

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics
Audubon, Iowa

Basic Financial Statements and Supplementary Information
June 30, 2017 and 2016

Together with Independent Auditor's Report

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

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Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Officials
June 30, 2017

Name	Title	Term Expires
Board of Trustees		
Paul Schultz, DDS	Chairman	December 31, 2018
Julie Olson	Vice Chairman	December 31, 2020
Denise Kilworth	Secretary	December 31, 2022
Marlene Ballou	Treasurer	December 31, 2018
Mark Kessler	Member	December 31, 2022
Brett Irlmeier	Member	December 31, 2020
Vicky Robinson	Member	December 31, 2018
Hospital Officials		
Suzanne Cooner	CEO/Administrator	Indefinite
Joan Fancher	Chief Operating Officer	Indefinite
Melinda Alt	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics
Audubon, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Audubon County Memorial Hospital d/b/a Audubon County Memorial Hospital and Clinics (Hospital), as of and for the years ended June 30, 2017 and 2016, 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 audit 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 opinion.

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, 2017 and 2016, 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.

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 27) the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions (pages 28 through 30) 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 supplementary information (Exhibits 1 – 8) is presented for the purposes of additional analysis and is 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 19, 2017 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 19, 2017.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Management's Discussion and Analysis
June 30, 2017 and 2016**

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, 2017 and 2016. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total cash and cash equivalents increased between 2017 and 2016 by \$923,899 or 60% and decreased between 2016 and 2015 by \$874,616 or 36%.
- The Hospital's net position increased \$535,100 or 3% in 2017 and increased \$866,924 or 5% in 2016.
- The Hospital reported an operating loss in 2017 of \$565,169 and an operating loss in 2016 of \$215,940.
- Net nonoperating revenue increased by \$17,405 or 2% in 2017 compared to 2016 and increased \$42,915 or 4% in 2016 compared to 2015. The increase is made up of the collection of \$7,539 more in tax revenue, increase of \$39,638 in investment income and decrease in grants and contributions of \$29,772.

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 Revenues, 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, the Hospital's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.
- 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 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
d/b/a Audubon County Memorial Hospital and Clinics

Management's Discussion and Analysis
June 30, 2017 and 2016

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the statement of net position. The Hospital's net position increased by \$535,100 or 3% in 2017 over 2016 and increased by \$866,924 or 5% in 2016 over 2015 as shown in Table 1.

Table 1: Condensed Statements of Net Position

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets			
Patient accounts receivable, net	\$ 1,381,092	1,247,670	1,412,091
Other current assets	12,876,001	11,771,027	11,583,223
Capital assets, net	3,507,666	4,013,701	4,313,275
Other noncurrent assets	5,102,525	4,550,796	4,286,219
Total assets	<u>22,867,284</u>	<u>21,583,194</u>	<u>21,594,808</u>
Deferred Outflows of Resources			
Total assets and deferred outflows of resources	<u>\$ 24,755,310</u>	<u>22,973,166</u>	<u>22,392,282</u>
Liabilities			
Current liabilities	\$ 1,381,242	957,705	1,597,726
Net pension liability	4,508,056	3,663,496	2,907,666
Total liabilities	<u>5,889,298</u>	<u>4,621,201</u>	<u>4,505,392</u>
Deferred Inflows of Resources			
Total liabilities, deferred inflows of resources and net position	<u>1,594,343</u>	<u>1,767,396</u>	<u>2,017,245</u>
Net Position			
Net investment in capital assets	3,507,666	4,013,701	4,313,275
Restricted expendable	157,388	156,099	210,888
Restricted nonexpendable	10,000	10,000	10,000
Unrestricted	13,596,615	12,556,769	11,335,482
Total net position	<u>17,271,669</u>	<u>16,736,569</u>	<u>15,869,645</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,755,310</u>	<u>23,125,166</u>	<u>22,392,282</u>

In 2017, net accounts receivable increased by \$133,422 from fiscal year 2016. Net days in accounts receivable decreased to 41 in 2017 from 45 in 2016. Provision for bad debt decreased by \$79,511, and contractual adjustments increased by \$70,139. Charity care decreased by \$26,439 from 2016.

Capital assets decreased by \$109,644 between year 2016 and 2017. Accumulated depreciation increased by \$396,391 for a net decrease in capital assets of \$506,035.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Management's Discussion and Analysis
June 30, 2017 and 2016**

In 2016, net accounts receivable decreased by \$164,421 from fiscal year 2015. Net days in accounts receivable decreased to 45 in 2016 from 50 in 2015. Provision for bad debt decreased by \$339,933, and contractual adjustments decreased by \$2,644. Charity care increased by \$38,759 from 2015.

Capital assets increased by \$328,268 between year 2015 and 2016. Accumulated depreciation increased by \$627,842 for a net decrease in capital assets of \$299,574.

Unrestricted net position increased \$1,039,846 from fiscal year 2016 to fiscal year 2017. Unrestricted net position increased \$1,221,287 from fiscal year 2015 to fiscal year 2016.

