

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**FINANCIAL STATEMENTS**  
**and**  
**INDEPENDENT AUDITORS' REPORT**

**For the Years Ended September 30, 2012 and 2011**

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**TABLE OF CONTENTS**

\* \* \* \* \*

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Financial Statements	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to the Financial Statements	7 - 23

\* \* \* \* \*

Single Audit Reports and Schedules	
Schedule of Expenditures of Federal Awards	25
Notes to the Schedule of Expenditures of Federal Awards	26
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27 - 28
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	29 - 30
Schedule of Findings and Questioned Costs	31 - 35

\* \* \* \* \*

Supplemental Schedule	
Schedules of Functional Expenses for Western Community Health Resources	37 - 38



## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Chadron Community Hospital Corporation  
Chadron, Nebraska

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

We have audited the accompanying financial statements of Chadron Community Hospital Corporation (a nonprofit corporation), which comprise the balance sheets as of September 30, 2012 and 2011, and the related statements of operations, net assets, and cash flows for the years then ended, and the related notes to the financial statements.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free 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. 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 financial position of Chadron Community Hospital as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the 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 June 3, 2013, on our consideration of Chadron Community Hospital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chadron Community Hospital Corporation's internal control over financial reporting and compliance.

**Other Matter**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses for Western Community Health Resources (A Department of Chadron Community Hospital Corporation) are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Chadron, Nebraska  
June 3, 2013

**CHADRON COMMUNITY HOSPITAL CORPORATION**

**Chadron, Nebraska**

**BALANCE SHEETS**

**September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,916,150	\$ 424,713
Patient accounts receivable, net of allowances for uncollectible accounts of \$850,964 and \$695,283	3,316,925	4,632,446
Other receivables	299,294	297,055
Inventories	236,468	251,672
Prepaid expenses	129,402	110,506
Estimated third-party payor settlements	238,881	870,729
Total current assets	\$ 6,137,120	\$ 6,587,121
Assets whose use is limited	1,145,271	1,066,140
Property and equipment, net	24,329,842	25,866,281
Notes receivable, related parties	52,000	52,000
Other assets	-	1,184
Total assets	<u>\$ 31,664,233</u>	<u>\$ 33,572,726</u>
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt	\$ 618,792	\$ 628,420
Line of credit	-	1,388,879
Accounts payable	684,271	605,538
Accrued salaries, vacation and benefits payable	705,720	848,272
Other accrued liabilities	325,772	336,944
Total current liabilities	\$ 2,334,555	\$ 3,808,053
Long-term debt, net of current maturities	18,848,236	19,469,085
Other liabilities	72,214	77,641
Total liabilities	<u>\$ 21,255,005</u>	<u>\$ 23,354,779</u>
Net Assets		
Unrestricted	\$ 10,173,349	\$ 10,002,305
Temporarily restricted	235,879	215,642
Total net assets	<u>\$ 10,409,228</u>	<u>\$ 10,217,947</u>
Total liabilities and net assets	<u>\$ 31,664,233</u>	<u>\$ 33,572,726</u>

See accompanying independent auditors' report  
and notes to the financial statements.

**CHADRON COMMUNITY HOSPITAL CORPORATION**

**Chadron, Nebraska**

**STATEMENTS OF OPERATIONS**

**For the Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Unrestricted revenues and other support		
Net patient service revenue	\$ 15,230,260	\$ 15,506,278
Community health service revenue	1,033,610	976,248
Prairie Pines revenue	1,303,690	1,383,290
Legend Buttes Clinic revenue	358,763	445,678
Other revenue	<u>1,730,013</u>	<u>1,162,002</u>
Total unrestricted revenues and other support	<u>\$ 19,656,336</u>	<u>\$ 19,473,496</u>
Expenses		
Salaries and benefits	\$ 8,811,482	\$ 9,318,487
Purchased services	1,681,430	1,662,026
Supplies and other	4,881,514	4,349,133
Depreciation and amortization	2,287,080	2,097,418
Interest	1,222,332	1,163,253
Provision for uncollectible accounts	<u>669,631</u>	<u>455,853</u>
Total expenses	<u>\$ 19,553,469</u>	<u>\$ 19,046,170</u>
Operating income	<u>\$ 102,867</u>	<u>\$ 427,326</u>
Other income (loss)		
Investment income	\$ 5,425	\$ 7,314
Gain on sale of assets	62,752	80,141
Unrealized gain (loss) on investments	<u>-</u>	<u>7</u>
Total other income (loss)	<u>\$ 68,177</u>	<u>\$ 87,462</u>
Increase in unrestricted net assets	<u><u>\$ 171,044</u></u>	<u><u>\$ 514,788</u></u>

See accompanying independent auditors' report  
and notes to the financial statements.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**STATEMENTS OF CHANGES IN NET ASSETS**

**For the Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Unrestricted net assets		
Operating income	\$ 102,867	\$ 427,326
Non-operating income, net	<u>68,177</u>	<u>87,462</u>
Increase in unrestricted net assets	\$ <u>171,044</u>	\$ <u>514,788</u>
Temporarily restricted net assets		
Temporarily restricted gifts and bequests	\$ <u>20,237</u>	\$ <u>103,436</u>
Increase (decrease) in temporarily restricted net assets	\$ <u>20,237</u>	\$ <u>103,436</u>
Increase in net assets	\$ 191,281	\$ 618,224
Net assets, beginning of year	<u>10,217,947</u>	<u>9,599,723</u>
Net assets, end of year	\$ <u><u>10,409,228</u></u>	\$ <u><u>10,217,947</u></u>

See accompanying independent auditors' report  
and notes to the financial statements.

