



Financial Statements
December 31, 2014 and 2013

Community Memorial Hospital

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Independent Auditor's Report

The Board of Governors
Community Memorial Hospital
Redfield, South Dakota

Report on the Financial Statements

We have audited the accompanying statements of net position of Community Memorial Hospital (Hospital), an enterprise fund of the City of Redfield, South Dakota as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Community Memorial Hospital, an enterprise fund of the City of Redfield, South Dakota, as of December 31, 2014 and 2013, and the changes in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Community Memorial Hospital, an enterprise fund of the City of Redfield, South Dakota, and do not purport to, and do not, present fairly the financial position of the City of Redfield, South Dakota, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated April 8, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements. 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.

Other Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by the missing information.



Sioux Falls, South Dakota
April 8, 2015

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Assets	2014	2013
Current Assets		
Cash and cash equivalents	\$ 953,390	\$ 400,776
Current portion of restricted cash held by Trustee	174,582	170,233
Short-term investments	50,100	25,356
Receivables		
Patient, net of estimated uncollectibles of \$325,000 in 2014 and \$778,000 in 2013	1,318,292	1,356,457
Estimated third-party payor settlements	240,000	-
Other	34,492	40,175
Supplies	128,135	195,426
Prepaid expenses	86,834	75,219
Total current assets	<u>2,985,825</u>	<u>2,263,642</u>
Noncurrent Cash		
Held by Trustee for debt service	<u>493,249</u>	<u>497,598</u>
Capital Assets		
Non-depreciable capital assets	5,000	5,000
Depreciable capital assets, net	<u>7,364,272</u>	<u>7,879,560</u>
Total capital assets	<u>7,369,272</u>	<u>7,884,560</u>
Other Assets		
Note receivable	<u>52,500</u>	<u>-</u>
Total assets	<u><u>\$ 10,900,846</u></u>	<u><u>\$ 10,645,800</u></u>

See Notes to Financial Statements

Community Memorial Hospital
Statements of Net Position
December 31, 2014 and 2013

Liabilities and Net Position	<u>2014</u>	<u>2013</u>
Current Liabilities		
Current maturities of long-term debt	\$ 255,786	\$ 245,301
Note payable	450,000	90,000
Accounts payable		
Trade	310,260	204,699
Estimated third-party payor settlements	-	115,000
Accrued expenses		
Salaries and wages	431,186	422,919
Accrued interest	44,582	45,303
Unearned revenue	94,925	43,192
	<u>1,586,739</u>	<u>1,166,414</u>
Long-term debt, less current maturities	<u>7,462,716</u>	<u>7,708,059</u>
Total liabilities	<u>9,049,455</u>	<u>8,874,473</u>
Net Position		
Net investment in capital assets	318,601	599,031
Restricted, expendable for debt service	667,831	667,831
Unrestricted	864,958	504,465
	<u>1,851,391</u>	<u>1,771,327</u>
Total net position	<u>1,851,391</u>	<u>1,771,327</u>
Total liabilities and net position	<u>\$ 10,900,846</u>	<u>\$ 10,645,800</u>

Community Memorial Hospital
 Statements of Revenues, Expenses and Changes in Net Position
 Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue (net of provisions for bad debts of \$292,635 in 2014 and \$442,053 in 2013)	\$ 10,210,368	\$ 9,948,119
Other revenue	113,813	115,907
Total revenue	10,324,181	10,064,026
Operating Expenses		
Salaries and wages	5,011,146	4,843,987
Employee benefits	1,549,797	1,516,240
Purchased services	1,088,907	892,619
Supplies and other expense	1,712,458	1,858,432
Depreciation and amortization	604,503	634,671
Total operating expenses	9,966,811	9,745,949
Operating Income	357,370	318,077
Non-Operating Revenue (Expenses)		
Investment income	121	1,470
Grant income	256,063	261,136
Interest expense	(580,716)	(574,605)
Net non-operating expenses	(324,532)	(311,999)
Revenues in Excess of Expenses	32,838	6,078
Grants and Contributions for Capital Assets	47,226	221,283
Increase in Net Position	80,064	227,361
Net Position, Beginning of Year	1,771,327	1,543,966
Net Position, End of Year	\$ 1,851,391	\$ 1,771,327