Operating Results and Changes in the Hospital's Net Position

In 2017, the Hospital's net position increased by \$535,100 as shown in Table 2. This increase is made up of several different components.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenue			
Net patient service revenue	\$ 11,333,634	10,858,644	10,226,879
Other operating revenue	<u>1,221,890</u>	<u>1,394,171</u>	<u>1,161,961</u>
Total operating revenue	<u>12,555,524</u>	<u>12,252,815</u>	<u>11,388,840</u>
Operating Expenses			
Salaries and wages and employee benefits	7,377,460	6,805,790	6,625,013
Depreciation	767,481	799,940	812,228
Other operating expenses	<u>4,975,752</u>	<u>4,863,025</u>	<u>4,510,454</u>
Total operating expenses	<u>13,120,693</u>	<u>12,468,755</u>	<u>11,947,695</u>
Operating Loss	<u>(565,169)</u>	<u>(215,940)</u>	<u>(558,855)</u>
Nonoperating Revenue			
Property taxes	924,130	916,591	865,549
Interest income	113,109	73,471	66,801
Non-capital gifts	<u>63,030</u>	<u>92,802</u>	<u>107,599</u>
Total nonoperating revenue	<u>1,100,269</u>	<u>1,082,864</u>	<u>1,039,949</u>
Changes in Net Position	535,100	866,924	481,094
Net position, beginning of year	<u>16,736,569</u>	<u>15,869,645</u>	<u>15,388,551</u>
Net position, end of year	<u>\$ 17,271,669</u>	<u>16,736,569</u>	<u>15,869,645</u>

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Management's Discussion and Analysis
June 30, 2017 and 2016**

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 2017, 2016, and 2015 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 2017, the following changes were noted:

- Inpatient revenue increased by \$448,494 in 2017, acute inpatient days increased by 124 days with an average length of stay of 3.5 days, swing-bed days increased by 87 days. The Hospital had an increase in patient charges in most areas for fiscal year 2017 of 3%.
- Outpatient revenue decreased by \$9,315 in fiscal year 2017. In 2017, overall, net patient service revenue increased by \$474,990 or 4% from fiscal year 2016.
- Other operating revenue decreased by \$172,281.
- Operating expenses increased by \$651,938, mostly due to increase in employee benefit costs of \$328,457.

In 2016, the following changes were noted:

- Inpatient revenue decreased by \$268,665 in 2016, acute inpatient days decreased by 26 days with an average length of stay of 3.0 days, swing-bed days decreased by 174 days. The Hospital had an increase in patient charges in most areas for fiscal year 2016 of 4%.
- Outpatient revenue increased by \$596,612. The Hospital had an increase in the outpatient operating and recovery room of 880,044. In 2016, overall, net patient service revenue increased by \$631,765 or 6% from fiscal year 2015.
- Other operating revenue increased by \$232,210, mostly due to an increase of EHR payment of \$113,192.
- Operating expenses increased by \$521,060, mostly due to increase in 340B drug pricing program costs of \$204,347.

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 \$17,405 or 2% from 2016 to 2017 and increased by \$42,915 or 4% from 2015 to 2016. Investment income increased by \$39,638 in fiscal year 2017 and increased in fiscal year 2016 by \$6,670.

Property tax receipts were higher due to higher property valuation, and higher tax asking. Per thousand tax asking for 2017 was \$2.45 and 2016 was \$2.40.

Gifts for capital and noncapital items received decreased in fiscal year 2017 by \$29,772 and decreased in fiscal year 2016 by \$14,797.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenue in 2017, 2016 and 2015, discussed earlier.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Management's Discussion and Analysis
June 30, 2017 and 2016**

Capital Asset and Debt Administration

Capital Assets

At the end of 2017, the Hospital had \$3.5 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. At the end of 2016, the Hospital had \$4.0 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

The Hospital had no debt at the end of fiscal years 2017 and 2016.

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
d/b/a Audubon County Memorial Hospital and Clinics**

**Statements of Net Position
June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,462,914	1,539,015
Short-term investments	8,742,066	8,573,856
Receivables -		
Patients, net of estimated allowance for doubtful accounts of \$575,000 in 2017 and \$495,000 in 2016	1,381,092	1,247,670
Succeeding year property tax	982,680	914,366
Other	269,954	189,152
Inventories	275,417	355,765
Prepaid expenses	142,970	198,873
Estimated third-party payor settlements - Medicare and Medicaid	--	152,000
Total current assets	<u>14,257,093</u>	<u>13,170,697</u>
Assets limited as to use or restricted:		
Designated by board of trustees	4,935,137	4,384,697
Restricted by donors for -		
Scholarships	8	5
Physician recruitment	157,380	156,094
Endowment	10,000	10,000
Total assets limited as to use or restricted	<u>5,102,525</u>	<u>4,550,796</u>
Capital assets, net of accumulated depreciation	<u>3,507,666</u>	<u>4,013,701</u>
Total assets	<u>22,867,284</u>	<u>21,735,194</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>1,888,026</u>	<u>1,389,972</u>
Total assets and deferred outflows of resources	<u>\$ 24,755,310</u>	<u>23,125,166</u>
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 323,799	256,172
Accrued salaries, vacation and benefits payable	598,638	701,533
Estimated third-party payor settlements - Medicare and Medicaid	458,805	--
Total current liabilities	<u>1,381,242</u>	<u>957,705</u>
Net pension liability	<u>4,508,056</u>	<u>3,663,496</u>
Total liabilities	<u>5,889,298</u>	<u>4,621,201</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	982,680	914,366
Pension related deferred inflows	<u>611,663</u>	<u>853,030</u>
Total deferred inflows of resources	<u>1,594,343</u>	<u>1,767,396</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	3,507,666	4,013,701
Restricted -		
Expendable for scholarships	8	5
Expendable for physician recruitment	157,380	156,094
Nonexpendable endowment	10,000	10,000
Unrestricted	<u>13,596,615</u>	<u>12,556,769</u>
Total net position	<u>17,271,669</u>	<u>16,736,569</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,755,310</u>	<u>23,125,166</u>

