

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT

For the Years Ended September 30, 2014 and 2013

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, 2014 and 2013, and the related statements of operations, changes in 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 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 financial position of Chadron Community Hospital Corporation as of September 30, 2014 and 2013, 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.

Other Matters

Other Information

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.

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) on pages 37 – 38 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2015, 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.



Chadron, Nebraska
June 26, 2015

CHADRON COMMUNITY HOSPITAL CORPORATION

Chadron, Nebraska

BALANCE SHEETS

September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 1,355,269	\$ 1,374,720
Patient accounts receivable, net of allowances for uncollectible accounts of \$679,938 and \$902,823	3,107,321	2,303,138
Other receivables	377,804	319,745
Inventories	301,037	244,993
Prepaid expenses	179,779	158,817
Estimated third-party payor settlements	<u>661,562</u>	<u>608,364</u>
Total current assets	\$ 5,982,772	\$ 5,009,777
Assets whose use is limited	1,224,939	1,174,553
Property and equipment, net	21,184,730	22,814,098
Notes receivable, related parties	52,000	52,000
Other assets	<u>9,843</u>	<u>13,933</u>
Total assets	<u>\$ 28,454,284</u>	<u>\$ 29,064,361</u>
Liabilities and Net Assets		
Current liabilities		
Current maturities of long-term debt	\$ 696,853	\$ 697,632
Accounts payable	567,065	602,699
Accrued salaries, vacation and benefits payable	745,731	706,208
Other accrued liabilities	<u>365,701</u>	<u>382,175</u>
Total current liabilities	\$ 2,375,350	\$ 2,388,714
Long-term debt, net of current maturities	17,499,469	18,149,597
Other liabilities	<u>77,094</u>	<u>82,341</u>
Total liabilities	<u>\$ 19,951,913</u>	<u>\$ 20,620,652</u>
Net Assets		
Temporarily restricted	\$ 238,873	\$ 239,959
Unrestricted	<u>8,263,498</u>	<u>8,203,750</u>
Total net assets	<u>\$ 8,502,371</u>	<u>\$ 8,443,709</u>
Total liabilities and net assets	<u>\$ 28,454,284</u>	<u>\$ 29,064,361</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted revenues and other support		
Net patient service revenue	\$ 17,983,061	\$ 15,502,329
Less provision for uncollectible amounts	<u>(1,531,576)</u>	<u>(1,393,848)</u>
Net patient service revenue, less provision for uncollectible amounts	\$ 16,451,485	\$ 14,108,481
Community health service revenue	1,216,290	1,088,478
Prairie Pines revenue	1,308,721	1,327,230
Legend Buttes Clinic revenue	348,145	373,691
Other revenue	<u>1,672,943</u>	<u>922,124</u>
Total unrestricted revenues and other support	\$ <u>20,997,584</u>	\$ <u>17,820,004</u>
Expenses		
Salaries and benefits	\$ 9,775,745	\$ 8,976,737
Purchased services	2,434,281	1,738,121
Supplies and other	5,390,092	5,578,717
Depreciation and amortization	2,274,952	2,339,519
Interest	<u>1,070,282</u>	<u>1,160,291</u>
Total expenses	\$ <u>20,945,352</u>	\$ <u>19,793,385</u>
Operating income (loss)	\$ <u>52,232</u>	\$ <u>(1,973,381)</u>
Other income (loss)		
Investment income	\$ <u>7,516</u>	\$ <u>3,782</u>
Increase (decrease) in unrestricted net assets	\$ <u><u>59,748</u></u>	\$ <u><u>(1,969,599)</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Unrestricted net assets		
Operating income (loss)	\$ 52,232	\$ (1,973,381)
Non-operating income, net	<u>7,516</u>	<u>3,782</u>
Increase (decrease) in unrestricted net assets	\$ <u>59,748</u>	\$ <u>(1,969,599)</u>
Temporarily restricted net assets		
Temporarily restricted gifts and bequests	\$ 23,348	\$ 4,080
Net assets released from restrictions	<u>(24,434)</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	\$ <u>(1,086)</u>	\$ <u>4,080</u>
Increase in net assets	\$ 58,662	\$ (1,965,519)
Net assets, beginning of year	<u>8,443,709</u>	<u>10,409,228</u>
Net assets, end of year	\$ <u><u>8,502,371</u></u>	\$ <u><u>8,443,709</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, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Operating income (loss)	\$ 52,232	\$ (1,973,381)
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities:		
Depreciation and amortization	2,274,952	2,339,519
Provision for uncollectible accounts	(171,026)	155,680
(Increase) decrease in current assets:		
Patient accounts receivable	(633,157)	858,106
Other receivables	(58,059)	(20,451)
Inventories	(56,044)	(8,525)
Prepaid expenses	(20,961)	(29,414)
Estimated third-party payor settlements	(53,198)	(369,483)
Increase (decrease) in current liabilities:		
Accounts payable	(35,634)	(81,572)
Accrued salaries, vacation and benefits payable	39,523	488
Other accrued liabilities	(16,474)	56,403
Net cash flows provided by operating activities	<u>\$ 1,322,154</u>	<u>\$ 927,370</u>
Cash flows from investing activities:		
Purchase of property and equipment	\$ (506,564)	\$ (573,297)
Construction in progress	(134,931)	(264,411)
Interest income	7,516	3,782
Deposits (withdrawals) from assets whose use is limited or restricted	(50,386)	(29,282)
Net change in restricted contributions	(1,086)	4,080
Rental deposits	(5,247)	10,127
Net cash flows (used in) investing activities	<u>\$ (690,698)</u>	<u>\$ (849,001)</u>
Cash flows from financing activities:		
Payments on long-term debt	\$ (650,907)	\$ (619,799)
Net cash flows (used in) financing activities	<u>\$ (650,907)</u>	<u>\$ (619,799)</u>
Net increase (decrease) in cash and cash equivalents	\$ (19,451)	\$ (541,430)
Cash and cash equivalents, beginning of year	<u>1,374,720</u>	<u>1,916,150</u>
Cash and cash equivalents, end of year	<u>\$ 1,355,269</u>	<u>\$ 1,374,720</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 1,113,880</u>	<u>\$ 1,222,332</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, 2014 and 2013