Community Memorial Hospital
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Cash received from patients and third-party payors	\$ 9,893,533	\$ 9,895,401
Cash paid to suppliers	(2,640,128)	(2,819,913)
Cash paid to employees	(6,605,176)	(6,456,484)
Other operating revenue	119,496	120,815
	767,725	739,819
Net Cash from Operating Activities		
Non-Capital Financing Activities		
Noncapital gifts, grants and bequests	307,796	(40,477)
Change in line of credit	360,000	(110,000)
	667,796	(150,477)
Net Cash from (used for) Non-capital Financing Activities		
Capital and Related Financing Activities		
Capital expenditures	(89,215)	(335,263)
Principal paid on long-term debt	(234,858)	(262,565)
Capital grants and contributions	47,226	221,283
Interest paid	(581,437)	(573,987)
	(858,284)	(950,532)
Net Cash used for Capital and Related Financing Activities		
Investing Activities		
Investment income	121	1,470
Purchases of short-term investments	(24,744)	(25,356)
	(24,623)	(23,886)
Net Cash used for Investing Activities		
Decrease (Increase) in Cash and Cash Equivalents	552,614	(385,076)
Cash and Cash Equivalents, Beginning of Year	1,068,607	1,453,683
Cash and Cash Equivalents, End of Year	\$ 1,621,221	\$ 1,068,607
Reconciliation of Cash and Cash Equivalents to the Balance Sheet		
Cash in current assets	\$ 953,390	\$ 400,776
Current portion of restricted cash held by Trustee	174,582	170,233
Non Current cash held by Trustee for debt service	493,249	497,598
	\$ 1,621,221	\$ 1,068,607

Community Memorial Hospital
Statement of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 357,370	\$ 318,077
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	604,503	634,671
Loss on disposal of assets	-	4,908
Change in assets and liabilities		
Accounts receivable	(248,652)	407,282
Supplies	67,291	(9,698)
Prepaid expense	(11,615)	30,976
Accounts payable	(9,439)	(550,140)
Accrued expenses	8,267	(96,257)
Net Cash from Operating Activities	\$ 767,725	\$ 739,819

Note 1 - Reporting Entity and Significant Accounting Policies

The financial statements of Community Memorial Hospital (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital operates a 25-bed hospital and a medical clinic in Redfield, South Dakota. The Hospital is controlled by the city of Redfield, South Dakota and is accounted for as an enterprise fund of the City. These financial statements present only the financial activity of the Hospital. Financial statements of the City of Redfield, South Dakota, are prepared under separate cover.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that the exclusion would cause the Hospital's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital does not have a component unit which meets the GASB criteria.

Measurement Focus and Basis of Accounting

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets and liabilities with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations.

Restricted net position:

Restricted - expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Restricted – nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

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

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less.

Short-Term Investments

Short-term investments include certificates of deposit with an original maturity of three to twelve months, excluding internally designated or restricted cash and investments.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. The Hospital does not charge interest on delinquent accounts. Payments of patient receivables are allocated to the specific claims identified in 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 estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor 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.

Supplies

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

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. The estimated useful lives of capital assets are as follows:

Land improvements	5-20 years
Buildings and improvements	5-40 years
Fixed Equipment	5-25 years
Equipment	5-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived 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 long-lived assets are reported as restricted net position.

Note Receivable

The Hospital issues notes to physicians as part of its recruitment process. Notes are repayable over an agreed upon period and are issued with market interest rates. The notes are issued with forgiveness provisions over the life of the note to encourage retention. It is anticipated that the balance of the notes will be forgiven over time.

At December 31, 2014 and 2013 the Hospital had a note receivable from an individual who is seeking a medical degree in the amount of \$52,500 and \$-0-.

Bond Discounts

The certificates of participation are reported net of the applicable discounts. Discounts are amortized over the life debt using the straight line method, which is a reasonable estimate of the effective interest method. Amortization is included in interest expense.

Compensated Absences

Hospital employees earn paid time off at various rates depending on years of service. Paid time off benefits is recognized when earned and is recorded as part of the employee's compensation. Employees also earn sick leave benefits based on hours worked. Sick leave benefits are not paid upon termination or leaving employment, thus are not accrued liabilities in the financial statements.