**CHADRON COMMUNITY HOSPITAL CORPORATION**

**Chadron, Nebraska**

**STATEMENTS OF CASH FLOWS**

**For the Years Ended September 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Excess of revenues over expenses	\$ 171,044	\$ 514,788
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities:		
Depreciation and amortization	2,287,080	2,097,418
Gain on sale of assets	(62,752)	(80,141)
(Increase) decrease in current assets:		
Patient accounts receivable	1,315,521	(2,332,719)
Other receivables	(2,239)	(22,092)
Inventories	15,204	6,104
Prepaid expenses	(18,896)	(10,484)
Estimated third-party payor settlements	631,848	(770,961)
Increase (decrease) in current liabilities:		
Accounts payable	78,733	177,196
Accrued salaries, vacation and benefits payable	(142,552)	157,405
Other accrued liabilities	(11,172)	(56,395)
Net cash flows provided by (used in) operating activities	<u>\$ 4,261,819</u>	<u>\$ (319,881)</u>
Cash flows from investing activities:		
Purchase of property and equipment	\$ (81,293)	\$ (130,658)
Construction in progress	(679,259)	(1,033,304)
Deposits (withdrawals) from assets whose use is limited or restricted	(79,131)	(129,396)
Proceeds on sales of assets	73,847	98,832
Restricted contributions	20,237	103,436
Rental deposits	(5,427)	(623)
Net cash flows (used in) investing activities	<u>\$ (751,026)</u>	<u>\$ (1,091,713)</u>
Cash flows from financing activities:		
Proceeds from financing	\$ -	\$ 1,388,879
Payments on long-term debt	(2,019,356)	(608,072)
Net cash flows provided by (used in) financing activities	<u>\$ (2,019,356)</u>	<u>\$ 780,807</u>
Net increase (decrease) in cash and cash equivalents	\$ 1,491,437	\$ (630,787)
Cash and cash equivalents, beginning of year	<u>424,713</u>	<u>1,055,500</u>
Cash and cash equivalents, end of year	<u>\$ 1,916,150</u>	<u>\$ 424,713</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 1,222,332</u>	<u>\$ 1,163,253</u>

See accompanying independent auditors' report  
and notes to the financial statements.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS**

**September 30, 2012 and 2011**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of significant accounting policies of the Chadron Community Hospital Corporation (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America.

Organization - Chadron Community Hospital Corporation, located in Chadron, Nebraska is a not-for-profit critical access hospital. The Hospital provides inpatient, outpatient and emergency care services for residents of Northwest Nebraska and surrounding states. Admitting physicians are primarily practitioners in the local area. The Hospital also operates Prairie Pines, an assisted living retirement center in Chadron, Nebraska, which was purchased December 1, 1996. In addition, the Hospital operates an outpatient clinic in Crawford, Nebraska.

Industry Environment - The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care 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 health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that Chadron Community Hospital is in compliance with applicable government laws and regulations. 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.

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 certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under loan agreements.

Supplies inventory - Supplies inventory is valued at average cost using the first-in, first-out method.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair market value in the accompanying balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

Assets whose use is limited - Assets whose use is limited primarily includes assets held under indenture agreements and internally designated assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

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

Property and equipment - Acquisitions of property and equipment are recorded at cost. Improvements and replacements of buildings and equipment are capitalized. Maintenance and repairs that do not improve or extend the lives of property and equipment are charged to expense as incurred. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any gain or loss is reported in the statements of operations. Interest costs incurred on borrowed funds during the construction of major capital projects, net of certain interest income, are capitalized and depreciated as a component of the related assets.

Depreciation is provided over the estimated useful life of the asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the accompanying statements of operations.

Patient accounts receivable - The Hospital provides for an allowance for doubtful accounts based on a review of existing receivables, historical collection information and existing economic conditions. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the patient and other third-party payors. Bad debt recoveries are charged against the allowance account as realized.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Other assets - The covenant not-to-compete from the purchase of Prairie Pines Retirement Center is being amortized over a period of 20 years. Refinancing costs are being amortized over the life of the twenty-year mortgage. Amortization of \$1,184 and \$4,090 is included in the accompanying statements of operations for the years ended September 30, 2012 and 2011, respectively.

Excess of revenues over expenses - The statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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 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 are adjusted in future periods as final settlements are determined.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

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

Charity care - The Hospital provides care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Hospital's charity care policy. This care is provided 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, such amounts are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care provided. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. The charges related to this care totaled \$278,417 and \$303,234 in 2012 and 2011, respectively. In addition, the Hospital provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients.

Donor-restricted gifts - Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying statements of operations.

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

Operating income - Operating income includes transactions deemed by management to be ongoing, major or central to the provision of services provided by the Hospital. Revenues and expenses to provide these services are reported as operating income for the reporting period. Non-operating gains (losses) as well as gifts and grants for the purchase of property and equipment are excluded from operating income.

Income taxes - The Hospital accounts for uncertainty in income taxes using the provisions of Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities.

The Hospital is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. The Hospital is not liable for income taxes if it operates within the confines of its exempt status, though the Hospital may be responsible for taxes on unrelated business activities. In the event of an examination of the income tax returns, the tax liability of the Hospital could be changed if an adjustment in the tax exempt purpose or income from unrelated business activities is ultimately determined by the taxing authorities.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

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

**Income taxes (continued) –**

As of September 30, 2012 the Hospital had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Hospital's income tax filings are subject to audit by various taxing authorities. The Hospital is no longer subject to federal and state income tax examinations by taxing authorities for years before 2009. Management continually evaluates expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings. The Hospital believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

**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** - Inpatient acute care services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits, thereof, by the Medicare fiscal intermediary. Other outpatient services related to Medicare beneficiaries are paid based on fee schedule amounts. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2010.

**Medicaid** - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. Certain outpatient services are reimbursed based on a percentage rate representing the average ratio of costs to charges. Other outpatient services related to Medicaid beneficiaries are paid based on fee schedule amounts. The prospectively determined per-diem rates are not usually subject to retroactive adjustment.