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 Corporation 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.

New accounting and reporting standards - In July 2011, the Financial Accounting Standards Board (FASB) issued ASU No. 2011-07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The amendments in this ASU require certain health care entities to change the presentation of their statements of revenues, expenses and changes in net position by presenting the provision for bad debts associated with patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosures about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosure of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This ASU became effective for the Hospital on October 1, 2012.

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.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Property and equipment - Acquisitions of property and equipment over \$5,000 are recorded at cost. 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. Useful lives are determined using guidelines from the American Hospital Association Guide for *Estimated Useful Lives of Depreciable Hospital Assets*. 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.

	<u>Life in Years</u>
Land improvements	10-20
Leasehold improvements	15-40
Buildings	15-40
Fixed equipment	5-20
Major moveable equipment	3-20

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Patient accounts receivable - Accounts receivable are reduced by an allowance for doubtful accounts.

In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with uninsured/selfpay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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 \$4,870 and \$4,090 is included in the accompanying statements of operations for the years ended September 30, 2014 and 2013, 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, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in the statements of revenues, expenses and changes in net position. The Hospital estimates the costs associated with providing the services under its charity care policy were \$318,186 and \$412,090 for the years ended September 30, 2014 and 2013, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient service revenue) to the gross charges forgone under its charity care policy.

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, 2014 and 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued) –

As of September 30, 2014 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 2010. 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. The Hospital is designated as a Critical Access Hospital (CAH) which primarily allows cost-based reimbursement for both Medicare and Medicaid hospital services.

On August 2, 2011, President Obama signed the Budget Control Act of 2011 (BCA) into law. This law tasked a newly appointed committee to devise a budget to decrease the projected federal deficit by a set amount over the period of fiscal years 2012 to 2021. The committee was unable to compromise on a solution by the deadline of December 23, 2011, which under the BCA, automatically set off an across-the-board reduction in federal spending, also known as "Sequestration". Effective as of April 1, 2013, the Medicare program has implemented sequestration and reduced its payments to all hospitals by 2%. The Hospital has estimated the impact of sequestration will reduce its Medicare reimbursement by approximately \$34,400 on an annual basis. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute, inpatient nonacute (swing-bed), and outpatient services related to Medicare beneficiaries are paid primarily based on a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor (MAC). Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as hospice and certain laboratory and diagnostic services that are reimbursed under a prospectively determined fee schedule. 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. The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2012.

