

Audubon County Memorial Hospital
Audubon, Iowa

**Basic Financial Statements and
Supplementary Information
June 30, 2015 and 2014**

Together with Independent Auditor's Report

Audubon County Memorial Hospital

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Audubon County Memorial Hospital

Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
Jay D. Mendenhall	Chairman	December 31, 2018
Paul Schultz, DDS	Vice Chairman	December 31, 2018
Denise Kilworth	Secretary	December 31, 2016
Marlene Ballou	Treasurer	December 31, 2018
Mark Kessler	Member	December 31, 2016
Daniel Smith	Member	December 31, 2020
Julie Olson	Member	December 31, 2016
Hospital Officials		
Tom Smith	CEO/Administrator	
Joan Fancher	Chief Operating Officer	
Karen McGuire	Chief Financial Officer	

Independent Auditor's Report

To the Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Audubon County Memorial Hospital (Hospital), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2015 and 2014, and the respective change in its financial position 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 10 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. 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 (pages 4 through 9) and budgetary comparison information (page 28) the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions (pages 29 through 31) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information in (Exhibits 1 – 8) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in (Exhibits 1 – 8) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Spim Johnson, LLP

Omaha, Nebraska,
October 12, 2015.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Audubon County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents increased between 2015 and 2014 by \$411,600 or 21% and also increased between 2014 and 2013 by \$400,400 or 25%.
- The Hospital's net position decreased \$2,932,687 or 16% in 2015, and increased \$71,904 or 0% in 2014. The large decrease in 2015 was primarily due to the implementation of GASB 68 and the restatement of the beginning balance for net pension liability \$3,413,781.
- The Hospital reported an operating loss in 2015 of \$558,855, and an operating loss in 2014 of \$797,585.
- Net nonoperating revenue increased by \$170,460 or 20% in 2015 compared to 2014 and increased by \$69,634 or 19% in 2014 compared to 2013. The increase this year is made up of the collection of \$195,679 more in tax revenue, decrease of \$18,773 in investment income due to low interest rates of investments, and decrease in grants and contributions of \$6,446.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

- Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Hospital's financial activities.
- The basic financial statements consist of a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows. These statements provide information about the activities of the Hospital, on a comparative basis, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.
- Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required supplementary information further explains and supports the financial statements with a comparison of the Hospital's budget for the year and the Hospital's proportionate share of the net pension liability and related contributions.
- Supplementary information provides detailed information about the operations of the Hospital.

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted net position and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position - the difference between assets and liabilities - is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$2,932,687 or 16% in 2015 over 2014 as shown in Table 1, as explained earlier due primarily to GASB 68.

Table 1: Condensed Statements of Net Position

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
Assets			
Patient accounts receivable, net	\$ 1,412,091	1,531,692	2,102,254
Other current assets	11,583,223	10,910,647	10,216,844
Capital assets, net	4,313,275	4,610,483	4,677,966
Other noncurrent assets	4,286,219	3,719,904	3,753,961
Total assets	21,594,808	20,772,726	20,751,025
Deferred outflows of resources			
	797,474	--	--
Total assets and deferred outflows	\$ <u>22,392,282</u>	<u>20,772,726</u>	<u>20,751,025</u>
Liabilities			
Current liabilities	\$ 1,597,726	1,108,565	1,351,063
Net pension liability	2,907,666	--	--
Total liabilities	4,505,392	1,108,565	1,351,063
Deferred Inflows of Resources			
	2,017,245	861,829	669,534
Net Position			
Net investment in capital assets	4,313,275	4,610,483	4,677,966
Restricted expendable	210,888	210,443	209,089
Restricted nonexpendable	10,000	10,000	11,980
Unrestricted	11,335,482	13,971,406	13,831,393
Total net position	15,869,645	18,802,332	18,730,428
Total liabilities, deferred inflows and net position	\$ <u>22,392,282</u>	<u>20,772,726</u>	<u>20,751,025</u>

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

In 2015, net accounts receivable decreased by \$119,601 from fiscal year 2014. Net days in accounts receivable decreased to 50 in 2015 from 59 in 2014. Provision for bad debt increased by \$191,680, and contractual adjustments increased by \$386,041. Charity care decreased by \$9,138 from 2014.

Capital assets increased by \$280,243 between year 2014 and 2015. Accumulated depreciation increased by \$577,451 for a net decrease in capital assets of \$297,208.

In 2014, net accounts receivable decreased by \$570,562 from fiscal year 2013. Provision for bad debt decreased by \$145,535, and contractual adjustments increased by \$334,232. Charity care increased by \$9,454 over 2013.

Capital assets increased by \$226,531 between year 2013 and 2014. Accumulated depreciation increased by \$294,014 for a net decrease in capital assets of \$67,483.

Unrestricted net position decreased \$2,635,924 from fiscal year 2014 to fiscal year 2015, primarily due to the pension liability recognized. Unrestricted net position increased \$140,013 from fiscal year 2013 to fiscal year 2014.