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

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)**

The following illustrates the Hospital's patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2012</u>	<u>2011</u>
Gross patient service revenue	\$ <u>20,011,405</u>	\$ <u>18,959,584</u>
Deductions from patient service revenue		
Medicare	\$ 2,928,562	\$ 2,400,862
Medicaid	490,098	312,833
Charity care	278,417	303,234
Other	<u>1,084,068</u>	<u>436,377</u>
Total deductions from patient service revenue	\$ <u>4,781,145</u>	\$ <u>3,453,306</u>
Net patient service revenue	\$ <u><u>15,230,260</u></u>	\$ <u><u>15,506,278</u></u>

**NOTE 3 - ASSETS WHOSE USE IS LIMITED**

The composition of assets whose use is limited at September 30, 2012 and 2011, is set forth in the following schedule. Investments are stated at fair market value.

	<u>2012</u>	<u>2011</u>
By Board for capital improvements:		
Cash	\$ 629,388	\$ 644,237
Short-term investment	18,940	18,919
Interest receivable	<u>106</u>	<u>203</u>
Total capital improvements	\$ <u>648,434</u>	\$ <u>663,359</u>
By Board for funded depreciation:		
Cash	\$ 181,283	\$ 88,948
Short-term investments	<u>167,889</u>	<u>166,514</u>
Total funded depreciation	\$ <u>349,172</u>	\$ <u>255,462</u>
Under loan agreements:		
Cash	\$ 62,471	\$ 62,377
Short-term investments	<u>85,194</u>	<u>84,942</u>
Total under loan agreements	\$ <u>147,665</u>	\$ <u>147,319</u>
Total assets whose use is limited	\$ <u><u>1,145,271</u></u>	\$ <u><u>1,066,140</u></u>

Cash and short-term investments consist primarily of certificates of deposit and money market funds.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 4 - FAIR VALUE OF ASSETS**

The Hospital accounts for fair value of investments using the provisions of Financial Accounting Standards Board (FASB) ASC 820, *fair value measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements.

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

- Level 1**            Quoted price in active markets for identical assets or liabilities.
  
- Level 2**            Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially all of the full term of the assets or liabilities.
  
- Level 3**            Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for assets measured at fair value.

Mutual Funds - Valued at fair value on quoted prices in active markets, of shares held by the Hospital at year end.

Securities - Are stated at the original purchase price, the information received from Frontier Communications is limited.

Other Investments - Valued at redemption value, which approximates fair value. Balance consists of certificates of deposits.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 4 - FAIR VALUE OF ASSETS (CONTINUED)**

Fair Value Measurements Using For the year ended September 30, 2012				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 46,778	\$ 46,778	\$ -	\$ -
Securities	16,574	-	-	16,574
Other Investments	<u>208,671</u>	<u>-</u>	<u>-</u>	<u>208,671</u>
Total Assets	<u>\$ 272,023</u>	<u>\$ 46,778</u>	<u>\$ -</u>	<u>\$ 225,245</u>

Fair Value Measurements Using For the year ended September 30, 2011				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual Funds	\$ 45,605	\$ 45,605	\$ -	\$ -
Securities	16,574	-	-	16,574
Other Investments	<u>208,196</u>	<u>-</u>	<u>-</u>	<u>208,196</u>
Total Assets	<u>\$ 270,375</u>	<u>\$ 45,605</u>	<u>\$ -</u>	<u>\$ 224,770</u>

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 4 - FAIR VALUE OF ASSETS (CONTINUED)**

**Level 3 Gains and Losses**

The following table sets forth a summary of changes in the fair value of the plan's Level 3 assets for the year ended December 31, 2012 and 2011.

	Level 3 Assets		
	For the Year Ended September 30, 2012		
	Investments in Securities	Other Investments	Total
Balance, beginning of year	\$ 16,574	\$ 208,196	\$ 224,770
Redemptions	-	(3,585)	(3,585)
Interest and dividends	-	4,060	4,060
Balance, end of year	\$ 16,574	\$ 208,671	\$ 225,245

	Level 3 Assets		
	For the Year Ended September 30, 2011		
	Investments in Securities	Other Investments	Total
Balance, beginning of year	\$ 16,574	\$ 403,942	\$ 420,516
Redemptions	-	(198,223)	(198,223)
Interest and dividends	-	2,477	2,477
Balance, end of year	\$ 16,574	\$ 208,196	\$ 224,770

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 5 - PROPERTY AND EQUIPMENT**

A summary of property and equipment at September 30, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Land	\$ 192,452	\$ 192,452
Buildings and improvements	31,122,870	31,107,876
Equipment and furnishings	<u>6,167,853</u>	<u>4,546,666</u>
Total property and equipment	\$ 37,483,175	\$ 35,846,994
Less accumulated depreciation	<u>13,281,050</u>	<u>11,049,778</u>
Net property and equipment	\$ 24,202,125	\$ 24,797,216
Construction in progress	<u>127,717</u>	<u>1,069,065</u>
Property and equipment, net	<u>\$ 24,329,842</u>	<u>\$ 25,866,281</u>

Depreciation and amortization expense is included in the accompanying financial statements as follows:

	<u>2012</u>	<u>2011</u>
Hospital	\$ 2,201,250	\$ 1,919,478
Amortization	1,184	5,194
Prairie Pines Retirement Center	<u>84,646</u>	<u>172,746</u>
Total	<u>\$ 2,287,080</u>	<u>\$ 2,097,418</u>

**NOTE 6 - PROFESSIONAL LIABILITY INSURANCE**

The Hospital purchases professional and general liability insurance to cover medical malpractice claims. There are no known claims or incidents arising from services provided to patients.