Medicaid - Inpatient acute and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of the annual Medicare cost report by the Hospital and audits thereof by the MAC. There are certain services which the Hospital receives reimbursement based on a prospectively determined fee schedule.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Revenue from the Medicare and Medicaid programs accounted for approximately 46% and 8%, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2014. Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 10%, respectively, of the Hospital's gross patient revenue for the year ended September 30, 2013. Laws and regulations *governing* the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that actual cost report settlements in the near future will be different from recorded estimates.

The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges.

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

	<u>2014</u>	<u>2013</u>
Net patient service revenue:		
Gross patient service revenue:		
Medicare	\$ 9,852,461	\$ 9,552,956
Medicaid	1,790,863	1,944,799
Commercial insurance and other	10,021,829	8,674,332
Charity care deductions	<u>(318,186)</u>	<u>(514,172)</u>
Gross patient service Revenue (after charity care)	<u>\$ 21,346,967</u>	<u>\$ 19,657,915</u>
Contractual adjustments:		
Medicare	\$ 2,417,475	\$ 3,067,781
Medicaid	155,521	423,256
Commercial insurance and other	<u>790,910</u>	<u>664,549</u>
Total contractual adjustments	<u>\$ 3,363,906</u>	<u>\$ 4,155,586</u>
Net patient service revenue	\$ 17,983,061	\$ 15,502,329
Provision for bad debts	<u>(1,531,576)</u>	<u>(1,393,848)</u>
Net patient service revenue, Less provision for bad debts	<u>\$ 16,451,485</u>	<u>\$ 14,108,481</u>

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 3 - ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited at September 30, 2014 and 2013, is set forth in the following schedule. Investments are stated at fair market value.

	2014	2013
By Board for capital improvements:		
Cash	\$ 640,383	\$ 632,699
Short-term investment	18,968	18,928
Interest receivable	54	59
Total capital improvements	\$ 659,405	\$ 651,686
By Board for funded depreciation:		
Cash	\$ 224,864	\$ 182,859
Short-term investments	168,048	167,528
Total funded depreciation	\$ 392,912	\$ 350,387
Under loan agreements:		
Cash	\$ 87,249	\$ 87,179
Short-term investments	85,373	85,301
Total under loan agreements	\$ 172,622	\$ 172,480
Total assets whose use is limited	\$ 1,224,939	\$ 1,174,553

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

NOTE 4 - ELECTRONIC HEALTH RECORD INCENTIVE

The American Recovery and Reinvestment Act (Recovery Act) of 2009 provides for incentive payments beginning in federal fiscal year 2011 for eligible CAHs that are meaningful electronic health record (EHR) users. The Medicare incentive payment for a CAH is the product of its reasonable costs for the purchase of certified EHR technology and other software and hardware necessary to administer certified EHR technology times its Medicare inpatient share of services plus 20 percentage points. Once the CAH has attested with Medicare to meeting stage 1 meaningful use, the CAH can submit the required documentation and receive an interim incentive payment. The incentive payment is then subject to audit and retroactive settlement during the audit of the applicable Medicare cost report for that reporting period. The Medicaid incentive payment for a qualifying CAH is the product of its Medicaid share of services times the sum over 4 years of the base amount of \$2,000,000 plus the discharge related amount defined as \$200 for discharges 1,150 through 23,000 for the first payment year then a pro-rated amount of 75% in year 2, 50% in year 3, and 25% in year 4. The Medicaid incentive is payable over 3 years with 50% in year 1, 40% in year 2, and 10% in year 3.

At September 30, 2013, the Hospital has attested with Medicare to meeting stage 1 meaningful use. The Hospital has filed the required supporting data and received the year 1 payments of \$215,400 and \$267,250 for the Medicaid EHR incentive and \$346,348 and \$673,485 for the Medicare EHR incentive for the years ended September 30, 2014 and 2013, respectively.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 5 - 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.

Fair Value Measurements				
For the year ended September 30, 2014				
	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	\$ 46,869	\$ 46,869	\$ -	\$ -
Securities	16,574	-	-	16,574
Other Investments	208,946	-	-	208,946
Total Assets	<u>\$ 272,389</u>	<u>\$ 46,869</u>	<u>\$ -</u>	<u>\$ 225,520</u>

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 5 - FAIR VALUE OF ASSETS (CONTINUED)

Fair Value Measurements				
For the year ended September 30, 2013				
	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	\$ 46,357	\$ 46,357	\$ -	\$ -
Securities	16,574	-	-	16,574
Other Investments	<u>208,826</u>	<u>-</u>	<u>-</u>	<u>208,826</u>
Total Assets	<u>\$ 271,757</u>	<u>\$ 46,357</u>	<u>\$ -</u>	<u>\$ 225,400</u>

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, 2014 and 2013.