See notes to financial statements

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 11,294,791	10,899,312
Provision for bad debt	38,843	(40,668)
Net patient service revenue	11,333,634	10,858,644
Other operating revenue	1,221,890	1,394,171
Total operating revenue	<u>12,555,524</u>	<u>12,252,815</u>
OPERATING EXPENSES:		
Salaries and wages	5,421,563	5,178,350
Employee benefits	1,955,897	1,627,440
Contract labor	451,737	528,063
Professional fees and purchased services	755,104	834,627
Supplies	2,442,239	2,274,067
Facility costs	330,075	317,966
Repair and maintenance	259,926	240,520
Equipment leases and rentals	122,640	125,146
Insurance	59,854	55,942
Depreciation	767,481	799,940
Other expense	554,177	486,694
Total operating expenses	<u>13,120,693</u>	<u>12,468,755</u>
OPERATING LOSS	<u>(565,169)</u>	<u>(215,940)</u>
NONOPERATING REVENUE:		
County tax revenue	924,130	916,591
Investment income	113,109	73,471
Noncapital grants and contributions	63,030	92,802
Nonoperating revenue	<u>1,100,269</u>	<u>1,082,864</u>
INCREASE IN NET POSITION	535,100	866,924
NET POSITION, beginning of year	<u>16,736,569</u>	<u>15,869,645</u>
NET POSITION, end of year	<u>\$ 17,271,669</u>	<u>16,736,569</u>

See notes to financial statements

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 11,811,017	10,149,835
Cash paid for employees salaries and benefits	(7,375,216)	(6,839,803)
Cash paid to suppliers and contractors	(4,771,874)	(4,839,868)
Other receipts and payments, net	<u>1,140,872</u>	<u>1,385,435</u>
Net cash provided by (used in) operating activities	<u>804,799</u>	<u>(144,401)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	63,030	92,802
County tax receipts	<u>924,130</u>	<u>916,591</u>
Net cash provided by noncapital financing activities	<u>987,160</u>	<u>1,009,393</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES,		
Purchase of capital assets, net	<u>(261,230)</u>	<u>(500,309)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments and assets limited as to use or restricted, net	(719,939)	(1,312,770)
Investment income	<u>113,109</u>	<u>73,471</u>
Net cash used in investing activities	<u>(606,830)</u>	<u>(1,239,299)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	923,899	(874,616)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,539,015</u>	<u>2,413,631</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,462,914</u>	<u>1,539,015</u>

See notes to financial statements

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Statements of Cash Flows (Continued)
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (565,169)	(215,940)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	767,481	799,940
Gain on sale of capital assets	(216)	(57)
Increase in net pension liability	844,560	755,830
Increase in deferred outflows of resources	(498,054)	(592,498)
Decrease in deferred inflows of resources	(241,367)	(255,870)
(Increase) decrease in current assets -		
Receivables -		
Patients	(133,422)	164,421
Other	(80,802)	(8,679)
Inventories	80,348	(1,852)
Prepaid expenses	55,903	2,325
Estimated third-party payor settlements - Medicare and Medicaid	152,000	(152,000)
Increase (decrease) in current liabilities -		
Accounts payable	67,627	22,684
Accrued salaries, vacation and benefits payable	(102,895)	58,525
Estimated third-party payor settlements - Medicare and Medicaid	458,805	(721,230)
Net cash provided by (used in) operating activities	\$ <u>804,799</u>	<u>(144,401)</u>

See notes to financial statements

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Notes to Financial Statements
June 30, 2017 and 2016**

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

Audubon County Memorial Hospital d/b/a Audubon County Memorial Hospital and Clinics (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 d/b/a Audubon County Memorial Hospital and Clinics 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 d/b/a Audubon County Memorial Hospital and Clinics, 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
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C. Basis of Presentation

The statements 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:

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.

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

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 Hospital's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when 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 outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of 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.

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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. In 2017, the Hospital offered former patients an amnesty program option which provided a discount to their outstanding patient receivable balances. Due to subsequent collections related to the amnesty program, recoveries exceeded provision for bad debts resulting in a negative provision for bad debts in 2017.

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 dividends.

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.

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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:

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.

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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.