**NOTE 7 - PENSION PLAN**

The Hospital participates in a defined contribution retirement plan. Substantially all full-time employees are eligible to participate in this plan. The Hospital's cost is determined by a specific percentage of each participating employee's salary, reduced by credits arising from contributions made by the Hospital for employees who had been terminated and were not 100% vested. Total pension expense for the years ended September 30, 2012 and 2011, was \$138,509 and \$141,727, respectively.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net asset balances are as follows:

	<u>2012</u>	<u>2011</u>
Dialysis	\$ 108,393	\$ 108,393
New Hospital	121,099	103,389
Hospice	4,457	2,030
Other	<u>1,930</u>	<u>1,830</u>
Total	\$ <u>235,879</u>	\$ <u>215,642</u>

**NOTE 9 – LINE OF CREDIT**

The Hospital obtained a line of credit with Platte Valley Bank on December 8, 2010 to cover the cost of the electronic health records system. The loan will be paid back once the system is completely put in place. Maturity of the loan had been extended to July 1, 2012, at which time the loan was to be paid in full. The interest rate on the note was 4.5%. The balance of the loan at September 30, 2012 and 2011 is \$0 and \$1,388,879, respectively.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 10 - LONG-TERM DEBT**

Long-term debt as of September 30, 2012 and 2011, consists of the following:

	2012			2011	
	Current Maturities	Long-term Maturities	Total	Total	
United States Department of Agriculture, Rural Development, original loan amount of \$480,000, 5.75%, payable in monthly installments of \$3,020, including principal and interest, to June, 2012.	\$ -	\$ -	\$ -	\$ -	24,159
Promissory note from the City of Chadron in the amount of \$120,460, 0%, payable in annual installments of \$12,046 until January, 2012.	-	-	-	12,046	
Equipment loan from First National Bank – North Platte, original loan amount of \$250,000, 7.5%, payable in monthly installments of \$2,639, including principal and interest, to June 2013.	12,715	-	12,715	42,547	
Promissory note from Bank of the West, original loan amount of \$3,886,156, 6.0%, payable in monthly installments of \$33,000, including principal and interest, to September 2019.	261,277	2,089,860	2,351,137	2,592,067	
Permanent loan from First National Bank of Omaha, in the amount of \$8,900,000 with an interest rate of 2.75% over the current 10 year LIBOR swap with a floor of 7.0%, monthly payments to be amortized over 20 years.	244,401	8,187,570	8,431,971	8,658,038	
Permanent loan from the USDA, in the amount of \$8,900,000 with an interest rate of 4.125% year, monthly payments to be amortized over 40 years.	100,399	8,570,806	8,671,205	8,768,678	
	<u>\$ 618,792</u>	<u>\$ 18,848,236</u>	<u>\$ 19,467,028</u>	<u>\$ 20,097,505</u>	

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 10 - LONG-TERM DEBT (CONTINUED)**

Substantially all of the Hospital's assets are pledged as collateral for the Rural Development and First National Bank-Omaha loans described above. Substantially all of the assets of the Prairie Pines Retirement Center, including the building and equipment, are pledged as collateral for the promissory note payable to Bank of the West.

Under terms of the loan agreements with the U.S. Department of Agriculture, the Hospital is required to maintain a reserve account. The funds in this account are to be used for repairing or replacing any damage to the Hospital building due to catastrophe, for making extensions or improvements to the Hospital with the consent of the U.S. Department of Agriculture or, if necessary, for making debt service payments. The Hospital has complied with the reserve requirements.

Scheduled principal repayments on long-term debt for the next five fiscal years and thereafter are as follows:

<u>September 30,</u>	<u>Principal Amount</u>	<u>Interest Amount</u>	<u>Total</u>
2013	\$ 618,792	\$ 1,041,484	\$ 1,660,276
2014	758,927	1,008,783	1,767,710
2015	792,053	976,046	1,768,099
2016	826,977	944,165	1,771,142
2017	863,811	910,450	1,774,261
2018 and thereafter	<u>15,606,468</u>	<u>12,400,272</u>	<u>28,006,740</u>
	<u>\$ 19,467,028</u>	<u>\$ 17,281,200</u>	<u>\$ 36,748,228</u>

A summary of interest costs incurred during the years ended September 30, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Interest expensed		
Hospital	\$ 1,022,347	\$ 946,418
Prairie Pines Retirement Center	<u>199,985</u>	<u>216,835</u>
Total interest expense	<u>\$ 1,222,332</u>	<u>\$ 1,163,253</u>

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 11 - NONCANCELABLE OPERATING LEASES**

The Hospital has various noncancelable equipment and vehicle operating leases as follows:

<u>Company</u>	<u>Item</u>	<u>Lease payment</u>	<u>Date</u>	<u>Frequency</u>
<u>Chadron Community Hospital</u>				
Creekridge Capital	Ominicell equipment	\$ 1,986	03/10	60/MO.
Creekridge Capital	Ominicell equipment	2,095	04/10	60/MO.
Creekridge Capital	Ominicell equipment	1,280	05/10	60/MO.
Creekridge Capital	Ominicell equipment	1,439	05/10	60/MO.
DeLage Landen	Abaxix/Piccol	388	06/10	36/MO.
DeLage Landen	Mamography Imaging	8,744	06/10	60/MO.
Front Range Leasing	Cat Scan	11,393	08/10	12/MO.
Front Range Leasing	Cat Scan	18,348	08/11	48/MO.
Eagle Chevrolet	Equinox Lease	447	07/10	36/MO.
GE Healthcare	Ominicell equipment	3,205	07/08	60/MO.
GE Healthcare	Ominicell equipment	230	11/08	60/MO.
GE Healthcare	Ominicell equipment	1,577	08/08	60/MO.
GE Healthcare	Ominicell equipment	153	08/08	60/MO.
GE Healthcare	Medicine manager	126	07/08	60/MO.
GE Capital	Kodak CR850	2,484	05/08	60/MO.
Great American Leasing	Scanner upgrade	236	09/08	36/MO.
Great American Leasing	Document scanner	174	10/08	60/MO.
Great American Leasing	Scanning equipment	326	08/08	36/MO.
Key Equipment Finance	Imagechecker	1,603	10/08	48/MO.
Leasing Assoc. Barrington	Bedside monitors	2,289	05/10	60/MO.
Leasing Assoc. Barrington	Telerehab system	700	10/10	36/MO.
Leasing Assoc. Barrington	Sun smart card sol	2,548	10/10	48/MO.
Olympus	Surgical equipment	2,548	12/010	48/MO.
Olympus	Surgical equipment	36	12/10	48/MO.
Phillips	Ultrasound	4,095	12/10	60/MO.
Xerox Corporation	WC238	345	03/08	36/MO.
Xerox Corporation	WC255	481	03/08	36/MO.
Xerox Corporation	WC255	481	03/08	36/MO.
Xerox Corporation	WM201	103	01/08	36/MO.
Xerox Corporation	WC201	103	01/08	36/MO.
Xerox Corporation	WC201	116	06/08	36/MO.
Xerox Corporation	WC201	97	11/08	36/MO.
Xerox Corporation	WC355OX Workcentre	46	08/10	36/MO.
Xerox Corporation	WCM20I	102	07/10	36/MO.
Xerox Corporation	WCM20I	91	08/10	36/MO.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 11 - NONCANCELABLE OPERATING LEASES (CONTINUED)**