Operating Revenues and Expenses

The Hospital's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

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 per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

Charity Care

The Hospital provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Hospital does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$19,700 and \$117,000 for the years ended December 31, 2014 and 2013, calculated by multiplying the ratio of cost to gross charges for the Hospital by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues 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 that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Electronic Health Record (EHR) Incentives

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology.

To qualify for the EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicaid share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes EHR incentive payments when there is reasonable assurance that the Hospital will comply with the conditions attached to the incentive payments. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

The Hospital recognized revenue of \$86,158 and \$67,400 for the years ended December 31, 2014 and 2013 related to EHR incentive payments.

Reclassifications

Reclassifications have been made to the December 31, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - 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 – The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under a cost-based reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital's Medicare cost reports have been audited by the MAC through the year ended December 31, 2012. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Clinical and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology based on historical costs. There are no retroactive settlements resulting from the Medicaid program.

Blue Cross – Services rendered to Blue Cross subscribers are reimbursed under a prospectively determined methodology.

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

Revenue from the Medicare program accounted for approximately 59% of the Hospital's net patient service revenue for the year ended December 31, 2014 and 60% for the year ended December 31, 2013.

Laws and regulations governing the Medicare, Medicaid, and other 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. The net patient service revenue for the year ended December 31, 2014 increased approximately \$113,000 and the net patient service revenue for the year ended December 31, 2013 decreased approximately \$170,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient service revenue, contractual adjustments and provision for bad debts for the years ended December 31, 2014 and 2013 is as follows:

	2014	2013
Total patient service revenue	\$ 11,095,401	\$ 10,960,256
Contractual adjustments	(592,398)	(570,084)
Net patient service revenue before provision for bad debt	10,503,003	10,390,172
Less provision for bad debts	(292,635)	(442,053)
Net patient service revenue less provision for bad debts	\$ 10,210,368	\$ 9,948,119

Note 3 - Deposits, Investments, and Investment Income

The carrying amount of deposits and investments as of December 31, 2014 and 2013 are as follows:

	2014	2013
Carrying Amount		
Cash and deposits	\$ 1,621,221	\$ 1,068,607
Investments	50,100	25,356
Total	\$ 1,671,321	\$ 1,093,963

Deposits and investments are reported in the following statement of net position captions:

	2014	2013
Cash in current assets	\$ 953,390	\$ 400,776
Certificates of deposit - 1 year maturity	50,100	25,356
Current portion of restricted cash held by Trustee	174,582	170,233
Noncurrent cash held by Trustee for debt service	493,249	497,598
	\$ 1,671,321	\$ 1,093,963

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Hospital’s deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Hospital. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Hospital’s deposit policy does not further restrict bank deposits or limit investment deposits.

Investments

The Hospital’s investments are in certificates of deposit which are measured at cost plus accrued interest. At December 31, 2014 and 2013, the Hospital’s investments consisted of the following:

<u>December 31, 2014</u>	<u>Investment in Maturities (in Years)</u>	
	<u>Carrying Amount</u>	<u>Less Than 1</u>
Certificate of Deposit	<u>\$ 50,100</u>	<u>\$ 50,100</u>
<u>December 31, 2013</u>	<u>Carrying Amount</u>	<u>Less Than 1</u>
Certificate of Deposit	<u>\$ 25,356</u>	<u>\$ 25,356</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Hospital does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates.

Credit Risk

In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b).

Concentration of Credit Risk

The Hospital does not have a formally adopted investment policy for managing concentration of credit risk.

Investment Income

Investment income consists of interest earned on the Hospital’s certificates of deposit, cash and cash equivalents.

Note 4 - Capital Assets

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2014 is as follows:

	December 31, 2013	Additions	Disposals	December 31, 2014
Capital assets not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated				
Land improvements	\$ 127,454	\$ -	\$ -	\$ 127,454
Buildings	6,382,454	-	-	6,382,454
Fixed equipment	4,767,117	-	-	4,767,117
Major moveable equipment	2,573,978	89,215	(44,867)	2,618,326
Total capital assets being depreciated	\$ 13,851,003	\$ 89,215	\$ (44,867)	\$ 13,895,351
Less accumulated depreciation for				
Land improvements	\$ 41,784	\$ 6,007	\$ -	\$ 47,791
Buildings	2,704,792	182,344	-	2,887,136
Fixed equipment	1,362,545	228,451	-	1,590,996
Major moveable equipment	1,862,322	187,701	(44,867)	2,005,156
Total accumulated depreciation	\$ 5,971,443	\$ 604,503	\$ (44,867)	\$ 6,531,079
Net capital assets being depreciated	\$ 7,879,560			\$ 7,364,272
Capital assets, net	\$ 7,884,560			\$ 7,369,272