The Foundation is exempt from income taxes under Section 501(c)3 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 \$324,713 and \$354,573 were incurred for the years ended June 30, 2017 and 2016, respectively.

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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.

X. Subsequent Events

The Hospital considered events occurring through October 19, 2017 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) Cash and Investments, Including Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2017 and 2016 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.

The Hospital uses the fair value hierarchy established by generally accepted accounting principles based on the value inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The Hospital has no investments meeting the disclosure requirements of Governmental Accounting Standard Board Statement No. 72.

The Hospital manages the following risks in accordance with their formal investment policy:

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means for managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

The Foundation's investments at June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Mutual funds – Foundation	\$ <u>169,204</u>	<u>161,350</u>

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The composition of cash and investments, including assets limited as to use or restricted as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ <u>2,462,914</u>	<u>1,539,015</u>
Short-term investments, Certificates of deposit	\$ <u>8,742,066</u>	<u>8,573,856</u>
Assets limited as to use or restricted:		
Cash and cash equivalents	\$ 1,537,714	1,018,155
Certificates of deposit	3,395,607	3,371,291
Mutual funds	<u>169,204</u>	<u>161,350</u>
	\$ <u>5,102,525</u>	<u>4,550,796</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2017 and 2016 is summarized as follows:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 99,085	76,367
Net increase (decrease) in fair value of investments	<u>14,024</u>	<u>(2,896)</u>
Total investment return	\$ <u>113,109</u>	<u>73,471</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, 2015.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. 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. These rates vary accordingly to a patient classification system. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital. On April 1, 2016, most existing Iowa Medicaid members were enrolled in IA Health Link. IA Health Link brings together physical, behavioral and long-term care under one program across Iowa which is covered by managed care organizations. Rates are prospectively set by contract with the managed care organizations.

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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:

	<u>2017</u>	<u>2016</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 1,806,482	1,357,988
Outpatient	11,685,175	11,878,510
Clinic	<u>1,735,488</u>	<u>1,551,468</u>
Total gross patient service revenue	<u>15,227,145</u>	<u>14,787,966</u>
Deductions from patient service revenue:		
Medicare	2,098,354	1,843,123
Medicaid	516,858	588,482
Other payors	1,294,785	1,408,253
Charity care	<u>22,357</u>	<u>48,796</u>
Total deductions from patient service revenue	<u>3,932,354</u>	<u>3,888,654</u>
Net patient service revenue before provision for bad debt	<u>\$ 11,294,791</u>	<u>10,899,312</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 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2017 compared to 52% for Medicare and 12% for Medicaid in 2016. 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. Net patient service increased approximately \$187,000 and \$198,000 in 2017 and 2016, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlement and years that are no longer subject to audits, reviews, and investigation.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>	<u>2016</u>
Patient accounts	\$ 2,394,032	2,320,310
Less estimated third-party contractual adjustments	(437,940)	(577,640)
Less allowance for doubtful accounts	<u>(575,000)</u>	<u>(495,000)</u>
	<u>\$ 1,381,092</u>	<u>1,247,670</u>

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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>2017</u>	<u>2016</u>
Medicare	35%	31%
Medicaid	7	17
Commercial	28	25
Private pay	<u>30</u>	<u>27</u>
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

Capital assets activity for the years ended June 30, 2017 and 2016 were as follows:

	<u>June 30,</u> <u>2016</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2017</u>
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	--	108,381	--	108,381
Total capital assets, not being depreciated	<u>68,389</u>	<u>108,381</u>	<u>--</u>	<u>176,770</u>
Capital assets, being depreciated:				
Land improvements	458,325	--	--	458,325
Hospital buildings	8,397,629	11,741	(70,562)	8,338,808
Fixed equipment	595,899	6,025	(65,131)	536,793
Major moveable equipment	5,366,766	135,299	(235,397)	5,266,668
Total capital assets, being depreciated	<u>14,818,619</u>	<u>153,065</u>	<u>(371,090)</u>	<u>14,600,594</u>
Less accumulated depreciation:				
Land improvements	386,733	9,643	--	396,376
Hospital buildings	6,075,153	252,423	(70,561)	6,257,015
Fixed equipment	530,661	13,393	(65,131)	478,923
Major moveable equipment	3,880,760	492,022	(235,398)	4,137,384
Total accumulated depreciation	<u>10,873,307</u>	<u>767,481</u>	<u>(371,090)</u>	<u>11,269,698</u>
Total capital assets, being depreciated, net	<u>3,945,312</u>	<u>(614,416)</u>	<u>--</u>	<u>3,330,896</u>
Total capital assets, net	<u>\$ 4,013,701</u>	<u>(506,035)</u>	<u>--</u>	<u>3,507,666</u>