<u>Company</u>	<u>Item</u>	<u>Lease payment</u>	<u>Date</u>	<u>Frequency</u>
<u>Chadron Community Hospital (continued)</u>				
Xerox Corporation	WC3550X Workcentre	42	08/12	36/MO.
Xerox Corporation	WC4250X	126	08/12	36/MO.
Xerox Corporation	WCM20I	86	07/10	36/MO.
Xerox Corporation	WC5740A	303	07/10	36/MO.
Xerox Corporation	WC7765P Workcentre	649	07/10	36/MO.
Xerox Corporation	WCM20I	116	07/10	36/MO.
Xerox Corporation	WCM20I	112	08/10	36/MO.
Xerox Corporation	WC4260X	208	08/10	36/MO.
Xerox Corporation	WC4260X	183	08/10	36/MO.
First Data	Linkpoint reader	35	06/08	48/MO.
Pitney Bowes	Postage meter	1,089	10/08	22/QTR.
Great Plains Communications	Telephone system	464	02/08	60/MO.
Great Plains Communications	Telephone system D/P	92	02/08	60/MO.
Metro Leasing	Winscribe-Dictating system	469	05/08	36/MO.
Region West Medical Center	HH Software Package	780	07/09	60/MO.
Virginia Leasing	2008 Escape	479	05/08	24/MO.
<u>Prairie Pines</u>				
Xerox Corporation	WM201	118	09/12	36/MO.
Xerox Corporation	WCM20I	107	08/10	36/MO.
<u>Legend Buttes</u>				
Xerox Corporation	WM232	275	06/08	48/MO.
Xerox Corporation	WC5735	256	09/12	36/MO.
<u>Western Community Health</u>				
Virginia Leasing	2008 Escape	479	05/08	24/MO.
Xerox Corporation	WCM20I	95	07/08	36/MO.
Xerox Corporation	WC 7665	738	07/08	36/MO.
Xerox Corporation	WCM20I	108	07/08	36/MO.
Xerox Corporation	WC7556	678	11/11	36/MO.
Xerox Corporation	WC4250X	139	11/11	36/MO.
Xerox Corporation	WC4250X	139	11/11	36/MO.
Virginia Leasing	2011 Explorer	484	04/11	24/MO.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 11 - NONCANCELABLE OPERATING LEASES (CONTINUED)**

Total lease expense was \$768,879 and \$669,691 for the years ended September 30, 2012 and 2011, respectively. Future minimum rentals under the Hospital's operating leases for the twelve months ended September 30, are as follows:

2013	\$ 593,224
2014	410,715
2015	284,271
2016	-
2017	-
	<u>                    </u>
	<u>\$ 1,288,210</u>

**NOTE 12 - CONCENTRATION OF CREDIT RISK**

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

	<u>2012</u>	<u>2011</u>
Medicare	44%	39%
Medicaid	7%	8%
Other third-party payors	17%	17%
Patients – private pay	<u>32%</u>	<u>36%</u>
	<u>100%</u>	<u>100%</u>

The Hospital maintains its cash deposits in bank accounts and certificates of deposit, which, at times, may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes it is not exposed to any significant credit risk on cash and cash equivalents.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 13 - COMMITMENTS**

The Hospital has entered into an agreement with Panhandle Health Services (PHS), a Nebraska non-profit corporation, in which PHS provides management services to the Hospital. The agreement provides for a hospital administrator and any other support services that are provided by PHS. Total management fees paid for the year ended September 30, 2012 and 2011, were \$206,501 and \$200,820, respectively.

Effective October 1, 1998, the Hospital entered into an agreement with the City of Crawford, Nebraska and began operating a rural health clinic in a portion of the Legend Buttes Health Services building in Crawford, Nebraska. The major terms of the agreement allow the Hospital to operate a rural health clinic and pay the general operating expenses, utilities and repairs on the building. The City maintains ownership of the building and is responsible for the building insurance and major repairs. In addition, the City commits up to \$60,000 of sales tax revenue as financial support for the operation of the rural health clinic. During the years ended September 30, 2012 and 2011, the City contributed \$30,000 and \$30,000, respectively, to the Hospital for financial support of the clinic.

**NOTE 14 - GUARANTEED LIABILITIES**

The Hospital has guaranteed the mortgage debt of Bobby Griese's, which is due in monthly installments with a final balloon payment due during the Hospital's fiscal year ended September 30, 2014. Mr. Griese is the Hospital's physical therapist. The Hospital would be obligated to perform under this guarantee if Mr. Griese failed to pay principal and interest payments to the lender when due. Including accrued interest, the maximum potential amount of future (undiscounted) payments under this guarantee would be \$30,618. However, if the Hospital were required to honor the guarantee, it would be entitled to the property owned by Mr. Griese that collateralizes the loans. As of September 30, 2012, Mr. Griese is current with his debt payments.