Community Memorial Hospital
Notes to Financial Statements
December 31, 2014 and 2013

Capital assets additions, retirements, transfers and balances for the year ended December 31, 2013 is as follows:

	December 31, 2012	Additions	Disposals	December 31, 2013
Capital assets not being depreciated				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated				
Land improvements	\$ 146,955	\$ -	\$ (19,501)	\$ 127,454
Buildings	6,530,283	-	(147,829)	6,382,454
Fixed equipment	5,096,882	-	(329,765)	4,767,117
Major moveable equipment	2,874,136	335,263	(635,421)	2,573,978
Total capital assets being depreciated	<u>\$ 14,648,256</u>	<u>\$ 335,263</u>	<u>\$ (1,132,516)</u>	<u>\$ 13,851,003</u>
Less accumulated depreciation for				
Land improvements	\$ 55,072	\$ 6,213	\$ (19,501)	\$ 41,784
Buildings	2,660,698	191,059	(146,965)	2,704,792
Fixed equipment	1,462,627	228,320	(328,402)	1,362,545
Major moveable equipment	2,285,983	209,079	(632,740)	1,862,322
Total accumulated depreciation	<u>\$ 6,464,380</u>	<u>\$ 634,671</u>	<u>\$ (1,127,608)</u>	<u>\$ 5,971,443</u>
Net capital assets being depreciated	<u>\$ 8,183,876</u>			<u>\$ 7,879,560</u>
Capital assets, net	<u>\$ 8,188,876</u>			<u>\$ 7,884,560</u>

Note 5 - Line of Credit

The Hospital has entered into a revolving line of credit with a bank which currently has an interest rate of 4.3% that provides for borrowings up to \$500,000 as of December 31, 2014. The agreement matures on January 29, 2015. The interest rate under the line of credit is set at 1.05% over the Wall Street Prime Rate with a minimum floor of 4.3%. Borrowings are collateralized by significantly all of the Hospital assets. As of December 31, 2014 the Hospital had \$450,000 outstanding on this revolving line of credit.

As of December 31, 2013 the Hospital had a similar agreement with a bank for a revolving line of credit. That agreement which matured on October 31, 2014 provided for borrowings up to \$500,000 with the same variable interest rate, same 4.3% rate in effect as of December 31, 2013, and the same collateral. The outstanding balance as of December 31, 2013 was \$90,000.

Note 6 - Capital Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases. The capitalized leased assets consist of:

	2014	2013
Major moveable equipment	\$ 309,424	\$ 364,291
Less accumulated amortization	(161,211)	(160,418)
	\$ 148,213	\$ 203,873

Minimum future lease payments for the capital leases are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2015	\$ 62,434
2016	50,547
2017	13,218
Total minimum lease payments	126,199
Less interest	(7,913)
Present value of minimum lease payments - Note 7	\$ 118,286

Note 7 - Long-Term Debt

A schedule of changes in the Hospital's long-term debt for the year ended December 31, 2014 follows:

	December 31, 2013	Additions	Reductions	December 31, 2014	Current Portion
Long-term debt					
Certificates of participation	\$ 7,670,000	\$ -	\$ (125,000)	\$ 7,545,000	\$ 130,000
Less unamortized discount	(54,462)	-	11,077	(43,385)	-
Net certificates of participation	7,615,538	-	(113,923)	7,501,615	130,000
Note payable	160,985	-	(62,384)	98,601	68,814
Capital lease obligations (note 6)	176,837	-	(58,551)	118,286	56,972
Total long-term debt	\$ 7,953,360	\$ -	\$ (234,858)	\$ 7,718,502	\$ 255,786
	December 31, 2012	Additions	Reductions	December 31, 2013	Current Portion
Long-term debt					
Certificates of participation	\$ 7,785,000	\$ -	\$ (115,000)	\$ 7,670,000	\$ 125,000
Less unamortized discount	(56,557)	-	2,095	(54,462)	-
Net certificates of participation	7,728,443	-	(112,905)	7,615,538	125,000
Note payable	230,835	-	(69,850)	160,985	62,411
Capital lease obligations (note 6)	247,758	-	(70,921)	176,837	57,890
Total long-term debt	\$ 8,207,036	\$ -	\$ (253,676)	\$ 7,953,360	\$ 245,301