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**Notes to Financial Statements
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	<u>June 30, 2015</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 68,389	--	--	68,389
Construction in progress	15,533	242,689	(258,222)	--
Total capital assets, not being depreciated	<u>83,922</u>	<u>242,689</u>	<u>(258,222)</u>	<u>68,389</u>
Capital assets, being depreciated:				
Land improvements	423,029	1,484	33,812	458,325
Hospital buildings	8,321,652	39,553	36,424	8,397,629
Fixed equipment	595,899	--	--	595,899
Major moveable equipment	5,134,238	216,640	15,888	5,366,766
Total capital assets, being depreciated	<u>14,474,818</u>	<u>257,677</u>	<u>86,124</u>	<u>14,818,619</u>
Less accumulated depreciation:				
Land improvements	377,740	8,993	--	386,733
Hospital buildings	5,847,887	264,878	(37,612)	6,075,153
Fixed equipment	515,815	14,846	--	530,661
Major moveable equipment	3,504,023	511,223	(134,486)	3,880,760
Total accumulated depreciation	<u>10,245,465</u>	<u>799,940</u>	<u>(172,098)</u>	<u>10,873,307</u>
Total capital assets, being depreciated, net	<u>4,229,353</u>	<u>(542,263)</u>	<u>258,222</u>	<u>3,945,312</u>
Total capital assets, net	<u>\$ 4,313,275</u>	<u>(299,574)</u>	<u>--</u>	<u>4,013,701</u>

(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, 2017 and 2016, 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 Plan

Plan Description

Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, PO Box 9117, Des Moines, Iowa 50306-9177 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.

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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, except 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.

Protection occupation members may retire at normal retirement age, which is generally at age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-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% 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% for each month that the member receives benefits before age 65.

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

Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires 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.

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In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the Hospital contributed 9.84% of covered payroll, for a total rate of 16.40%.

The Hospital's contributions to IPERS for the year ended June 30, 2017 and 2016 were \$482,286 and \$463,196, respectively.

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

At June 30, 2017, the Hospital reported a liability of \$4,508,056 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2016, 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, 2016, the Hospital's proportion was .071632%, which was an decrease of .002521% from its proportion measured as of June 30, 2015.

For the years ended June 30, 2017 and 2016, the Hospital recognized pension expense of \$587,425 and \$370,658, respectively. At June 30, 2017, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 39,842	53,802
Changes of assumptions	68,779	
Net difference between projected and actual earnings on pension plan investments	1,200,116	557,861
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	97,003	--
Hospital contributions subsequent to the measurement date	482,286	--
Total	<u>\$ 1,888,026</u>	<u>611,663</u>

The Hospital reported \$482,286 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 ending June 30, 2018. 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>		
2018	\$	134,147
2019		134,147
2020		355,298
2021		179,096
2022		<u>(8,611)</u>
	\$	<u>794,077</u>

There were no non-employer contributing entities at IPERS.

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Notes to Financial Statements
June 30, 2017 and 2016

Actuarial Assumptions

The total pension liability in the June 30, 2016 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% per annum
Rate of salary increases (effective June 30, 2010)	4.00% to 17.00% average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2016 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.

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>
Core Plus Fixed Income	28%	1.90%
Domestic Equity	24	5.85
International Equity	16	6.32
Private Equity/Debt	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
U.S. TIPS	5	1.36
Other Real Assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. 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.

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Notes to Financial Statements
June 30, 2017 and 2016

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%, 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% lower (6.5%) or 1% higher (8.5%) 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	\$ 7,293,424	4,508,056	2,157,168

IPERS' 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 IPERS

At June 30, 2017, the Hospital reported payables to the defined benefit pension plan of \$95,818 for legally required employer contributions and \$13,144 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(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) 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter into certain contracts with unrelated pharmacies who provide certain prescriptive drugs to System outpatients. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position –
Budget and Actual (Cash Basis) and Notes to the Schedule
Required Supplementary Information
For the Year Ended June 30, 2017**

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 924,130	--	924,130	881,882	42,248
Add: Other revenues / receipts	12,693,054	434,974	13,128,028	11,746,413	1,381,615
Less: Expenses / disbursements	<u>13,077,368</u>	<u>(673,764)</u>	<u>12,403,604</u>	<u>13,342,842</u>	<u>939,238</u>
Net	539,816	1,108,738	1,648,554	(714,547)	<u><u>2,363,101</u></u>
Balance beginning of year	<u>16,368,807</u>	<u>(2,072,902)</u>	<u>14,295,905</u>	<u>14,471,377</u>	
Balance end of year	<u>\$ 16,908,623</u>	<u>(964,164)</u>	<u>15,944,459</u>	<u>13,756,830</u>	

See accompanying independent auditor's report

Notes to the Schedule:

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, 2017, the Hospital's expenditures did not exceed the amounts budgeted.

Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics

Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
For the Years Ended June 30, 2017 and 2016

Iowa Public Employees' Retirement System Last Three Fiscal Years* (In Thousands)			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Hospital's proportion of net pension liability	0.071632%	0.074153%	0.073317%
Hospital's proportionate share of the net pension liability	\$ 4,508	3,663	2,908
Hospital's covered-employee payroll	\$ 5,398	5,185	5,095
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	83.52%	70.65%	57.07%
Plan fiduciary net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

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
d/b/a Audubon County Memorial Hospital and Clinics

Schedule of Hospital Contributions
Required Supplementary Information
June 30, 2017

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Statutorily required contribution	\$ 482	463	455	428	381	336	257	229	208	171
Contributions in relation to the statutorily required contribution	<u>(482)</u>	<u>(463)</u>	<u>(455)</u>	<u>(428)</u>	<u>(381)</u>	<u>(336)</u>	<u>(257)</u>	<u>(229)</u>	<u>(208)</u>	<u>(171)</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>								
Hospital's covered-employee payroll	\$ 5,398	5,185	5,095	4,793	4,389	4,158	3,703	3,449	3,276	2,822
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%

See accompanying independent auditor's report

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Notes to Required Supplementary Information – Pension Liability
June 30, 2017**

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% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 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.