Level 3 Assets			
For the Year Ended September 30, 2014			
	Investments in Securities	Other Investments	Total
Balance, beginning of year	\$ 16,574	\$ 208,826	\$ 225,400
Interest and dividends	<u>-</u>	<u>120</u>	<u>120</u>
Balance, end of year	<u>\$ 16,574</u>	<u>\$ 208,946</u>	<u>\$ 225,520</u>

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 5 - FAIR VALUE OF ASSETS (CONTINUED)

Level 3 Gains and Losses (continued)

	Level 3 Assets		
	For the Year Ended September 30, 2013		
	Investments in Securities	Other Investments	Total
Balance, beginning of year	\$ 16,574	\$ 208,671	\$ 225,245
Interest and dividends	-	155	155
Balance, end of year	\$ 16,574	\$ 208,826	\$ 225,400

NOTE 6 - PROPERTY AND EQUIPMENT

A summary of property and equipment at September 30, 2014 and 2013 is as follows:

	2014	2013
Land	\$ 272,446	\$ 192,452
Buildings and improvements	31,715,603	31,350,356
Equipment and furnishings	6,575,447	6,514,125
Total property and equipment	\$ 38,563,496	\$ 38,056,933
Less accumulated depreciation	17,905,825	15,634,963
Net property and equipment	\$ 20,657,671	\$ 22,421,970
Construction in progress	527,059	392,128
Property and equipment, net	\$ 21,184,730	\$ 22,814,098

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

	2014	2013
Hospital	\$ 2,188,217	\$ 2,251,823
Amortization	4,090	4,870
Prairie Pines Retirement Center	82,645	84,826
Total	\$ 2,274,952	\$ 2,339,519

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 7 - 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 8 - 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, 2014 and 2013, was \$147,709 and \$141,752, respectively.

NOTE 9 - LONG-TERM DEBT

Long-term debt as of September 30, 2014 and 2013, consists of the following:

	2014		2013	
	Current Maturities	Long-term Maturities	Total	Total
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.	\$ 306,550	\$ 1,500,252	\$ 1,806,802	\$ 2,089,861
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 of \$69,576 to be amortized over 20 years to July, 2030.	281,557	7,643,782	7,925,339	8,187,609
Permanent loan from the USDA, in the amount of \$8,900,000 with an interest rate of 4.125% year, monthly payments of \$37,202 to be amortized over 40 years to July, 2050.	108,746	8,355,435	8,464,181	8,569,759
	<u>\$ 696,853</u>	<u>\$ 17,499,469</u>	<u>\$ 18,196,322</u>	<u>\$ 18,847,229</u>

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 9 - 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>
2015	\$ 696,853	\$ 975,878	\$ 1,672,731
2016	785,710	888,331	1,674,041
2017	855,499	854,869	1,710,368
2018	1,189,677	814,770	2,004,447
2019	501,466	772,977	1,274,443
2020 and thereafter	<u>14,167,117</u>	<u>10,137,593</u>	<u>24,304,710</u>
	<u>\$ 18,196,322</u>	<u>\$ 14,444,418</u>	<u>\$ 32,640,740</u>

A summary of interest costs incurred during the years ended September 30, 2014 and 2013, is as follows:

	<u>2014</u>	<u>2013</u>
Interest expensed		
Hospital	\$ 913,480	\$ 987,147
Prairie Pines Retirement Center	<u>156,802</u>	<u>173,144</u>
Total interest expense	<u>\$ 1,070,282</u>	<u>\$ 1,160,291</u>