Scheduled debt service requirements for the Hospital's certificates of participation, notes payable and capital lease obligations are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 255,786	\$ 543,094
2016	218,230	528,515
2017	162,871	517,112
2018	7,125,000	465,352
	7,761,887	2,054,073
Less unamortized discount	(43,385)	-
	\$ 7,718,502	\$ 2,054,073

The certificates of participation are secured by the Hospital's property and equipment. Interest rates on the outstanding certificates of participation as of December 31, 2014 are 6.375% to 7.125%. The certificates mature in varying amounts each year with a final balloon payment due on December 1, 2018 in the amount of \$7,125,000.

Under terms of the certificates of participation, the Hospital is required to maintain certain deposits with a Trustee. Such deposits are included with restricted assets in the financial statements. The agreement also place limitations on additional borrowings, requiring that the Hospital satisfy certain measures of financial performance, before any additional borrowing is allowed.

The Hospital's notes payable is due in monthly installments of \$5,735, including interest at a rate of 4.75% through June 2016 and is secured by the Hospital's accounts receivables and general assets.

Note 8 - Pension and Retirement Benefits

Eligible employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited services. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 9%. State statute also requires the employer to contribute an amount equal to the employee's contributions. The Hospital's share of contributions to the SDRS for the years ended December 31, 2014 and 2013 was \$306,388 and \$301,086.

Note 9 - Concentration of Credit Risk

The Medical Center grants credit without collateral to its patients most of whom are insured under third-party payor agreements. The mix of receivables from patients and third party payors at December 31, 2014 and 2013 was as follows:

	2014	2013
Medicare	26%	24%
Commercial insurance	25%	16%
Medicaid	4%	1%
Self pay	44%	59%
	100%	100%

Note 10 - Contingencies

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.



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*

The Board of Governors
Community Memorial Hospital
Redfield, South Dakota

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 Community Memorial Hospital (Hospital), an enterprise fund of the City of Redfield, South Dakota, which comprise the statement of net position as of December 31, 2014, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 8, 2015.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2014-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as 2014-B in the accompanying schedule of findings and responses to be a significant deficiency.

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*.

Hospital's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital'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. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eide Sallie LLP".

Sioux Falls, South Dakota
April 8, 2015

Findings – Financial Statement Audit

Finding No. 2014-A Preparation of Financial Statements and Material Adjusting Journal Entries

Criteria: Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Hospital’s internal control system is designed to provide monthly financial statements; however, it does not allow for the preparation of the annual financial statements including notes and disclosures as required by generally accepted accounting policies. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for an organization with limited staffing. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Additionally, we proposed material adjusting journal entries as a result of our audit procedures. The entries were primarily in the area of the allowance for contractual adjustments and third party payor settlements. These entries may not be identified as a result of the Hospital’s existing internal controls.

Cause: The Hospital has limited resources in the financial reporting process resulting from budgetary constraints.

Effect: This deficiency results in a reasonable possibility that the Hospital would not be able to draft the financial statements and the accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that you be aware of this condition for financial reporting purposes. We also suggest the Hospital review the methodology used in establishing the allowance for contractual adjustments by updating the discount rates on a periodic basis and reviewing the appropriateness of the statistics used in the preparation of the third party payor estimate. Management and the Board should continually be aware of the financial reporting of the Hospital and changes in reporting requirements.

Response: Management and the board of Governors will review for propriety the financial statements and footnotes prepared by the auditor. Management will review the audit adjustments and revise, as needed, any policies or procedures relating to the reconciliation process to prevent future material adjustments.

Finding No. 2014-B Segregation of Duties

Criteria: The Hospital's internal control structure should be designed such that the functions of executing transactions, recording transactions, and accountability for assets are performed by different individuals.

Condition: The limited size of office staff does not provide for adequate segregation of duties.

Cause: The Hospital has a limited number of office personnel within the accounting department.

Effect: Inadequate segregation of duties could adversely affect the Hospital's ability to detect misstatements that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, the Board of Governors close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities.

Response: Management plans to review this finding in 2014 to determine whether cost effective solutions exist to improve this deficiency.