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% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% 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.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

Exhibit 1

**Combining Statement of Net Position
June 30, 2017**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,322,368	140,546	--	2,462,914
Short-term investments	8,688,770	53,296	--	8,742,066
Receivables -				
Patients, net of allowance for doubtful accounts of \$575,000 in 2017	1,381,092	--	--	1,381,092
Succeeding year property tax	982,680	--	--	982,680
Other	269,954	--	--	269,954
Inventories	275,417	--	--	275,417
Prepaid expenses	142,970	--	--	142,970
Total current assets	14,063,251	193,842	--	14,257,093
Assets limited as to use or restricted:				
Designated by board of trustees	4,765,933	169,204	--	4,935,137
Restricted by donors for -				
Scholarships	8	--	--	8
Physician recruitment	157,380	--	--	157,380
Endowment	10,000	--	--	10,000
Total assets limited as to use or restricted	4,933,321	169,204	--	5,102,525
Capital assets, net of accumulated depreciation	3,507,666	--	--	3,507,666
Total assets	22,504,238	363,046	--	22,867,284
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	1,888,026	--	--	1,888,026
Total assets and deferred outflows of resources	\$ 24,392,264	363,046	--	24,755,310
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 323,799	--	--	323,799
Accrued salaries, vacation and benefits payable	598,638	--	--	598,638
Estimated third-party payor settlements - Medicare and Medicaid	458,805	--	--	458,805
Total current liabilities	1,381,242	--	--	1,381,242
Net pension liability	4,508,056	--	--	4,508,056
Total liabilities	5,889,298	--	--	5,889,298
DEFERRED INFLOWS OF RESOURCES				
Unavailable property tax revenue	982,680	--	--	982,680
Pension related deferred inflows	611,663	--	--	611,663
Total deferred inflows of resources	1,594,343	--	--	1,594,343
NET POSITION				
Net investment in capital assets	3,507,666	--	--	3,507,666
Restricted -				
Expendable for scholarships	8	--	--	8
Expendable for physician recruitment	157,380	--	--	157,380
Nonexpendable endowment	10,000	--	--	10,000
Unrestricted	13,233,569	363,046	--	13,596,615
Total net position	16,908,623	363,046	--	17,271,669
Total liabilities, deferred inflows of resources and net position	\$ 24,392,264	363,046	--	24,755,310

See accompanying independent auditor's report

**Combining Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017**

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	\$ 11,294,791	--	--	11,294,791
Provision for bad debt	38,843	--	--	38,843
Net patient service revenue	11,333,634	--	--	11,333,634
Other operating revenue	1,221,890	--	--	1,221,890
Total operating revenue	<u>12,555,524</u>	<u>--</u>	<u>--</u>	<u>12,555,524</u>
OPERATING EXPENSES:				
Salaries and wages	5,398,105	23,458	--	5,421,563
Employee benefits	1,954,102	1,795	--	1,955,897
Contract labor	451,737	--	--	451,737
Professional fees and purchased services	755,104	--	--	755,104
Supplies	2,442,239	--	--	2,442,239
Facility costs	330,075	--	--	330,075
Repair and maintenance	259,926	--	--	259,926
Equipment leases and rentals	122,640	--	--	122,640
Insurance	59,854	--	--	59,854
Depreciation	767,481	--	--	767,481
Other expense	536,105	48,072	(30,000)	554,177
Total operating expenses	<u>13,077,368</u>	<u>73,325</u>	<u>(30,000)</u>	<u>13,120,693</u>
OPERATING LOSS	<u>(521,844)</u>	<u>(73,325)</u>	<u>30,000</u>	<u>(565,169)</u>
NONOPERATING REVENUE:				
County tax revenue	924,130	--	--	924,130
Investment income	97,119	15,990	--	113,109
Noncapital grants and contributions	10,411	52,619	--	63,030
Nonoperating revenue	<u>1,031,660</u>	<u>68,609</u>	<u>--</u>	<u>1,100,269</u>
EXCESS (DEFECIT) OF REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	509,816	(4,716)	30,000	535,100
GRANTS AND CONTRIBUTIONS	30,000	--	(30,000)	--
INCREASE (DECREASE) IN NET POSITION	539,816	(4,716)	--	535,100
NET POSITION, beginning of year	<u>16,368,807</u>	<u>367,762</u>	<u>--</u>	<u>16,736,569</u>
NET POSITION, end of year	<u>\$ 16,908,623</u>	<u>363,046</u>	<u>--</u>	<u>17,271,669</u>

