Provision for depreciation	3,184,800	2,660,653
Interest and amortization expense	<u>1,330,993</u>	<u>1,256,393</u>
Pledged net revenues	<u>\$4,842,487</u>	<u>\$6,745,390</u>
Principal and interest requirements		
Capital Loan Notes, Series 2007	\$ 693,160	\$ 691,165
Capital Loan Notes, Series 2008	1,234,727	1,236,278
Capital Loans Notes, Series 2012	<u>184,948</u>	<u>—</u>
Totals	<u>\$2,112,835</u>	<u>\$1,927,443</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 LONG-TERM DEBT (continued)**

The following summarizes the maturities of long-term debt:

Year ending June 30	<u>Revenue notes payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2015	\$ 881,842	\$ 1,389,083	\$ 2,270,925
2016	923,698	1,348,972	2,272,670
2017	964,125	1,308,165	2,272,290
2018	1,009,743	1,264,862	2,274,605
2019	1,055,559	1,218,748	2,274,307
2020 - 2024	6,077,490	5,280,199	11,357,689
2025 - 2029	7,851,987	3,503,388	11,355,375
2030 - 2034	8,255,487	1,182,773	9,438,260
2035 - 2039	<u>1,422,258</u>	<u>127,323</u>	<u>1,549,581</u>
Total	28,442,189	16,623,513	45,065,702
Less unamortized discount	<u>(192,807)</u>	<u>—</u>	<u>(192,807)</u>
Totals	<u>\$28,249,382</u>	<u>\$16,623,513</u>	<u>\$44,872,895</u>

Long-term debt activity for the years ended June 30, 2014 and 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
<b>2014</b>					
Hospital revenue notes	<u>\$23,565,001</u>	<u>\$5,699,999</u>	<u>\$ 822,811</u>	<u>\$28,442,189</u>	<u>\$ 881,842</u>
<b>2013</b>					
Hospital revenue notes	<u>\$24,240,001</u>	<u>\$ —</u>	<u>\$ 675,000</u>	<u>\$23,565,001</u>	<u>\$ 755,001</u>

**NOTE 10 DEFINED BENEFIT PENSION PLAN**

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

For the year ended June 30, 2014, plan members were 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 contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,504,838, \$1,416,281 and \$1,262,932, respectively, equal to the required contributions for each year.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 EMPLOYEE BENEFITS**

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$50,000 per person and approximately \$3,400,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2014 and 2013 was \$2,926,718 and \$2,936,575, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of \$942,322 and \$958,443 to reflect the fair value of these program assets as of June 30, 2014 and 2013, respectively, and related liability to participants.

**NOTE 12 OTHER POST EMPLOYMENT BENEFITS**

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 238 active and 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plan is self-insured and is administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 16,783
Interest on net OPEB obligation	499
Adjustment to annual required contribution	<u>(16,782)</u>
Annual OPEB cost	500
Contributions made	<u>—</u>
Increase in net OPEB obligation	500
Net OPEB obligation, beginning of year	<u>50,000</u>
Net OPEB obligation, end of year	<u>\$ 50,500</u>

The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 OTHER POST EMPLOYMENT BENEFITS (continued)**

For the year ended June 30, 2014, the Hospital contributed \$-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014, 2013 and 2012 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2014	\$ <u>500</u>	<u>0%</u>	\$ <u>50,500</u>
June 30, 2013	\$ <u>2,000</u>	<u>0%</u>	\$ <u>50,000</u>
June 30, 2012	\$ <u>8,000</u>	<u>0%</u>	\$ <u>48,000</u>

As of July 1, 2013, the most recent actuarial valuation date for the period July 1, 2012 through June 30, 2014, the actuarial accrued liability was approximately \$173,500 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$173,500. As of June 30, 2014, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2013 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 1% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 6%. The ultimate medical trend rate is 3%. The medical trend rate is reduced 1% each year until reaching the 3% ultimate trend rate.