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 10 - 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	Omnicell equipment	\$ 1,986	03/10	60/MO.
Creekridge Capital	Ominicell equipment	1,857	03/14	60/MO.
Creekridge Capital	Omnicell equipment	2,095	04/10	60/MO.
Creekridge Capital	Omnicell equipment	1,280	05/10	60/MO.
Creekridge Capital	Omnicell 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	18,348	08/11	48/MO.
Ally	Equinox Lease	447	07/10	36/MO.
Ally	Equinox Lease	261	10/13	36/MO.
GE Healthcare	Omnicell 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	1,801	10/10	48/MO.
Olympus	Surgical equipment	2,548	12/010	48/MO.
Olympus	Surgical equipment	36	12/10	48/MO.
Xerox Corporation	WC3550X Workcentre	42	08/12	36/MO.
Xerox Corporation	WC355OX Workcentre	46	08/10	36/MO.
Xerox Corporation	WC355OX Workcentre	51	07/13	36/MO.
Xerox Corporation	WCM20I	102	07/10	36/MO.
Xerox Corporation	WCM5335P	149	06/13	36/MO.
Xerox Corporation	WCM20I	91	08/10	36/MO.
Xerox Corporation	WCM20I	86	07/10	36/MO.
Xerox Corporation	WC4250X	162	07/13	36/MO.
Xerox Corporation	WC5740A	303	07/10	36/MO.
Xerox Corporation	5845APT	275	07/13	36/MO.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 10 - 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	WC7765P Workcentre	649	07/10	36/MO.
Xerox Corporation	W7855PT	550	09/13	36/MO.
Xerox Corporation	WC5335P	122	07/10	36/MO.
Xerox Corporation	WCM20I	112	08/10	36/MO.
Xerox Corporation	WC5335P	140	07/13	36/MO.
Xerox Corporation	WC4260X	208	08/10	36/MO.
Xerox Corporation	WC5335P	192	07/13	36/MO.
Xerox Corporation	WC4260X	183	08/10	36/MO.
Xerox Corporation	WC5335P	176	07/13	36/MO.
First Data	Linkpoint reader	35	06/08	48/MO.
Pitney Bowes	Postage meter	1,089	10/08	22/QTR.
Mail Finance	Postage meter	900	04/13	21/QTR.
Great Plains Communications	Telephone system	464	02/08	60/MO.
Great Plains Communications	Telephone system D/P	92	02/08	60/MO.
Great Plains Communications	Telephone system NH	1,059	06/10	60/MO.
Region West Medical Center	HH Software Package	780	07/09	60/MO.
<u>Prairie Pines</u>				
Xerox Corporation	WC4250X	126	08/12	36/MO.
<u>Legend Buttes</u>				
Xerox Corporation	WC5735	256	09/12	36/MO.
<u>Western Community Health</u>				
Xerox Corporation	WC4250X	139	11/11	36/MO.
Xerox Corporation	WC7556	678	11/11	36/MO.
Xerox Corporation	WC4250X	139	11/11	36/MO.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 10 - NONCANCELABLE OPERATING LEASES (CONTINUED)

Total lease expense was \$748,823 and \$768,879 for the years ended September 30, 2014 and 2013, respectively. Future minimum rentals under the Hospital's operating leases for the twelve months ended September 30, are as follows:

2015	\$ 380,180
2016	67,857
2017	25,880
2018	24,080
2019	<u>20,423</u>
	<u>\$ 518,420</u>

NOTE 11 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net asset balances are as follows:

	<u>2014</u>	<u>2013</u>
Dialysis	\$ 108,393	\$ 108,393
New Hospital	125,479	125,479
Hospice	-	4,657
Other	<u>5,001</u>	<u>1,430</u>
Total	<u>\$ 238,873</u>	<u>\$ 239,959</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>2014</u>	<u>2013</u>
Medicare	36%	47%
Medicaid	9%	10%
Other third-party payors	32%	20%
Patients – private pay	<u>23%</u>	<u>23%</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, 2014 and 2013

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, 2014 and 2013, were \$227,521 and \$224,537, respectively.

NOTE 14 - 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>2014</u>	<u>2013</u>
Health care services	\$ 15,333,278	\$ 13,960,690
General and administrative	<u>5,612,074</u>	<u>5,832,695</u>
	<u>\$ 20,945,352</u>	<u>\$ 19,793,385</u>

NOTE 15 - 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 \$35,000 of eligible benefits per employee or dependent coverage. Total expenses for the employee group health plan for the years ended September 30, 2014 and 2013, were \$1,174,358 and \$735,017, respectively.

NOTE 16 - 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, 2014 and 2013, was \$303,675 and \$311,425, 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, 2014 and 2013 are reimbursed at a rate of 22.0% and 22.0%, respectively for each year.