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position increased by \$481,094 as shown in Table 2. This increase is made up of several different components.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$3,413,781 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was no available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

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

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
Operating revenue			
Net patient service revenue	\$ 10,226,879	9,487,438	9,428,814
Other operating revenue	1,161,961	667,078	155,002
Total operating revenue	<u>11,388,840</u>	<u>10,154,516</u>	<u>9,583,816</u>
Operating expenses			
Salaries and wages and employee benefits	6,625,013	6,554,292	5,977,611
Depreciation	812,228	790,637	795,106
Other operating expenses	4,510,454	3,607,172	3,420,603
Total operating expenses	<u>11,947,695</u>	<u>10,952,101</u>	<u>10,193,320</u>
Operating Loss	<u>(558,855)</u>	<u>(797,585)</u>	<u>(609,504)</u>
Nonoperating revenue			
Property taxes	865,549	669,870	638,769
Interest income	66,801	85,574	88,925
Non-capital gifts	107,599	114,045	72,161
Total nonoperating revenue	<u>1,039,949</u>	<u>869,489</u>	<u>799,855</u>
Changes in net position	481,094	71,904	190,351
Net position beginning of year, as restated	<u>15,388,551</u>	<u>18,730,428</u>	<u>18,540,077</u>
Net position end of year	<u>\$ 15,869,645</u>	<u>18,802,332</u>	<u>18,730,428</u>

Operating Loss

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service revenue and other operating revenue and the expenses incurred to perform those services. In 2015, 2014, and 2013 the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2015, the following changes were noted:

- Inpatient revenue increased by \$146,312 in 2015, acute inpatient days increased by 26 days with an average length of stay of 2.9 days, swing-bed days increased by 89 days. The Hospital had an increase in patient charges in most areas for fiscal year 2015 of 5%.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

- Outpatient revenue increased by \$1,161,712, of that, \$355,712 was from the two rural health clinics. In 2015, overall, net patient service revenue increased by \$739,441 or 8% from fiscal year 2014.
- Other operating revenue increased by 494,883, mostly due to an increase in 340B revenue of \$805,020, and a decrease of EHR payment of \$329,567.
- Operating expenses increased by \$995,594. Mostly due to increase in 340B costs of \$617,870, and supply costs of \$255,055

In 2014, the following changes were noted:

- Inpatient revenue increased by \$387,963 in 2014, acute inpatient days increased by 31 days with an average length of stay of 3.2 days, swing-bed days increased by 111 days. The Hospital had an increase in patient charges in most areas for fiscal year 2014 of 5%.
- Outpatient revenue decreased by \$131,188 in 2014. The Hospital had an increase in Audubon Family Healthcare Clinic of \$194,888 with the addition of a physician in September of 2013, and a decrease of \$37,482 in Exira medical Clinic. The biggest department decrease was in Pharmacy for \$377,242 due to the decrease in chemotherapy patients. In 2014, overall, net patient service revenue increased by \$58,624 over 2013.
- Other operating revenue increased by \$512,076 due to Medicare incentive payment for electronic health record and 340B income. Operating expenses increased by \$758,781. Mostly due to salary, wages, and employee benefits. Salaries increased at anniversary date by 3%, and a physician was added.
- With the increase in revenue, and an even bigger increase in expenses, the hospital showed a net operating loss for the fiscal year.

Nonoperating Revenue and Expenses

Nonoperating revenue consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which increased by \$170,460 or 20% from 2014 to 2015 and increased by \$69,634 or 9% from 2013 to 2014. Investment income decreased in 2015 and 2014 by \$18,773 and \$3,351, from 2014 and 2013 due to decreasing interest rates from the three local banks.

Property tax receipts were higher due to higher property valuation, and higher tax asking. Per thousand tax asking for 2015 was \$2.35, and for 2014 it was \$1.85.

Gifts for capital and noncapital items received in fiscal year 2015 decreased by \$6,446. Grants and gifts for capital and non-capital items received in fiscal year 2014 increased by \$41,884.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenue in 2015, 2014 and 2013, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had \$4.3 million invested in capital assets, net of accumulated depreciation. At the end of 2014, the Hospital had \$4.6 million invested in capital assets, net of accumulated depreciation.

Debt

The Hospital had no debt at the end of fiscal years 2015 and 2014.

Audubon County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 712.563.2611.