Mortality rates are based on the RP-2000 Combined Mortality Rates, applied on a gender-specific basis. Termination rates used in the actuarial valuation are based upon national termination studies performed by the Society of Actuaries. They were adjusted to reflect the recent lower termination rates experienced by the Hospital. Retirement rates used in the actuarial valuation were developed based upon recent Hospital experience.

Projected weighted average claim costs of the medical plan are approximately \$831 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 MALPRACTICE CLAIMS**

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

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

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

**NOTE 14 NET PATIENT SERVICE REVENUE**

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

**Medicare and Medicaid**

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

**Other**

The Hospital also has payment agreements with Wellmark and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates and discounts from established charges.

**NOTE 15 CHARITY CARE**

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

	<b>2014</b>	<b>2013</b>
Charges foregone, based on established rates	\$ <u>240,021</u>	\$ <u>149,564</u>
Equivalent percentage of charity care patients to all patients served	<u>0.5%</u>	<u>0.3%</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 16 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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**NOTE 17 LEASE COMMITMENTS AND SPACE LEASED TO OTHERS**

The Hospital leases CT system medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of \$8,417, beginning in February 2011, through the end of the lease.

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of \$11,773, beginning in December 2013, through the end of the lease.

The Hospital leases a vehicle under a cancelable lease. The current lease calls for forty-eight monthly payments of \$469, beginning in May 2013, with a final payment of \$30,942 at the end of the lease. A prior operating lease, which expired April 2013, called for monthly payments of \$499.

Operating expenses incurred on the above equipment leases totaled \$247,936 and \$248,304 for the years ended June 30, 2014 and 2013, respectively.

The minimum future rentals under the leases as of June 30, 2014, are as follows:

**Year ending June 30**

2015	\$ 172,152
2016	146,901
2017	177,374
2018	<u>11,773</u>
Total	<u>\$ 508,200</u>

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2014 and 2013 included \$147,772 and \$153,592, respectively, of aggregate rental income under the lease agreements.

**NOTE 18 ORANGE CITY AREA HEALTH FOUNDATION**

The Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement nursing home facility. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of \$326,581 and \$1,318,342 to the Hospital for the years ended June 30, 2014 and 2013, respectively. The Foundation's audited statements of financial position as of June 30, 2014 and 2013, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 19 PROSPECTIVE ACCOUNTING CHANGE**

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

**REQUIRED SUPPLEMENTARY INFORMATION**

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN  
(In Thousands)**

**Required Supplementary Information**

<u>Year ended June 30</u>	<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b - a)/c)</u>
2012	July 1, 2012	\$ <u>—</u>	<u>\$106.0</u>	<u>\$106.0</u>	<u>0.0%</u>	<u>\$16,443</u>	<u>0.6%</u>
2013	July 1, 2013	\$ <u>—</u>	<u>\$173.5</u>	<u>\$173.5</u>	<u>0.0%</u>	<u>\$17,220</u>	<u>1.0%</u>
2014	July 1, 2013	\$ <u>—</u>	<u>\$173.5</u>	<u>\$173.5</u>	<u>0.0%</u>	<u>\$17,561</u>	<u>1.0%</u>

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
BUDGETARY COMPARISON SCHEDULE  
Year ended June 30, 2014**

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 Orange City to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

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

	<b><u>Total Per Hospital Statements</u></b>	<b><u>Budgeted Amount</u></b>	<b><u>Amount Over (Under) Budget</u></b>
Total expenses including interest and amortization expense and loss on disposal of capital assets	<u>\$42,114,707</u>	<u>\$42,663,702</u>	<u>\$ (548,995)</u>

See accompanying independent auditor's report.