See accompanying independent auditor's report

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

Exhibit 3

**Patient Service Revenue
For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Medical, surgical and obstetrics	\$ 400,903	115,787	516,690	278,972	158,518	437,490
Skilled nursing	341,964	--	341,964	266,183	--	266,183
	<u>742,867</u>	<u>115,787</u>	<u>858,654</u>	<u>545,155</u>	<u>158,518</u>	<u>703,673</u>
NURSING SERVICES:						
Operating room	28,536	2,182,404	2,210,940	4,669	2,205,072	2,209,741
Emergency	6,389	1,097,692	1,104,081	5,059	1,095,735	1,100,794
Recovery room	--	--	--	338	87,805	88,143
	<u>34,925</u>	<u>3,280,096</u>	<u>3,315,021</u>	<u>10,066</u>	<u>3,388,612</u>	<u>3,398,678</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	271,890	2,500,566	2,772,456	180,418	2,587,059	2,767,477
Radiology	118,779	1,989,834	2,108,613	112,443	2,058,862	2,171,305
Pharmacy	281,375	1,726,750	2,008,125	219,236	1,389,473	1,608,709
Audubon Family Health Care Clinic	--	1,050,799	1,050,799	--	917,629	917,629
Exira Medical Clinic	--	684,687	684,687	--	633,838	633,838
Physical therapy	101,483	545,837	647,320	78,610	503,259	581,869
Electrocardiology	38,279	461,824	500,103	38,069	488,601	526,670
Clinic	788	275,620	276,408	1,737	290,914	292,651
Anesthesiology	15,773	232,603	248,376	5,077	407,111	412,188
Medical and surgical supplies	52,283	134,557	186,840	42,623	251,301	293,924
Occupational therapy	78,971	70,108	149,079	66,610	29,848	96,458
Blood service	20,772	61,176	81,948	8,974	53,352	62,326
Sleep study	--	70,860	70,860	--	108,880	108,880
Cardiology	--	69,207	69,207	--	67,197	67,197
Respiratory therapy	27,830	37,857	65,687	19,375	32,959	52,334
Cardiac rehabilitation	--	39,883	39,883	--	29,852	29,852
Intravenous therapy	16,133	22,435	38,568	10,991	24,617	35,608
Speech therapy	4,337	23,964	28,301	17,544	7,212	24,756
Pain clinic	--	25,782	25,782	--	--	--
Dietary	--	428	428	--	884	884
Psychiatry	--	--	--	1,060	--	1,060
	<u>1,028,693</u>	<u>10,024,777</u>	<u>11,053,470</u>	<u>802,767</u>	<u>9,882,848</u>	<u>10,685,615</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,806,485</u>	<u>13,420,660</u>	<u>15,227,145</u>	<u>1,357,988</u>	<u>13,429,978</u>	<u>14,787,966</u>
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(3,909,997)			(3,839,858)
Charity care services and other discounts, based on charges forgone			(22,357)			(48,796)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			<u>11,294,791</u>			<u>10,899,312</u>
PROVISION FOR BAD DEBT			<u>38,843</u>			<u>(40,668)</u>
NET PATIENT SERVICE REVENUE			<u>11,333,634</u>			<u>10,858,644</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Other Operating Revenue		
340B drug pricing program income	\$ 1,092,428	1,055,225
Other	43,457	22,956
Space rental	38,775	36,345
Grants	24,046	41,770
Cafeteria meals	22,968	22,499
Gain on sale of capital assets	216	57
Medicare EHR incentive	--	215,319
	<u>\$ 1,221,890</u>	<u>1,394,171</u>

See accompanying independent auditor's report

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Departmental Expenses
For the Years Ended June 30, 2017 and 2016**