Audubon County Memorial Hospital

Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,413,631	2,002,031
Short-term investments	7,525,663	7,484,040
Receivables -		
Patients, net of estimated uncollectible accounts of \$521,230 in 2015 and \$457,329 in 2014	1,412,091	1,531,692
Succeeding year property tax	908,345	861,829
Other	180,473	50,758
Inventories	353,913	320,449
Prepaid expenses	201,198	191,540
Total current assets	<u>12,995,314</u>	<u>12,442,339</u>
Assets limited as to use or restricted:		
Designated by board of trustees	4,065,331	3,499,461
Restricted by donors for -		
Scholarships	4	4
Physician recruitment	210,884	210,439
Endowment	10,000	10,000
Total assets limited as to use or restricted	<u>4,286,219</u>	<u>3,719,904</u>
Capital assets, net of accumulated depreciation	<u>4,313,275</u>	<u>4,610,483</u>
Total assets	21,594,808	20,772,726
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	797,474	--
Total assets and deferred outflows of resources	<u>\$ 22,392,282</u>	<u>20,772,726</u>
LIABILITIES		
Current liabilities:		
Accounts payable -		
Trade	\$ 233,488	254,249
Capital assets	--	10,379
Accrued salaries, vacation and benefits payable	643,008	641,633
Estimated third-party payor settlements - Medicare and Medicaid	721,230	202,304
Total current liabilities	1,597,726	1,108,565
Net pension liability	2,907,666	--
Total liabilities	<u>4,505,392</u>	<u>1,108,565</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	908,345	861,829
Pension related deferred inflows	1,108,900	--
Total deferred inflows of resources	<u>2,017,245</u>	<u>861,829</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	4,313,275	4,610,483
Restricted -		
Expendable for scholarships	4	4
Expendable for physician recruitment	210,884	210,439
Nonexpendable endowment	10,000	10,000
Unrestricted	11,335,482	13,971,406
Total net position	<u>15,869,645</u>	<u>18,802,332</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 22,392,282</u>	<u>20,772,726</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 10,607,480	9,676,359
Provision for bad debt	<u>(380,601)</u>	<u>(188,921)</u>
Net patient service revenue	10,226,879	9,487,438
Other operating revenue	<u>1,161,961</u>	<u>667,078</u>
Total operating revenue	<u>11,388,840</u>	<u>10,154,516</u>
OPERATING EXPENSES:		
Salaries	5,133,187	4,918,881
Employee benefits	1,491,826	1,635,411
Contract labor	536,535	509,406
Professional fees and purchased services	761,828	861,482
Supplies	2,017,717	1,145,411
Facility costs	329,222	283,949
Repair and maintenance	224,281	227,650
Equipment leases and rentals	135,000	135,000
Insurance	66,657	59,576
Depreciation	812,228	790,637
Other expense	<u>439,214</u>	<u>384,698</u>
Total operating expenses	<u>11,947,695</u>	<u>10,952,101</u>
OPERATING LOSS	<u>(558,855)</u>	<u>(797,585)</u>
NONOPERATING REVENUE:		
County tax revenue	865,549	669,870
Investment income	66,801	85,574
Noncapital grants and contributions	<u>107,599</u>	<u>114,045</u>
Nonoperating revenue	<u>1,039,949</u>	<u>869,489</u>
INCREASE IN NET POSITION	481,094	71,904
NET POSITION, beginning of year, as restated (see note 10)	<u>15,388,551</u>	<u>18,730,428</u>
NET POSITION, end of year	<u>\$ 15,869,645</u>	<u>18,802,332</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 10,865,406	9,927,329
Cash paid for employees salaries and benefits	(6,818,327)	(6,503,126)
Cash paid to suppliers and contractors	(4,574,337)	(3,808,057)
Other receipts and payments, net	<u>1,031,673</u>	<u>637,134</u>
Net cash provided by operating activities	<u>504,415</u>	<u>253,280</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	107,599	114,045
County tax receipts	<u>865,549</u>	<u>669,870</u>
Net cash provided by noncapital financing activities	<u>973,148</u>	<u>783,915</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES,		
Purchase of capital assets, net	<u>(524,826)</u>	<u>(712,252)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and assets limited as to use or restricted, net	(607,938)	(10,077)
Investment income	<u>66,801</u>	<u>85,574</u>
Net cash provided by (used in) investing activities	<u>(541,137)</u>	<u>75,497</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	411,600	400,440
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,002,031</u>	<u>1,601,591</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,413,631</u>	<u>2,002,031</u>

See notes to financial statements

Audubon County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (558,855)	(797,585)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	812,228	790,637
Gain on sale of capital assets	(573)	(523)
Decrease in net pension liability	(934,534)	--
Increase in deferred outflows of resources	(369,055)	--
Increase in deferred inflows of resources	1,108,900	--
(Increase) decrease in current assets -		
Receivables -		
Patients	119,601	570,562
Other	(129,715)	(29,421)
Inventories	(33,464)	961
Prepaid expenses	(9,658)	(28,474)
Increase (decrease) in current liabilities -		
Accounts payable - trade	(20,761)	(173,372)
Accrued salaries, vacation and benefits payable	1,375	51,166
Estimated third-party payor settlements - Medicare and Medicaid	<u>518,926</u>	<u>(130,671)</u>
Net cash provided by operating activities	<u>\$ 504,415</u>	<u>253,280</u>

See notes to financial statements

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa, governed by a seven-member Board of Trustees. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Hospital. The Foundation is organized under Chapter 504A of the Code of Iowa.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Hospital. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential healthcare services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective December 1, 2001.

The following describes the reporting entity and provides a summary of significant accounting policies of Audubon County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Audubon County Memorial Hospital has included all the funds of the Hospital, specifically all assets, deferred outflows, liabilities, deferred inflows, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

In accordance with the Governmental Accounting Standards Board criteria, Audubon County Hospital Foundation (Foundation) is included in the accompanying financial statements as a blended component unit. The Foundation is legally separate from Audubon County Memorial Hospital, but was organized primarily for its benefit.