**SUPPLEMENTARY INFORMATION**

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
AGE ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
0 - 30 days	\$3,594,314	\$3,460,178	52.10%	52.27%
31 - 60 days	1,369,194	1,049,055	19.85	15.85
61 - 90 days	479,862	717,442	6.96	10.84
91 - 180 days	708,551	648,447	10.27	9.79
Over 6 months	<u>747,510</u>	<u>745,002</u>	<u>10.82</u>	<u>11.25</u>
Totals	<u>6,899,431</u>	<u>6,620,124</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	900,000	850,000		
Contractual adjustments	<u>1,375,000</u>	<u>1,300,000</u>		
Total allowances	<u>2,275,000</u>	<u>2,150,000</u>		
Totals	<u>\$4,624,431</u>	<u>\$4,470,124</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>BALANCE</b> , beginning	\$ 850,000	\$ 850,000
Provision for bad debts	492,306	500,842
Recoveries of accounts written off previously	388,886	337,293
Accounts written off	<u>(831,192)</u>	<u>(838,135)</u>
<b>BALANCE</b> , ending	<u>\$ 900,000</u>	<u>\$ 850,000</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
INVENTORIES**

	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
General stores	\$ 273,553	\$ 233,284
Central supply	32,177	42,320
Operating room	85,385	85,021
Radiology	4,077	2,275
Medical clinics	39,214	39,230
 Totals	 \$ 434,406	 \$ 402,130

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
INSURANCE COVERAGE  
June 30, 2014**

Cincinnati Insurance Company (policy expiration June 30, 2015)	
Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value, and special causes of loss)	\$72,357,000
Downtown Campus (80% Co-insurance, actual cash value, and special clauses)	\$5,849,000 \$5,000 deductible
Blanket earnings and expense	\$28,146,533
Owned automobiles	
Liability	\$1,000,000
Collision and comprehensive	\$1,000 deductible
Uninsured/underinsured motorist	\$1,000,000
Medical payments	\$5,000
Blanket fidelity bond	
Employees	\$150,000 \$2,500 deductible
Accounts receivable records	\$1,000,000 \$5,000 deductible
Equipment floater	\$117,500
Cincinnati Insurance Company (policy expiration June 30, 2015)	
Directors, officers and hospital staff liability	\$1,000,000 \$15,000 deductible
Employment practices liability	\$1,000,000 \$25,000 deductible
PIC Wisconsin Insurance Company (policy expiration June 30, 2015)	
Employee benefit liability	\$1,000,000
Professional liability—hospital	\$1,000,000/3,000,000
Professional liability—physicians	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Excess professional liability	\$2,000,000
Excess liability hospital	\$2,000,000
Farm Bureau Mutual Insurance Company (policy expiration April 1, 2015)	
Workers' compensation	Statutory

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
PATIENT SERVICE REVENUE**

	<u>Total</u>		<u>Inpatient</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetric	\$ 4,332,515	\$ 4,587,664	\$2,466,745	\$2,495,908
Special care	49,815	51,075	49,815	51,075
Long term care	5,453,642	4,890,701	-	-
Nursery	439,917	373,116	439,917	372,990
	<u>10,275,889</u>	<u>9,902,556</u>	<u>2,956,477</u>	<u>2,919,973</u>
<b>OTHER NURSING SERVICES</b>				
Operating and recovery room	4,885,532	4,690,176	931,828	753,881
Central service and supply	1,047,235	1,167,239	506,918	587,731
Emergency service	1,855,405	1,822,751	51,898	64,401
Ambulance	435,345	439,672	64,631	31,297
Home Health	1,063,984	1,020,710	-	-
Hospice	421,900	773,271	-	-
	<u>9,709,401</u>	<u>9,913,819</u>	<u>1,555,275</u>	<u>1,437,310</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	4,167,172	4,088,378	452,138	480,437
Radiology	5,642,147	5,320,617	176,011	202,674
Pharmacy	4,550,721	4,460,578	938,280	1,170,053
Anesthesiology	1,998,845	1,846,099	529,537	461,571
Respiratory therapy and oxygen	360,492	436,613	205,245	285,673
Physical therapy	2,184,394	2,090,649	135,756	152,522
Cardio pulmonary	789,199	720,761	45,269	59,911
Pulmonary rehabilitation	12,012	8,120	-	-
Speech therapy	44,175	39,460	4,133	5,585
Audiology	46,781	50,844	-	-
Orange City medical clinic	10,083,281	9,568,320	-	-
Hospers medical clinic	391,523	323,427	-	-
Paullina medical clinic	737,829	740,242	-	-
Specialty clinics	413,787	332,842	315	945
Surgery	1,654,778	1,532,155	-	-
	<u>33,077,136</u>	<u>31,559,105</u>	<u>2,486,684</u>	<u>2,819,371</u>
	53,062,426	51,375,480	<u>\$6,998,436</u>	<u>\$7,176,654</u>
Charity care charges foregone, based on established rates	<u>240,021</u>	<u>149,564</u>		
Total gross patient service revenue	<u>52,822,405</u>	<u>51,225,916</u>		
Provisions for contractual and other adjustments	<u>13,263,716</u>	<u>12,710,792</u>		
Net patient service revenue	<u>\$39,558,689</u>	<u>\$38,515,124</u>		