See accompanying independent auditors' report.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

September 30, 2014 and 2013

NOTE 17 - 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 receivable balance was \$52,000 as of September 30, 2014 and 2013.

NOTE 18 – SALES TAX 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 and subsequent debt repayment. 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 terminated on October 1, 2014. Amounts received for the years ended September 30, 2014 and 2013 were \$292,253 and \$282,626, respectively.

NOTE 19 - RECLASSIFICATIONS

The Hospital's 2013 financial statements have been reclassified to conform with the 2014 presentation.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through June 26, 2015 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, 2014

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadon, Nebraska

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2014

<u>Federal Grantor/ Pass-through Grantor/ Program</u>	<u>Federal CFDA Number</u>	<u>State Passthrough 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	10.557	2101Y800543	\$ 485,443
Commodity Supplemental Food Program	10.565	2101Y800543	<u>21,387</u>
Total U.S. Department of Agriculture			<u>\$ 506,830</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		\$ 154,524
Passed through Nebraska Department of Health and Human Services:			
Immunization Grants	93.268	090CCH722562	4,742
Family Planning Services	93.217	0307H00097D	135,768
HIV Prevention Activities Health Department Based	93.940	090UPS723501	2,675
HIV Formula Grants	93.917	03HAX070042V	<u>4,419</u>
Total U.S. Department of Health & Human Services			<u>\$ 302,128</u>
<u>U.S Department of Education</u>			
Passed through Nebraska Department of Education:			
Special Education Grants for Infants and Families with Disabilities	84.181	96-2303-248-2C11-07	\$ <u>6,583</u>
Total U.S. Department of Education			<u>\$ 6,583</u>
Total Federal Expenditures			<u>\$ 815,541</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, 2014

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, 2014. 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 \$303,675.

NOTE 4 - LOANS OUTSTANDING

The Hospital had the following federal loan program balance outstanding at September 30, 2014. 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	\$8,464,181
--	-------------

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 balance sheet as of September 30, 2014, and the related statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chadron Community Hospital Corporation'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 Corporation'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. 2014-001, 2014-002, and 2014-003.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chadron Community Hospital Corporation'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 Corporation'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 26, 2015



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 Corporation'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 Corporation's major federal programs for the year ended September 30, 2014. Chadron Community Hospital Corporation'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 Corporation'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 Corporation'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 Corporation'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 for the year ended September 30, 2014.

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 Corporation'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 Corporation'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.

Dwight A. Jackwood & Co. P.C.

Chadron, Nebraska
June 26, 2015

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2014

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? X yes _____no

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended September 30, 2014

Section II – Financial Statement Findings:

Current Year Findings

2014-001 Segregation of duties

Criteria: Internal controls should be implemented to allow the entity to initiate, authorize, record, process 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. Cross-training of finance functions should be implemented.

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

2014-002 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 is 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, 2014

2014-003 Clearance Accounts

Criteria:	Accounts receivable balances should represent patient amounts owed to the hospital.
Condition:	Multiple "Dummy Clearance Accounts" remain on the books at 09/30/14 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 by \$23,563.
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, 2014

Prior Year Findings

2013-001 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 2014-001.

2013-002 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 2014-002.

2013-003 Accounts receivable review and reconciliation

Comment:

The Hospital does not have an internal control system designed to provide for the proper reconciliation of the subsidiary accounts receivable detail to the general ledger. The accounts receivable subsidiary ledger did not agree with the general ledger.

Management's Response:

Management recognizes the issue and will adopt procedures to reconcile the subsidiary ledger with the general ledger on a timely basis.

Resolution:

Restated as current year finding 2014-003.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

For the Year Ended September 30, 2014

2013-004 Clearance Accounts

Comment:

Multiple "Dummy Clearance Accounts" remain on the books at 09/30/13 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.

Management's Response:

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

Resolution:

Restated as current year finding 2014-004

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, 2014.

Prior Year Findings

There were no federal award findings and questioned costs for the year ended September 30, 2013.