B. *Industry Environment*

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

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

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

C. *Basis of Presentation*

The statement of net position displays the Hospital's assets, deferred inflows and outflows of resources, and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

Restricted:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require it to be maintained permanently by the Hospital.

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

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

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

D. *Measurement Focus and Basis of Accounting*

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

E. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows and outflows, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and donors.

Audubon County Memorial Hospital

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G. *Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payer obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payer class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

H. *Property Tax Receivable*

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

I. *Inventories*

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

J. *Assets Limited as to Use or Restricted*

Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes. Donor restricted funds are maintained by the Hospital according to the terms specified by the donor.

K. *Investments*

Investments in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and increases in fair value of investments.

L. *Capital Assets, Net*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital leases are depreciated over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

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

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of expenses over revenue, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

M. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

N. Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Q. Income Taxes

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

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

R. Statements of Revenue, Expenses and Changes in Net Position

For purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue.

S. 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. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. 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.

T. 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 in the statements of revenue, expenses and changes in net position.

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community benefits at or below cost.

U. Grants and Contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes.

Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

V. Management

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of \$353,465 and \$323,160 were incurred for the years ended June 30, 2015 and 2014, respectively.

W. Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

X. *Reclassification*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

Y. *Subsequent Events*

The Hospital considered events occurring through October 12, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Deposits and Investments

The Hospital's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Interest rate risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

The Hospital's investments at June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Money market mutual funds – Foundation	\$ 5,487	7,059
Mutual funds – Foundation	<u>157,300</u>	<u>157,540</u>
	<u>\$ 162,787</u>	<u>164,599</u>

The composition of investments and assets limited as to use or restricted as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments, Certificates of deposit	\$ <u>7,525,663</u>	<u>7,484,040</u>
Assets limited as to use or restricted: Internally designated –		
Cash and cash equivalents	\$ 718,577	165,652
Certificates of deposit	3,404,855	3,389,653
Money market mutual funds	5,487	7,059
Mutual funds	<u>157,300</u>	<u>157,540</u>
	<u>\$ 4,286,219</u>	<u>3,719,904</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 66,799	67,945
Net increase in fair value of investments	<u>2</u>	<u>17,629</u>
Total investment return	<u>\$ 66,801</u>	<u>85,574</u>

(3) Net Patient Service Revenue

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

Medicare. Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, outpatient and certain rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. Certain physician clinic services related to Medicare beneficiaries are paid based on fee schedule amounts. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2014.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

Medicaid. Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. This basis for payment to the Hospital under these agreements may include discounts from established charges and prospectively determined rates.

Net patient service revenue as reflected in the accompanying statements of revenue, expenses and changes in net position consists of the following:

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 1,626,653	1,480,341
Outpatient	11,377,450	10,571,450
Clinic	<u>1,455,916</u>	<u>1,100,204</u>
Total gross patient service revenue	<u>14,460,019</u>	<u>13,151,995</u>
Deductions from patient service revenue:		
Medicare	2,173,265	1,718,122
Medicaid	360,147	260,877
Other payors	1,309,090	1,477,462
Charity care	<u>10,037</u>	<u>19,175</u>
Total deductions from patient service revenue	<u>3,852,539</u>	<u>3,475,636</u>
Net patient service revenue before provision for bad debt	<u>\$ 10,607,480</u>	<u>9,676,359</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 56% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 57% for Medicare and 7% for Medicaid in 2014. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient accounts	\$ 2,492,202	2,408,154
Less estimated third-party contractual adjustments	(558,881)	(419,133)
Less allowance for doubtful accounts	<u>(521,230)</u>	<u>(457,329)</u>
	<u>\$ 1,412,091</u>	<u>1,531,692</u>