See accompanying independent auditor's report.

<u>Outpatient</u>		<u>Swing bed</u>		<u>Intermediate care unit</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
\$ 1,864,018	\$ 2,090,717	\$ 1,752	\$ 1,039	\$ -	\$ -
-	-	-	-	-	-
-	-	639,375	410,175	4,814,267	4,480,526
-	126	-	-	-	-
<u>1,864,018</u>	<u>2,090,843</u>	<u>641,127</u>	<u>411,214</u>	<u>4,814,267</u>	<u>4,480,526</u>
3,947,318	3,925,508	6,386	10,787	-	-
529,967	553,718	10,320	25,767	30	23
1,803,507	1,758,350	-	-	-	-
370,714	408,375	-	-	-	-
1,063,984	1,020,710	-	-	-	-
421,900	773,271	-	-	-	-
<u>8,137,390</u>	<u>8,439,932</u>	<u>16,706</u>	<u>36,554</u>	<u>30</u>	<u>23</u>
3,650,171	3,548,954	64,863	58,987	-	-
5,453,612	5,109,975	12,524	7,968	-	-
3,196,932	2,918,087	324,718	295,803	90,791	76,635
1,467,808	1,381,653	1,500	2,875	-	-
84,877	88,462	70,370	62,478	-	-
1,792,059	1,761,810	256,579	176,317	-	-
738,510	656,790	5,420	4,060	-	-
12,012	8,120	-	-	-	-
38,516	28,667	1,526	5,208	-	-
46,781	50,844	-	-	-	-
10,083,281	9,568,320	-	-	-	-
391,523	323,427	-	-	-	-
737,829	740,242	-	-	-	-
413,472	331,897	-	-	-	-
1,654,778	1,532,155	-	-	-	-
<u>29,762,161</u>	<u>28,049,403</u>	<u>737,500</u>	<u>613,696</u>	<u>90,791</u>	<u>76,635</u>
<u>\$39,763,569</u>	<u>\$38,580,178</u>	<u>\$1,395,333</u>	<u>\$1,061,464</u>	<u>\$4,905,088</u>	<u>\$4,557,184</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Contractual adjustments and discounts	\$12,771,410	\$12,209,950
Provision for bad debts	492,306	500,842
Totals	\$13,263,716	\$12,710,792

**OTHER REVENUE**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Cafeteria	\$ 229,224	\$ 226,774
Other	747,835	526,072
Lifeline	44,106	46,460
Landsmeer Ridge	1,405,875	1,371,565
Totals	\$2,427,040	\$2,170,871