**NOTE 15 - FUNCTIONAL EXPENSES**

The Hospital provides general health care services to residents within its geographic location. Expenses included in the statements of operations relate to the provision of these services as follows:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 13,881,088	\$ 16,255,926
General and administrative	<u>5,672,381</u>	<u>2,790,244</u>
	<u>\$ 19,553,469</u>	<u>\$ 19,046,170</u>

**NOTE 16 - SELF-FUNDED INSURANCE**

The Hospital maintains a self-funded Health Care Plan for the benefit of eligible employees and their dependents. All full-time employees working at least 30 hours per week are eligible for the plan. No benefits are provided for retired employees or their dependents. The plan covers the first \$10,000 of eligible benefits per employee or dependent coverage. Total expenses for the employee group health plan for the years ended September 30, 2012 and 2011, were \$735,017 and \$1,048,443, respectively.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

**September 30, 2012 and 2011**

**NOTE 17 - NONMONETARY TRANSACTIONS AND GRANTS**

The financial statements include WIC food vouchers received and disbursed with the WIC federal program as both a revenue and expense. The amount recorded for the years ended September 30, 2012 and 2011, was \$508,171 and \$503,287, respectively. The Hospital also administers several other Community Health Services Federal and State Grants in which the revenues and expenses have been included in the accompanying financial statements. These grants are mostly on a reimbursement basis in which the Hospital is reimbursed from the grant program providers for costs incurred that are directly related to the grant program. Indirect costs for the years ended September 30, 2012 and 2011 are reimbursed at a rate of 24.0% and 24.4%, respectively for each year.

**NOTE 18 - RELATED PARTY TRANSACTIONS**

The Hospital sold Lot 1, Block 1, West Hills Seventh Addition to E&T Developers, a Nebraska corporation, whose sole shareholders are members of the board. The total sale price of the property was \$65,000. The Hospital is carrying the loan with a 4.95% annual rate. Payments are due as each duplex unit is constructed and sold. At the time of a sale of a unit 1/5 of the purchase price per unit or the sum of \$13,000 is due to the Hospital together with interest accrued on that portion of the unpaid purchase price. The land and any improvements collateralize the loan.

**NOTE 19 - CONSTRUCTION COMMITMENTS**

In November 2003, the voters of the City of Chadron approved passage by special election of LB 840 sales tax funds in which a portion of the additional .5% sales tax designated for economic development will be used to fund the construction of a new hospital. Under the terms of the sales tax passage, 90% of the additional collections are allocated to economic development and 10% to community projects. The Hospital will be allocated 75% of the 90% economic development for the construction project. The tax shall automatically terminate on October 1, 2014, unless it is extended by a vote of the electorate prior to that date. Amounts received for the years ended September 30, 2012 and 2011 were \$281,376 and \$277,603, respectively. Construction was completed June 2010. The construction loan is held with First National Bank of Omaha with the final loan through USDA. Total project costs were \$22,078,849 and are funded with long-term financing, grants and proceeds from the sales tax.

**NOTE 20 - SUBSEQUENT EVENTS**

Subsequent events have been evaluated through June 3, 2013 the date in which the financial statements were available to be issued.

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SINGLE AUDIT REPORTS AND SCHEDULES**

**For the Year Ended September 30, 2012**

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadon, Nebraska**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended September 30, 2012**

<u>Federal Grantor/ Pass-through Grantor/ Program</u>	<u>State Passthrough Number</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>			
Passed through Nebraska Department of Health and Human Services:			
Special Supplemental Nutrition Program For Women, Infants, and Children	2010IW100343	10.557	\$ 508,171
Commodity Supplemental Food Program	2010IY800543	10.565	<u>19,067</u>
Total U.S. Department of Agriculture			<u>\$ 527,238</u>
<u>U.S. Department of Health and Human Services</u>			
Direct Funding:			
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease ( Ryan White)		93.918	\$ 113,876
Passed through State Office of Rural Health:			
Centers for Disease Control and Prevention Investigations and Technical Assistance	1310B1NEMCHS	93.283	30,508
Passed through Nebraska Department of Health and Human Services:			
Immunization Grants	090CCH722562	93.268	10,887
Family Planning Services	0307H00097D	93.217	142,991
HIV Prevention Activities Health Department Based Centers for Disease Control and Prevention Investigations and Technical Assistance	090CCU723501	93.940	4,150
Maternal and Child Health Services Block Grant to the States	09UD001421A	93.283	451
HIV Formula Grants	1308B1NEMCHS	93.994	11,000
	03HA70042V	93.917	<u>6,999</u>
Total U.S. Department of Health & Human Services			<u>\$ 320,862</u>
<u>U.S. Department of Education</u>			
Passed through Nebraska Department of Education:			
Special Education Grants for Infants and Families with Disabilities	96-2303-248-2C11-07	84.181	\$ <u>5,929</u>
Total U.S. Department of Education			<u>\$ 5,929</u>
Total Federal Expenditures			<u>\$ 854,029</u>

See accompanying independent auditors' report  
and notes to the schedule of expenditures of federal awards.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF**  
**FEDERAL AWARDS**

**For the Year Ended September 30, 2012**

**NOTE 1 - BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Chadron Community Hospital Corporation for the year ended September 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Hospital.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principals contained in OMB Circular A-122, Cost Principals of Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE 3 - NON-MONETARY GRANTS**

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) includes WIC Food Vouchers of \$508,171.

**NOTE 4 - LOANS OUTSTANDING**

The Hospital had the following federal loan program balance outstanding at September 30, 2012. This loan balance is not included in the federal expenditures presented in the schedule of expenditures of federal awards since it does not have continuing compliance requirements.