The Hospital is located in Audubon, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	42%	35%
Medicaid	10	9
Commercial	23	24
Private pay	<u>25</u>	<u>32</u>
	<u>100%</u>	<u>100%</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(5) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	37,210	69,236	(90,913)	15,533
Total capital assets, not being depreciated	<u>105,599</u>	<u>69,236</u>	<u>(90,913)</u>	<u>83,922</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	8,327,204	--	(5,552)	8,321,652
Fixed equipment	595,899	--	--	595,899
Major moveable equipment	4,826,766	446,926	(139,454)	5,134,238
Total capital assets, being depreciated	<u>14,172,898</u>	<u>446,926</u>	<u>(145,006)</u>	<u>14,474,818</u>
Less accumulated depreciation:				
Land improvements	369,257	8,483	--	377,740
Hospital buildings	5,557,235	296,204	(5,552)	5,847,887
Fixed equipment	499,891	15,924	--	515,815
Major moveable equipment	3,241,631	491,617	(229,225)	3,504,023
Total accumulated depreciation	<u>9,668,014</u>	<u>812,228</u>	<u>(234,777)</u>	<u>10,245,465</u>
Total capital assets, being depreciated, net	<u>4,504,884</u>	<u>(365,302)</u>	<u>89,771</u>	<u>4,229,353</u>
Total capital assets, net	<u>\$ 4,610,483</u>	<u>(296,066)</u>	<u>(1,142)</u>	<u>4,313,275</u>
	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	252,336	385,798	(600,924)	37,210
Total capital assets, not being depreciated	<u>320,725</u>	<u>385,798</u>	<u>(600,924)</u>	<u>105,599</u>
Capital assets, being depreciated:				
Land improvements	423,029	--	--	423,029
Hospital buildings	8,191,466	16,164	119,574	8,327,204
Fixed equipment	585,520	10,379	--	595,899
Major moveable equipment	4,531,226	310,813	(15,273)	4,826,766
Total capital assets, being depreciated	<u>13,731,241</u>	<u>337,356</u>	<u>104,301</u>	<u>14,172,898</u>
Less accumulated depreciation:				
Land improvements	360,318	8,939	--	369,257
Hospital buildings	5,241,299	315,936	--	5,557,235
Fixed equipment	482,633	17,258	--	499,891
Major moveable equipment	3,289,750	448,504	(496,623)	3,241,631
Total accumulated depreciation	<u>9,374,000</u>	<u>790,637</u>	<u>(496,623)</u>	<u>9,668,014</u>
Total capital assets, being depreciated, net	<u>4,357,241</u>	<u>(453,281)</u>	<u>600,924</u>	<u>4,504,884</u>
Total capital assets, net	<u>\$ 4,677,966</u>	<u>(67,483)</u>	<u>--</u>	<u>4,610,483</u>

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(6) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$2,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2015 and 2014, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(7) Pension and Retirement Benefits

Plan Description

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 membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the year ended June 30, 2015 and 2014 were \$454,981 and \$428,419, respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Hospital reported a liability of \$2,907,666 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .068141 percent, which was an increase of .0039633 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$260,292. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 31,601	--
Changes of assumptions	128,322	--
Net difference between projected and actual earnings on pension plan investments	--	1,108,900
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	182,570	--
Hospital contributions subsequent to the measurement date	<u>454,981</u>	<u>--</u>
Total	<u>\$ 797,474</u>	<u>1,108,900</u>

\$454,981 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (197,203)
2017	(197,203)
2018	(197,203)
2019	(197,203)
2020	<u>22,405</u>
	<u>\$ (766,407)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 5,716,177	2,907,666	537,387

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$60,140 for legally required employer contributions and \$11,450 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Audubon County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(8) Contingencies

The Hospital is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Hospital's future financial position or results from operations.

(9) Health Information Technology Incentives

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During 2013, the Hospital qualified for the financial incentive payments by attesting it met specific criteria set by the Center for Medicare and Medicaid services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. In 2015 and 2014, the Hospital elected to record \$102,127 and \$395,794, respectively, of the incentive payment as other operating revenue in the period earned, and not defer any portion that may be related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. Medicaid incentive revenue of \$-0- and \$35,900 was earned in 2015 and 2014, respectively. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(10) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Net Position
Net position June 30, 2014, as previously reported	\$ 18,802,332
Net pension liability at June 30, 2014	(3,842,200)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>428,419</u>
Net position July 1, 2014, as restated	<u>\$ 15,388,551</u>

Audubon County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2015, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 865,549	--	865,549	835,987	29,562
Add: Other revenues / receipts	11,516,523	560,529	12,077,052	10,402,074	1,674,978
Less: Expenses / disbursements	<u>11,895,405</u>	<u>22,085</u>	<u>11,917,490</u>	<u>12,006,141</u>	<u>88,651</u>
Net	486,667	538,444	1,025,111	(768,080)	<u>1,793,191</u>
Balance beginning of year	<u>15,048,979</u>	<u>(2,182,576)</u>	<u>12,866,403</u>	<u>13,979,489</u>	
Balance end of year	<u>\$ 15,535,646</u>	<u>(1,644,132)</u>	<u>13,891,514</u>	<u>13,211,409</u>	

See accompanying independent auditor's report

Audubon County Memorial Hospital

**Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
For the Year Ended June 30, 2015**

	Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)	2015
Hospital's proportion of net pension liability		0.068141%
Hospital's proportionate share of the net pension liability	\$	2,908
Hospital's covered-employee payroll	\$	4,793
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		60.67%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

Audubon County Memorial Hospital

**Schedule of Hospital Contributions
Required Supplementary Information
June 30, 2015**

Iowa Public Employee's Retirement System
Last 10 Fiscal Years
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 455	428	381	336	257	229	208	171	153	149
Contributions in relation to the statutorily required contribution	<u>(455)</u>	<u>(428)</u>	<u>(381)</u>	<u>(336)</u>	<u>(257)</u>	<u>(229)</u>	<u>(208)</u>	<u>(171)</u>	<u>(153)</u>	<u>(149)</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>								
Hospital's covered-employee payroll	\$ 5,095	4,793	4,389	4,158	3,703	3,449	3,276	2,822	2,670	2,591
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.73%	5.75%