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>NURSING ADMINISTRATION</b>		
Salaries	\$ 134,407	\$ 174,428
Supplies and expenses	<u>39,053</u>	<u>37,750</u>
	<u>173,460</u>	<u>212,178</u>
<b>MEDICAL, SURGICAL AND OBSTETRIC</b>		
Salaries	1,608,386	1,594,053
Supplies and expenses	<u>344,059</u>	<u>316,987</u>
	<u>1,952,445</u>	<u>1,911,040</u>
<b>SPECIAL CARE</b>		
Salaries	12,392	10,286
Supplies and expenses	<u>28</u>	<u>23</u>
	<u>12,420</u>	<u>10,309</u>
<b>SWING BED</b>		
Salaries	<u>4,608</u>	<u>4,495</u>
<b>INTERMEDIATE CARE</b>		
Salaries	2,882,543	2,377,909
Purchased services	82,517	245,114
Supplies and expenses	<u>1,233,387</u>	<u>735,169</u>
	<u>4,198,447</u>	<u>3,358,192</u>
<b>NURSERY</b>		
Salaries	91,557	58,145
Supplies and expenses	<u>10,865</u>	<u>10,097</u>
	<u>102,422</u>	<u>68,242</u>
<b>OPERATING AND RECOVERY ROOMS</b>		
Salaries	672,586	669,060
Supplies and expenses	<u>234,204</u>	<u>225,476</u>
	<u>906,790</u>	<u>894,536</u>
<b>CENTRAL SERVICE AND SUPPLY</b>		
Billable supplies	583,494	702,348
Supplies and expenses	<u>7,098</u>	<u>28,052</u>
	<u>590,592</u>	<u>730,400</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
NURSING SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>EMERGENCY SERVICE</b>		
Salaries	\$ 1,319,393	\$1,342,184
Purchased services	125,654	-
Supplies and expenses	<u>44,746</u>	<u>64,795</u>
	<u>1,489,793</u>	<u>1,406,979</u>
<b>AMBULANCE</b>		
Salaries	65,570	73,812
Supplies and expenses	<u>37,899</u>	<u>38,497</u>
	<u>103,469</u>	<u>112,309</u>
<b>HOME HEALTH</b>		
Salaries	427,851	440,867
Purchased services	58,427	55,821
Supplies and expenses	<u>112,842</u>	<u>101,613</u>
	<u>599,120</u>	<u>598,301</u>
<b>HOSPICE</b>		
Salaries	251,307	229,670
Supplies and expenses	<u>125,956</u>	<u>174,723</u>
	<u>377,263</u>	<u>404,393</u>
 Totals	 <u>\$10,510,829</u>	 <u>\$9,711,374</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>LABORATORY</b>		
Salaries	\$ 522,490	\$ 521,238
Professional fees	352,441	315,395
Supplies and expenses	<u>425,678</u>	<u>383,849</u>
	<u>1,300,609</u>	<u>1,220,482</u>
<b>RADIOLOGY</b>		
Salaries	1,027,302	1,069,212
Professional fees	200,504	135,067
Purchased services	426,274	412,326
Supplies and expenses	<u>250,562</u>	<u>221,348</u>
	<u>1,904,642</u>	<u>1,837,953</u>
<b>ONCOLOGY</b>		
Salaries	<u>36,951</u>	<u>29,130</u>
<b>PHARMACY</b>		
Salaries	64,863	62,856
Purchased services	2,114,252	1,983,632
Supplies and expenses	<u>11,609</u>	<u>7,721</u>
	<u>2,190,724</u>	<u>2,054,209</u>
<b>ANESTHESIOLOGY</b>		
Salaries	284,200	294,002
Professional fees	539,720	519,050
Supplies and expenses	<u>44,530</u>	<u>30,447</u>
	<u>868,450</u>	<u>843,499</u>
<b>RESPIRATORY THERAPY</b>		
Salaries	116,153	117,953
Oxygen	6,347	29,965
Supplies and expenses	<u>31,768</u>	<u>17,949</u>
	<u>154,268</u>	<u>165,867</u>
<b>PHYSICAL THERAPY</b>		
Salaries	57,647	55,017
Purchased services	1,086,443	1,044,465
Supplies and expenses	<u>21,652</u>	<u>22,363</u>
	<u>1,165,742</u>	<u>1,121,845</u>
<b>CARDIO PULMONARY</b>		
Purchased services	168,658	152,941
Supplies and expenses	<u>366</u>	<u>4,724</u>
	<u>169,024</u>	<u>157,665</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>SPEECH THERAPY</b>		
Purchased services	\$ 27,928	\$ 24,919
<b>AUDIOLOGY</b>		
Purchased services	30,520	30,520
Supplies and expenses	14	221
	<u>30,534</u>	<u>30,741</u>
<b>OCCUPATIONAL HEALTH SERVICES</b>		
Salaries	87,210	85,444
Purchased services	1,038	1,145
Supplies and expenses	21,871	23,541
	<u>110,119</u>	<u>110,130</u>
<b>ORANGE CITY MEDICAL CLINIC</b>		
Salaries	3,553,406	3,425,891
Purchased services	621,231	632,656
Medical supplies	627,220	550,306
Supplies and expenses	46,776	60,471
Utilities	61,260	73,857
Telephone	10,729	1,300
Insurance	79,267	77,689
Employee benefits	940,867	843,568
	<u>5,940,756</u>	<u>5,665,738</u>
<b>HOSPERS MEDICAL CLINIC</b>		
Salaries	138,763	143,551
Purchased service	33,735	33,696
Medical supplies	14,937	8,682
Supplies and expenses	22,589	24,331
Utilities	1,949	1,786
Telephone	2,341	6,802
Employee benefits	47,969	44,360
	<u>262,283</u>	<u>263,208</u>
<b>PAULLINA MEDICAL CLINIC</b>		
Salaries	273,794	337,312
Purchased service	66,723	68,371
Medical supplies	25,975	23,515
Supplies and expenses	28,013	31,663
Utilities	5,274	6,776
Telephone	8,073	30,539
Employee benefits	86,886	97,170
	<u>494,738</u>	<u>595,346</u>
<b>SPECIALTY CLINICS</b>		
Salaries	122,570	80,885
Supplies and expenses	5,155	3,446
	<u>127,725</u>	<u>84,331</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>SURGERY</b>		
Salaries	\$ 695,910	\$ 678,809
Supplies and expenses	64,754	84,311
Utilities	<u>2,915</u>	<u>2,699</u>
	<u>763,579</u>	<u>765,819</u>
<b>LANDSMEER RIDGE</b>		
Salaries	461,510	436,043
Purchased services	8,044	8,305
Medical supplies	1,526	1,374
Supplies and expenses	180,313	186,059
Utilities	94,262	84,457
Telephone	12,065	12,570
Insurance	<u>4,828</u>	<u>4,314</u>
	<u>762,548</u>	<u>733,122</u>
<b>SOCIAL SERVICE</b>		
Salaries	<u>119,989</u>	<u>127,670</u>
<b>MEDICAL RECORDS</b>		
Salaries	302,541	280,150
Supplies and expenses	<u>19,011</u>	<u>17,326</u>
	<u>321,552</u>	<u>297,476</u>
 Totals	 <u>\$16,752,161</u>	 <u>\$16,129,150</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
<b>DIETARY</b>		
Salaries	\$ 278,450	\$ 277,928
Food	328,341	423,934
Supplies and expenses	<u>73,770</u>	<u>68,014</u>
	<u>680,561</u>	<u>769,876</u>
<b>PLANT OPERATION AND MAINTENANCE</b>		
Salaries	255,124	224,456
Utilities	540,455	483,575
Purchased services	56,134	45,407
Supplies and expenses	<u>146,008</u>	<u>132,691</u>
	<u>997,721</u>	<u>886,129</u>
<b>HOUSEKEEPING</b>		
Salaries	223,516	205,525
Supplies and expenses	<u>67,962</u>	<u>57,300</u>
	<u>291,478</u>	<u>262,825</u>
<b>LAUNDRY AND LINEN</b>		
Salaries	27,321	24,414
Supplies and expenses	<u>14,861</u>	<u>13,236</u>
	<u>42,182</u>	<u>37,650</u>
 Totals	 <u>\$2,011,942</u>	 <u>\$1,956,480</u>