	2017			2016		
	Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 817,187	40,602	857,789	824,565	53,009	877,574
Emergency service	590,613	108,163	698,776	589,575	144,156	733,731
Operating room	98,437	195,893	294,330	114,707	167,722	282,429
Nursing administration	99,839	4,285	104,124	92,823	6,102	98,925
	<u>1,606,076</u>	<u>348,943</u>	<u>1,955,019</u>	<u>1,621,670</u>	<u>370,989</u>	<u>1,992,659</u>
OTHER PROFESSIONAL SERVICES:						
Pharmacy	122,859	1,530,995	1,653,854	128,317	1,475,643	1,603,960
Audubon Family Health Care Clinic	777,750	108,183	885,933	635,668	84,028	719,696
Radiology	188,401	500,842	689,243	190,342	561,643	751,985
Laboratory	220,222	376,048	596,270	237,326	315,064	552,390
Exira Medical Clinic	374,125	82,473	456,598	389,965	74,856	464,821
Specialty clinics	331,760	8,370	340,130	295,314	15,536	310,850
Central supply	27,157	310,888	338,045	21,599	257,652	279,251
Medical records	188,180	26,708	214,888	190,902	33,877	224,779
Anesthesiology	--	203,238	203,238	--	238,995	238,995
Physical therapy	180,408	12,379	192,787	177,463	22,777	200,240
Cardiology	--	57,919	57,919	--	55,137	55,137
Respiratory therapy	50,176	6,442	56,618	36,701	2,669	39,370
Occupational therapy	--	39,195	39,195	--	27,344	27,344
Sleep study	--	24,250	24,250	--	31,050	31,050
Speech therapy	--	13,567	13,567	--	10,701	10,701
Electrocardiology	3,835	9,682	13,517	4,321	10,579	14,900
Cardiac rehabilitation	7,536	4,842	12,378	6,819	1,926	8,745
Intravenous therapy	--	2,113	2,113	--	1,073	1,073
	<u>2,472,409</u>	<u>3,318,134</u>	<u>5,790,543</u>	<u>2,314,737</u>	<u>3,220,550</u>	<u>5,535,287</u>
GENERAL SERVICES:						
Plant operation and maintenance	165,819	279,630	445,449	142,062	248,303	390,365
Dietary	134,603	88,095	222,698	140,653	83,964	224,617
Housekeeping	148,946	14,940	163,886	147,080	14,152	161,232
Laundry	22,819	11,993	34,812	16,780	14,088	30,868
	<u>472,187</u>	<u>394,658</u>	<u>866,845</u>	<u>446,575</u>	<u>360,507</u>	<u>807,082</u>
ADMINISTRATIVE SERVICES	<u>870,891</u>	<u>854,163</u>	<u>1,725,054</u>	<u>795,368</u>	<u>855,037</u>	<u>1,650,405</u>
NONDEPARTMENTAL:						
Employee benefits	--	1,955,897	1,955,897	--	1,627,440	1,627,440
Depreciation	--	767,481	767,481	--	799,940	799,940
Insurance	--	59,854	59,854	--	55,942	55,942
	<u>--</u>	<u>2,783,232</u>	<u>2,783,232</u>	<u>--</u>	<u>2,483,322</u>	<u>2,483,322</u>
\$	<u><u>5,421,563</u></u>	<u><u>7,699,130</u></u>	<u><u>13,120,693</u></u>	<u><u>5,178,350</u></u>	<u><u>7,290,405</u></u>	<u><u>12,468,755</u></u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2017 and 2016**

ANALYSIS OF AGING:

Days Since Discharge	2017		2016	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,449,855	60 %	1,186,927	52 %
31 - 60	337,572	14	429,067	18
61 - 90	68,379	3	165,540	7
91 - 120	20,254	1	24,090	1
121 and over	517,972	22	514,686	22
	<u>2,394,032</u>	<u>100 %</u>	<u>2,320,310</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(575,000)		(495,000)	
Allowance for contractual adjustments	<u>(437,940)</u>		<u>(577,640)</u>	
	<u>\$ 1,381,092</u>		<u>1,247,670</u>	

	2017	2016
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 495,000	521,230
Provision of uncollectible accounts	(38,843)	40,668
Recoveries of accounts previously written off	207,288	134,014
Accounts written off	<u>(88,445)</u>	<u>(200,912)</u>
Balance, end of year	<u>\$ 575,000</u>	<u>495,000</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
INVENTORIES:		
General stores	\$ 92,780	175,861
Pharmacy	153,509	154,752
Laboratory	<u>29,128</u>	<u>25,152</u>
	<u>\$ 275,417</u>	<u>355,765</u>
PREPAID EXPENSES:		
Insurance	\$ 50,706	20,165
Service contracts	73,439	127,137
Other	<u>18,825</u>	<u>51,571</u>
	<u>\$ 142,970</u>	<u>198,873</u>

See accompanying independent auditor's report

Financial and Statistical Highlights
For the Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Patient Days		
Acute	436	312
Swing-bed	470	383
	<u>906</u>	<u>695</u>
Admissions (Acute)	124	104
Discharges (Acute)	123	104
Average Length of Stay in Days (Acute)	3.5	3.0
Beds	25	25
Occupancy percentage (Acute)	4.77%	3.41%
Emergency room visits	1,480	1,486
Specialty clinic visits	4,100	4,436
Exira Medical Clinic encounters	4,145	4,774
Audubon Family Health Care clinic encounters	6,141	5,709
Number of employees - full-time equivalents	96	92

**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, 2017, 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 19, 2017.

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-17, 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, 2017 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 19, 2017.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Schedule of Findings and Responses
For the Year Ended June 30, 2017**

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-17 *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 and Corrective Action Plan: 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-17** Certified Budget: Hospital disbursements during the year ended June 30, 2017 did not exceed amounts budgeted.
- III-B-17** 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-C-17** Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- III-D-17** 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-E-17** Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Schedule of Findings and Responses
For the Year Ended June 30, 2017**

- III-F-17** 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-G-17** 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
d/b/a Audubon County Memorial Hospital and Clinics**

**Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2017**

Finding	Finding title	Status	If not corrected, corrective action plan or other explanation
II-A-16	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-17.

**Audubon County Memorial Hospital
d/b/a Audubon County Memorial Hospital and Clinics**

**Audit Staff
For the Year Ended June 30, 2017**

This audit was performed by:

Roger E. Thompson, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Brad D. Pieper, Staff Auditor

Mark P. Furasek, Staff Auditor