See accompanying independent auditor's report

Audubon County Memorial Hospital

Notes to Required Supplementary Information – Pension Liability June 30, 2015

Notes to Required Supplementary Information – Pension Liability

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group. Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64. Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Combining Statement of Net Position
June 30, 2015**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,295,089	118,542	--	2,413,631
Short-term investments	7,472,993	52,670	--	7,525,663
Receivables -				
Patients, net of estimated uncollectible accounts of \$521,230 in 2015	1,412,091	--	--	1,412,091
Succeeding year property tax	908,345	--	--	908,345
Other	180,473	--	--	180,473
Inventories	353,913	--	--	353,913
Prepaid expenses	201,198	--	--	201,198
Total current assets	12,824,102	171,212	--	12,995,314
Assets limited as to use or restricted:				
Designated by board of trustees	3,902,544	162,787	--	4,065,331
Restricted by donors for -				
Scholarships	4	--	--	4
Physician recruitment	210,884	--	--	210,884
Endowment	10,000	--	--	10,000
Total assets limited as to use or restricted	4,123,432	162,787	--	4,286,219
Capital assets, net of accumulated depreciation	4,313,275	--	--	4,313,275
Total assets	21,260,809	333,999	--	21,594,808
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	797,474	--	--	797,474
Total assets and deferred outflows of resources	\$ 22,058,283	333,999	--	22,392,282
LIABILITIES				
Current liabilities:				
Accounts payable - trade	\$ 233,488	--	--	233,488
Accrued salaries, vacation and benefits payable	643,008	--	--	643,008
Estimated third-party payor settlements - Medicare and Medicaid	721,230	--	--	721,230
Total current liabilities	1,597,726	--	--	1,597,726
Net pension liability	2,907,666	--	--	2,907,666
Total liabilities	4,505,392	--	--	4,505,392
DEFERRED INFLOWS OF RESOURCES				
Unavailable property tax revenue	908,345	--	--	908,345
Pension related deferred inflows	1,108,900	--	--	1,108,900
Total deferred inflows of resources	2,017,245	--	--	2,017,245
NET POSITION				
Net investment in capital assets	4,313,275	--	--	4,313,275
Restricted -				
Expendable for scholarships	4	--	--	4
Expendable for physician recruitment	210,884	--	--	210,884
Nonexpendable endowment	10,000	--	--	10,000
Unrestricted	11,001,483	333,999	--	11,335,482
Total net position	15,535,646	333,999	--	15,869,645
Total liabilities, deferred inflows of resources and net position	\$ 22,058,283	333,999	--	22,392,282

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 10,607,480	--	--	10,607,480
Provision for bad debt	(380,601)	--	--	(380,601)
Net patient service revenue	10,226,879	--	--	10,226,879
Other operating revenue	1,161,961	--	--	1,161,961
Total operating revenue	<u>11,388,840</u>	<u>--</u>	<u>--</u>	<u>11,388,840</u>
OPERATING EXPENSES:				
Salaries	5,103,077	30,110	--	5,133,187
Employee benefits	1,489,523	2,303	--	1,491,826
Contract labor	536,535	--	--	536,535
Professional fees and purchased services	761,828	--	--	761,828
Supplies	2,017,717	--	--	2,017,717
Facility costs	329,222	--	--	329,222
Repair and maintenance	224,281	--	--	224,281
Equipment leases and rentals	135,000	--	--	135,000
Insurance	66,657	--	--	66,657
Depreciation	812,228	--	--	812,228
Other expense	419,337	72,377	(52,500)	439,214
Total operating expenses	<u>11,895,405</u>	<u>104,790</u>	<u>(52,500)</u>	<u>11,947,695</u>
OPERATING LOSS	<u>(506,565)</u>	<u>(104,790)</u>	<u>52,500</u>	<u>(558,855)</u>
NONOPERATING REVENUE:				
County tax revenue	865,549	--	--	865,549
Investment income	62,779	4,022	--	66,801
Noncapital grants and contributions	12,404	95,195	--	107,599
Nonoperating revenue	<u>940,732</u>	<u>99,217</u>	<u>--</u>	<u>1,039,949</u>
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	434,167	(5,573)	52,500	481,094
GRANTS AND CONTRIBUTIONS	<u>52,500</u>	<u>--</u>	<u>(52,500)</u>	<u>--</u>
INCREASE (DECREASE) IN NET POSITION	486,667	(5,573)	--	481,094
NET POSITION, beginning of year, as restated (see note 10)	<u>15,048,979</u>	<u>339,572</u>	<u>--</u>	<u>15,388,551</u>
NET POSITION, end of year	<u>\$ 15,535,646</u>	<u>333,999</u>	<u>--</u>	<u>15,869,645</u>