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
FISCAL AND ADMINISTRATIVE SERVICE  
AND UNASSIGNED EXPENSES**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>		
<b>Administrative and general</b>		
Salaries	\$ 752,303	\$ 683,917
Management fees	404,614	398,907
Professional services	42,884	41,337
Collection	43,612	48,205
Telephone	73,262	62,835
Supplies and expenses	<u>786,898</u>	<u>1,112,499</u>
	<u>2,103,573</u>	<u>2,347,700</u>
<b>Human resources</b>		
Salaries	179,069	139,459
Supplies and expenses	<u>139,420</u>	<u>92,311</u>
	<u>318,489</u>	<u>231,770</u>
<b>Regulatory affairs</b>		
Salaries	74,727	75,623
Supplies and expenses	<u>1,767</u>	<u>1,584</u>
	<u>76,494</u>	<u>77,207</u>
<b>Community relations</b>		
Salaries	74,178	74,031
Supplies and expenses	<u>98,241</u>	<u>85,385</u>
	<u>172,419</u>	<u>159,416</u>
<b>Receiving and stores</b>		
Salaries	129,035	127,184
Supplies and expenses	<u>29,234</u>	<u>29,642</u>
	<u>158,269</u>	<u>156,826</u>
<b>Admissions</b>		
Salaries	231,011	225,671
Supplies and expenses	<u>9,333</u>	<u>7,996</u>
	<u>240,344</u>	<u>233,667</u>
Total fiscal and administrative expenses	<u>3,069,588</u>	<u>3,206,586</u>
<b>UNASSIGNED EXPENSES</b>		
Employee benefits		
Payroll taxes	2,110,879	1,984,590
Group health insurance	2,420,775	2,491,278
Other	177,729	156,654
Insurance	<u>448,830</u>	<u>410,748</u>
Total unassigned expenses	<u>5,158,213</u>	<u>5,043,270</u>
Totals	<u>\$8,227,801</u>	<u>\$8,249,856</u>