United States Department of Agriculture, Rural Development	\$8,671,205
--	-------------

See accompanying independent auditors' report.



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

To the Board of Directors  
Chadron Community Hospital Corporation  
Chadron, Nebraska

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Chadron Community Hospital Corporation (a nonprofit organization), which comprise the statement of financial position as of September 30, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Chadron Community 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 Chadron Community Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of the 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2012-1, 2012-2, 2012-3 and 2012-4.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Chadron Community Hospital's financial statements are free from 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*.

### **Response to Findings**

Chadron Community Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Chadron, Nebraska  
June 3, 2013



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE**  
**FOR EACH MAJOR PROGRAM**  
**AND ON INTERNAL CONTROL OVER COMPLIANCE**  
**REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors  
Chadron Community Hospital Corporation  
Chadron, Nebraska

**Report on Compliance for Each Major Federal Program**

We have audited Chadron Community Hospital's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Chadron Community Hospital's major federal programs for the year ended September 30, 2012. Chadron Community Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Chadron Community Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chadron Community Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Chadron Community Hospital's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Chadron Community Hospital Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2012.

### **Report on Internal Control Over Compliance**

Management of Chadron Community Hospital Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chadron Community Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chadron Community Hospital's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Chadron, Nebraska  
June 3, 2013

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended September 30, 2012**

**Section I - Summary of auditor's results:**

*Financial Statements*

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_yes       x   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses?    x   yes    \_\_\_\_\_none reported

Noncompliance material to financial statements noted? \_\_\_\_\_yes       x   no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_yes       X   no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_yes       X   none reported

Type of auditor's report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? \_\_\_\_\_yes       X   no

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_yes       X   no

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**For the Year Ended September 30, 2012**

**Section II – Financial Statement Findings:**

Current Year Findings

2012-1 Segregation of duties

Criteria: Internal controls should be implemented to allow the entity to initiate, authorize, record, processes or report financial data reliably in accordance with generally accepted accounting principles such that misstatements are prevented or detected by management.

Condition: The entity has not taken the necessary steps to implement necessary segregation of duties.

Cause/Effect: Unknown. Inadequate segregation of duties.

Recommendations: Management should implement additional internal controls to prevent and detect misstatements.

Response: A staff person has been added to allow the finance staff to recognize issues on a timely basis and correct them effectively.

2012-2 Preparation of financial statements

Criteria: Internal controls should be designed to provide for the preparation of financial statements being audited.

Condition: The entity does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements and accompanying notes for the entity.

Cause/Effect: Cost of implementation unrealistic for the entity. Internal control deficiency.

Recommendations: Management should review the situation to determine whether they accept the risk, due to the cost of implementing an internal control system which would provide for the preparation of the financial statements being audited.

Response: Management accepts this risk because of the cost of implementing an internal control system which would provide for the preparation of the financial statements being audited.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**For the Year Ended September 30, 2012**

2012-3 General ledger review and reconciliation

Criteria: Internal controls should be designed to provide for the proper recording of transactions without reclassifying adjusting entries continuously being made.

Condition: The Entity does not have an internal control system designed to provide for the proper recording of revenues and expenditures, and journal entries are not properly supported or approved.

Cause/Effect: Lack of controls over the recording of transactions. Internal control deficiency.

Recommendations: Management should review the situation and determine the necessary changes needed to be made in order for transactions to be properly recorded, reduce the number of journal entries necessary for financial statement presentation, and when journal entries are necessary they are supported by proper documentation and approval.

Response: Management recognizes the issues and will eliminate all possible journal entries. The additional staff person allows the department to identify issues more quickly and will include proper documentation and approval signatures.

2012-4 Clearance Accounts

Criteria: Accounts receivable balances should represent patient amounts owed to the hospital.

Condition: Multiple "Dummy Clearance Accounts" remain on the books at 09/30/12 as well as a couple of new CCHTEST accounts. These accounts should be cleaned up so that the accounts receivable balance is reflective of actual amounts owed to the hospital.

Cause/Effect: Accounts receivable balance is misstated.

Recommendations: Review accounts and take necessary actions to zero accounts. Clean up or reclass any "Non accounts receivable" accounts that are listed within accounts receivable and skewing the accounts receivable balance.

Response: Management has discussed the issue with the accounts receivable department and will proceed to clear up the dummy accounts.

**CHADRON COMMUNITY HOSPITAL CORPORATION**

**Chadron, Nebraska**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**For the Year Ended September 30, 2012**

Prior Year Findings

2011-1 Segregation of duties

Comment:

The Hospital has not implemented sufficient segregation of duties as a primary objective in the prevention of fraud and errors. Under these conditions, the most effective controls lie in management's ability to decentralize authorization, custody, and recording within each transaction cycle.

Management's Response:

Management is aware of this situation and will continue to evaluate its organizational structure and improve separation of duties.

Resolution:

Restated as current year finding 2012-1.

2011-2 Preparation of financial statements

Comment:

The Hospital does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of this size. 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

Management's Response:

Management accepts this risk because of the cost of implementing an internal control system which would provide for the preparation of the financial statements being audited.

Resolution:

Restated as current year finding 2012-2.

2011-3 General ledger review and reconciliation

Comment:

The Hospital's general ledger was not being reviewed to determine the accuracy with which transactions were posted. Various items, such as payroll posting, were noted as needing correction throughout the completion of the audit. The Hospital used numerous journal entries to correct for miscoding of transactions.

Management's Response:

The conversion to new accounting software did not go as smoothly as was expected, and resulted in many accounts and transactions not being properly converted and recorded.

Resolution:

Restated as current year finding 2012-3.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**

**For the Year Ended September 30, 2012**

2011-4 Loan compliance

Comment:

The USDA's compliance requirements based on the letter of conditions indicates that the hospital must maintain 60 days of cash on hand. Based on the testing performed the cash on hand is less than 60 days.