See accompanying independent auditor's report

Patient Service Revenue
For the Years Ended June 30, 2015 and 2014

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical, surgical and obstetrics	\$ 300,519	143,067	443,586	264,601	172,688	437,289
Skilled nursing	377,820	--	377,820	303,086	--	303,086
	<u>678,339</u>	<u>143,067</u>	<u>821,406</u>	<u>567,687</u>	<u>172,688</u>	<u>740,375</u>
NURSING SERVICES:						
Operating room	21,656	1,209,572	1,231,228	40,684	1,201,753	1,242,437
Emergency	8,910	1,125,556	1,134,466	6,964	894,827	901,791
Recovery room	2,869	203,261	206,130	2,170	128,837	131,007
	<u>33,435</u>	<u>2,538,389</u>	<u>2,571,824</u>	<u>49,818</u>	<u>2,225,417</u>	<u>2,275,235</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	187,233	2,465,666	2,652,899	158,106	2,260,524	2,418,630
Radiology	80,850	2,134,301	2,215,151	129,785	2,509,539	2,639,324
Pharmacy	240,734	1,535,083	1,775,817	243,624	1,071,510	1,315,134
Audubon Family Health Care Clinic	--	895,713	895,713	--	642,901	642,901
Physical therapy	109,289	524,567	633,856	87,210	504,638	591,848
Electrocardiology	39,507	556,380	595,887	23,772	490,995	514,767
Exira Medical Clinic	--	560,202	560,202	--	457,303	457,303
Medical and surgical supplies	88,506	414,234	502,740	86,899	397,671	484,570
Anesthesiology	10,348	436,828	447,176	18,049	425,611	443,660
Clinic	1,905	280,600	282,505	1,546	228,672	230,218
Sleep study	--	101,231	101,231	--	61,004	61,004
Occupational therapy	84,015	15,377	99,392	51,052	20,696	71,748
Cardiology	--	84,266	84,266	--	65,680	65,680
Respiratory therapy	29,890	39,068	68,958	23,303	32,465	55,768
Blood service	15,980	36,524	52,504	13,080	35,232	48,312
Intravenous therapy	14,376	29,355	43,731	18,368	24,901	43,269
Cardiac rehabilitation	--	32,997	32,997	--	28,566	28,566
Speech therapy	12,246	9,421	21,667	7,533	8,219	15,752
Dietary	--	97	97	--	447	447
Psychiatry	--	--	--	509	6,975	7,484
	<u>914,879</u>	<u>10,151,910</u>	<u>11,066,789</u>	<u>862,836</u>	<u>9,273,549</u>	<u>10,136,385</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,626,653</u>	<u>12,833,366</u>	14,460,019	<u>1,480,341</u>	<u>11,671,654</u>	13,151,995
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(3,842,502)			(3,456,461)
Charity care services and other discounts, based on charges forgone			(10,037)			(19,175)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			10,607,480			9,676,359
PROVISION FOR BAD DEBT			(380,601)			(188,921)
NET PATIENT SERVICE REVENUE			<u>10,226,879</u>			<u>9,487,438</u>

See accompanying independent auditor's report

**Other Operating Revenue
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	(not restated) <u>2014</u>
Other Operating Revenue		
340B income	\$ 952,582	147,562
Medicare EHR incentive	102,127	395,794
Space rental	38,070	35,287
Grants	24,963	7,807
Cafeteria meals	22,121	21,038
Other	21,525	23,167
Gain on sale of capital assets	573	523
Medicaid EHR incentive	<u>--</u>	<u>35,900</u>
	<u>\$ 1,161,961</u>	<u>667,078</u>