See accompanying independent auditor's report.

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>PATIENT DAYS</b>		
Adult and pediatric	2,471	2,744
Nursery	600	530
Swing bed		
Skilled nursing care	1,324	947
Intermediate care	41	32
Intermediate care	<u>29,459</u>	<u>28,045</u>
Totals	<u>33,895</u>	<u>32,298</u>
<b>ADMISSIONS</b>		
Adult and pediatric	801	874
Swing bed		
Skilled nursing care	127	108
Intermediate care	14	11
Intermediate care	<u>32</u>	<u>41</u>
Total admissions	<u>974</u>	<u>1,034</u>
<b>DISCHARGES</b>		
Adult and pediatric	794	880
Swing bed		
Skilled nursing care	128	109
Intermediate care	14	11
Intermediate care	<u>27</u>	<u>43</u>
Total discharges	<u>963</u>	<u>1,043</u>
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	3.11	3.12
Swing bed		
Skilled nursing care	10.34	8.69
Intermediate care	2.93	2.91
Intermediate care	1,091.07	652.21
<b>BEDS</b>		
Adult, pediatric and swing bed	25	25
Intermediate care	83	83
<b>OCCUPANCY PERCENT</b>		
Adult, pediatric and swing bed	48.61%	46.61%
Intermediate care	97.24%	92.75%
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<b>\$108,380</b>	<b>\$105,521</b>
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR</b>	<b>42.44</b>	<b>42.36</b>

See accompanying independent auditor's report.



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

Board of Trustees  
Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
and Orange City Area Health Foundation  
Orange City, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Orange City Municipal Hospital d/b/a Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2014.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

### **Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Hospital and Foundation'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 and Foundation. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

### **Purpose of this Report**

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

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
November 18, 2014

**Orange City Municipal Hospital  
d/b/a Orange City Area Health System  
SCHEDULE OF FINDINGS  
Year ended June 30, 2014**

**Part I—Findings Related to the Financial Statements**

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

**Part II—Findings Related to Required Statutory Reporting**

**14-II-A OFFICIAL DEPOSITORIES**

**Comment**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2014 at one financial institution.

**Recommendation**

We recommend the Hospital's depository resolution be reviewed with the maximum deposit amounts adjusted as needed.

**Response**

The depository resolution has been reviewed and updated as necessary.

**Conclusion**

Response accepted.

**14-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**14-II-C TRAVEL EXPENSES**

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

**14-II-D BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and a Hospital official were noted.

**14-II-E BOARD MINUTES**

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

**14-II-F DEPOSITS AND INVESTMENTS**

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