Management's Response:

Management stated that they were informed they could include accounts receivable as part of the cash on hand. Due to the new electronic health records system accounts receivable statements had not been sent out, therefore reducing the collections and cash on hand. It was confirmed with the USDA that the loan would not be called due to this non-compliance.

Resolution:

Sixty days of cash on hand is being maintained.

**Section III – Federal Award Findings and Questioned Costs**

Current Year Findings

There were no federal award findings and questioned costs for the year ended September 30, 2012.

Prior Year Findings

There were no federal award findings and questioned costs for the year ended September 30, 2011.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SUPPLEMENTAL SCHEDULES**

**For the Years Ended September 30, 2012 and 2011**

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FUNCTIONAL EXPENSES FOR WESTERN COMMUNITY HEALTH RESOURCES**  
**(A Department of Chadron Community Hospital Corporation)**

**For the Year Ended September 30, 2012**

	Family Advocates	Special Supplemental Nutrition Program for Women, Infant and Children	Commodity Supplemental Food Program	Family Health Services	Respite	Children Health	School Health	Cardiovascular and Diabetes	Human Immunodeficiency Virus	Immunization	Community Organizer	Contracted Services	Other Programs	Total
Salaries and benefits	\$ 143,753	\$ 141,216	\$ 12,405	\$ 125,376	\$ 41,112	\$ 56,917	\$ 48,915	\$ 23,275	\$ 16,632	\$ 22,234	\$ 17,580	\$ 26,210	\$ 47,776	\$ 723,401
Purchased services	548	-	-	7,912	-	-	-	-	106,613	631	-	-	-	115,704
Supplies	(23,158)	3,282	913	118,253	52,361	1,538	(652)	3,907	405	315	248	8,264	(63,895)	101,781
Printing	113	15	38	24	99	251	-	1	-	2	-	137	-	680
Marketing and advertising	-	25	-	490	12,291	-	-	-	-	-	-	-	-	12,806
Postage	53	284	51	258	267	19	-	2	14	3	-	94	(419)	626
Communications	3,410	5,284	349	3,296	1,946	1,445	682	518	1,012	390	388	946	23	19,689
Repairs and maintenance	4,371	1,408	164	1,468	615	747	782	91	111	282	194	352	-	10,585
Rent	5,581	6,506	124	4,961	12	20	15	427	409	14	6	308	-	18,383
Training and development	2,198	1,326	-	1,449	247	135	150	9	5	19	49	4	-	5,591
Travel and mileage	12,176	3,806	2,765	2,520	1,920	4,883	116	1,340	2,336	28	189	473	199	32,751
Lodging and meals	313	1,744	64	955	598	499	-	4	2	8	-	-	781	4,968
Accounting and legal	562	-	-	-	-	-	-	-	-	-	-	-	-	562
	\$ 149,920	\$ 164,896	\$ 16,873	\$ 266,962	\$ 111,468	\$ 66,454	\$ 50,008	\$ 29,574	\$ 127,539	\$ 23,926	\$ 18,654	\$ 36,788	\$ (15,535)	\$ 1,047,527

See accompanying independent auditors' report.

**CHADRON COMMUNITY HOSPITAL CORPORATION**  
**Chadron, Nebraska**

**SCHEDULE OF FUNCTIONAL EXPENSES FOR WESTERN COMMUNITY HEALTH RESOURCES**  
**(A Department of Chadron Community Hospital Corporation)**

**For the Year Ended September 30, 2011**

	Family Advocates	Special Supplemental Nutrition Program for Women, Infant and Children	Commodity Supplemental Food Program	Family Health Services	Respite	Children Health	School Health	Cardiovascular and Diabetes	Human Immunodeficiency Virus	Immunization	Community Organizer	Contracted Services	Other Programs	Total
Salaries and benefits	\$ 136,189	\$ 140,527	\$ 10,431	\$ 142,863	\$ 44,340	\$ 49,762	\$ 62,713	\$ 44,471	\$ 18,975	\$ 20,873	\$ 27,871	\$ 21,964	\$ 40,878	\$ 761,657
Purchased services	(289)	450	-	8,324	-	-	-	-	132,240	-	-	-	-	140,725
Supplies	9,251	3,829	251	(64,034)	17,779	(12,143)	(1,005)	(57,939)	348	(2,763)	(3,479)	(10,768)	(5,336)	(126,009)
Printing	563	128	168	121	498	801	-	11	3	48	-	110	-	2,451
Marketing and advertising	92	2,082	-	(250)	12,569	1,824	-	62	1	17	-	-	-	16,398
Postage	65	189	43	322	182	29	-	4	4	3	-	185	640	1,666
Communications	2,740	4,531	266	3,833	2,376	1,059	823	1,288	800	352	699	873	3,584	23,224
Repairs and maintenance	2,040	991	10	1,054	534	760	851	291	70	235	240	314	4,204	11,594
Rent	3,360	6,651	103	4,508	-	762	170	1,245	49	3	37	-	2,495	19,383
Training and development	2,387	984	65	3,771	884	2,024	575	6	1,047	9	133	1	1,639	13,525
Travel and mileage	14,950	5,187	2,947	3,593	2,336	5,074	-	4,621	6,437	50	435	230	812	46,672
Lodging and meals	761	1,153	576	-	1,219	298	-	137	116	-	198	-	744	5,202
Miscellaneous	1,063	-	-	-	-	-	-	-	-	-	-	-	-	1,063
	\$ 173,172	\$ 186,702	\$ 14,860	\$ 103,905	\$ 82,717	\$ 50,250	\$ 64,127	\$ (5,803)	\$ 160,090	\$ 18,827	\$ 26,134	\$ 12,910	\$ 49,660	\$ 917,551

See accompanying independent auditors' report.