See accompanying independent auditor's report

Departmental Expenses
For the Years Ended June 30, 2015 and 2014

	2015			2014 (not restated)		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 810,890	47,788	858,678	808,606	42,087	850,693
Emergency service	574,215	142,935	717,150	551,047	98,181	649,228
Operating room	102,043	77,050	179,093	99,921	84,922	184,843
Nursing administration	91,604	5,350	96,954	86,062	9,970	96,032
	<u>1,578,752</u>	<u>273,123</u>	<u>1,851,875</u>	<u>1,545,636</u>	<u>235,160</u>	<u>1,780,796</u>
OTHER PROFESSIONAL SERVICES:						
Pharmacy	127,194	1,275,982	1,403,176	125,917	449,455	575,372
Audubon Family Health Care Clinic	719,575	63,818	783,393	657,823	70,236	728,059
Radiology	187,873	539,602	727,475	184,182	699,304	883,486
Laboratory	240,163	283,598	523,761	240,259	262,949	503,208
Exira Medical Clinic	377,086	61,843	438,929	357,472	38,011	395,483
Specialty clinics	315,231	29,637	344,868	282,171	42,044	324,215
Central supply	24,301	260,389	284,690	29,186	268,114	297,300
Medical records	156,862	71,117	227,979	153,283	58,988	212,271
Anesthesiology	--	217,161	217,161	--	223,024	223,024
Physical therapy	186,654	13,979	200,633	180,734	14,005	194,739
Cardiology	--	64,452	64,452	--	44,507	44,507
Respiratory therapy	38,565	2,966	41,531	36,857	2,655	39,512
Sleep study	--	29,850	29,850	--	19,200	19,200
Occupational therapy	--	22,636	22,636	--	19,242	19,242
Speech therapy	--	16,293	16,293	--	9,366	9,366
Cardiac rehabilitation	12,235	1,608	13,843	11,727	623	12,350
Electrocardiology	4,859	8,544	13,403	3,614	7,582	11,196
Intravenous therapy	--	4,401	4,401	--	6,490	6,490
Psychiatry	--	--	--	705	--	705
	<u>2,390,598</u>	<u>2,967,876</u>	<u>5,358,474</u>	<u>2,263,930</u>	<u>2,235,795</u>	<u>4,499,725</u>
GENERAL SERVICES:						
Plant operation and maintenance	145,197	226,928	372,125	142,518	231,475	373,993
Dietary	134,330	87,870	222,200	131,057	80,127	211,184
Housekeeping	136,849	14,139	150,988	129,942	16,936	146,878
Laundry	24,256	11,060	35,316	24,187	12,855	37,042
	<u>440,632</u>	<u>339,997</u>	<u>780,629</u>	<u>427,704</u>	<u>341,393</u>	<u>769,097</u>
ADMINISTRATIVE SERVICES	<u>723,205</u>	<u>862,801</u>	<u>1,586,006</u>	<u>681,611</u>	<u>735,248</u>	<u>1,416,859</u>
NONDEPARTMENTAL:						
Employee benefits	--	1,491,826	1,491,826	--	1,635,411	1,635,411
Depreciation	--	812,228	812,228	--	790,637	790,637
Insurance	--	66,657	66,657	--	59,576	59,576
	<u>--</u>	<u>2,370,711</u>	<u>2,370,711</u>	<u>--</u>	<u>2,485,624</u>	<u>2,485,624</u>
\$	<u>5,133,187</u>	<u>6,814,508</u>	<u>11,947,695</u>	<u>4,918,881</u>	<u>6,033,220</u>	<u>10,952,101</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,206,841	49 %	1,132,688	47 %
31 - 60	528,371	21	326,256	14
61 - 90	140,814	6	155,651	6
91 - 120	32,231	1	57,043	2
121 and over	583,945	23	736,516	31
	<u>2,492,202</u>	<u>100 %</u>	<u>2,408,154</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(521,230)		(457,329)	
Allowance for contractual adjustments	<u>(558,881)</u>		<u>(419,133)</u>	
	<u>\$ 1,412,091</u>		<u>1,531,692</u>	

	2015	2014
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 457,329	355,230
Provision of uncollectible accounts	380,601	188,921
Recoveries of accounts previously written off	115,544	121,825
Accounts written off	<u>(432,244)</u>	<u>(208,647)</u>
Balance, end of year	<u>\$ 521,230</u>	<u>457,329</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVENTORIES:		
General stores	\$ 170,013	159,067
Pharmacy	154,568	145,189
Laboratory	<u>29,332</u>	<u>16,193</u>
	<u>\$ 353,913</u>	<u>320,449</u>
PREPAID EXPENSES:		
Insurance	\$ 60,178	45,732
Service contracts	126,103	131,056
Other	<u>14,917</u>	<u>14,752</u>
	<u>\$ 201,198</u>	<u>191,540</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Patient Days		
Acute	338	312
Swing-bed	557	468
	<u>895</u>	<u>780</u>
Admissions (Acute)	117	98
Discharges (Acute)	117	98
Average Length of Stay in Days (Acute)	2.9	3.2
Beds	25	25
Occupancy percentage (Acute)	3.69%	3.41%
Emergency room visits	1,557	1,299
Specialty clinic visits	4,221	4,044
Extra Medical Clinic encounters	4,439	4,105
Audubon Family Health Care clinic encounters	5,963	5,285
Number of employees - full-time equivalents	91	89

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa:

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Audubon County Memorial Hospital (Hospital), a component unit of Audubon County, Nebraska, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 12, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as II-A-15, that we consider to be a significant deficiency in internal control.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hospital's Response to Findings

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purposes of this Report

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

Spim Johnson, LLP

Omaha, Nebraska,
October 12, 2015.

Audubon County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-15

Significant Deficiencies in Internal Control over Financial Reporting:

Segregation of Duties: One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

Recommendation: Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Hospital continue to monitor and improve its segregation of duties.

Response: Management is aware of this deficiency in internal control and has continued to segregate different accounting functions considering the number of accounting personnel. Management believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.

Conclusion: Response accepted.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2015.

III-B-15

Certified Budget: Hospital disbursements during the year ended June 30, 2015 did not exceed amounts budgeted

III-C-15

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-15

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

Audubon County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

III-E-15

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-15

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

III-G-15

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

III-H-15

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Audubon County Memorial Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2015

<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-14	Segregation of duties in the accounting and data processing areas.	Not corrected.	Management is aware of this deficiency in internal control and has continued to segregate different accounting functions considering the number of accounting personnel. Management believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-15.

Audubon County Memorial Hospital

Audit Staff For the Year Ended June 30, 2015

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Brad D. Pieper, Staff Auditor

McKayla I. Anderson, Staff Auditor