CHADRON COMMUNITY HOSPITAL CORPORATION
Chadron, Nebraska

SUPPLEMENTAL SCHEDULES

For the Years Ended September 30, 2014 and 2013

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, 2014

	Family Advocates	Special Supplemental Nutrition Program for Women, Infant and Children	Commodity Supplemental Food Program	Family Reproductive Health Services	Respite	Children Health	School Health	Cardiovascular and Diabetes	Human Immunodeficiency Virus	Immunization	Community Organizer	Contracted Services	Other Programs	Total
Salaries and benefits	\$ 221,484	\$ 136,547	\$ 14,707	\$ 162,651	\$ 43,634	\$ 72,378	\$ 12,125	\$ 30,182	\$ 19,092	\$ 32,416	\$ 11,124	\$ 26,541	\$ 28,990	\$ 811,871
Purchased services	-	-	-	1,456	-	16	-	-	69,765	-	495	-	-	71,732
Supplies	38,954	8,133	1,086	71,049	20,959	7,040	1,318	1,803	19,436	867	(408)	(3,286)	7,065	174,016
Printing	1,113	558	164	755	303	623	136	725	115	576	142	94	1	5,305
Marketing and advertising	3,033	5	-	261	4,672	106	-	-	-	-	-	-	-	8,077
Postage	415	163	354	511	819	161	2	322	143	55	30	213	238	3,426
Communications	8,004	2,794	151	2,976	975	1,183	131	518	51,061	445	219	570	31	69,058
Repairs and maintenance	3,410	2,089	249	2,317	760	1,390	216	474	337	581	242	550	59	12,674
Rent	1,985	5,064	60	2,590	26	46	10	296	64	59	-	18	-	10,218
Training and development	1,459	2,647	15	1,904	540	1,485	1	27	13	131	5	15	560	8,802
Travel and mileage	22,920	2,501	2,595	1,182	181	5,128	642	451	2,184	53	(120)	84	480	38,281
Lodging and meals	2,227	2,266	17	(201)	1,098	1,273	-	31	382	262	84	-	1,266	8,705
Accounting and legal	3,242	-	-	-	-	-	-	-	-	-	-	-	-	3,242
	<u>\$ 308,246</u>	<u>\$ 162,767</u>	<u>\$ 19,398</u>	<u>\$ 247,451</u>	<u>\$ 73,967</u>	<u>\$ 90,829</u>	<u>\$ 14,581</u>	<u>\$ 34,829</u>	<u>\$ 162,592</u>	<u>\$ 35,445</u>	<u>\$ 11,813</u>	<u>\$ 24,799</u>	<u>\$ 38,690</u>	<u>\$ 1,225,407</u>

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, 2013

	Family Advocates	Special Supplemental Nutrition Program for Women, Infant and Children	Commodity Supplemental Food Program	Family Reproductive Health Services	Respite	Children Health	School Health	Cardiovascular and Diabetes	Human Immunodeficiency Virus	Immunization	Community Organizer	Contracted Services	Other Programs	Total
Salaries and benefits	\$ 201,008	\$ 129,926	\$ 10,554	\$ 131,656	\$ 39,396	\$ 61,114	\$ 5,360	\$ 22,155	\$ 29,654	\$ 28,258	\$ 8,851	\$ 26,268	\$ 28,536	\$ 722,736
Supplies	(36,943)	3,078	46	62,674	31,542	1,173	(4,363)	2,961	143,622	2,974	(2,376)	4,710	(1,468)	207,630
Printing	615	983	219	716	1,346	444	1	90	37	4	62	330	4	4,851
Marketing and advertising	514	303	-	939	12,009	109	-	48	7,013	26	43	60	2	21,066
Postage	466	202	418	568	755	181	4	335	241	36	17	344	132	3,699
Communications	4,828	3,239	248	2,825	1,593	1,347	83	566	752	448	147	691	16	16,783
Repairs and maintenance	3,822	6,180	204	3,527	644	975	83	454	530	388	131	440	19	17,397
Rent	5,535	7,244	141	5,085	-	-	-	753	154	5	-	29	-	18,946
Training and development	1,067	348	(22)	1,895	388	163	1	11	1,760	13	3	305	2	5,934
Travel and mileage	20,857	4,293	3,159	3,415	3,314	8,025	67	1,024	10,552	37	241	315	140	55,439
Lodging and meals	2,149	1,263	617	544	844	211	-	-	1,717	-	-	82	228	7,655
Accounting and legal	2,803	-	-	-	-	-	-	-	-	-	-	-	-	2,803
Miscellaneous	200	-	-	-	-	-	-	-	-	-	-	-	-	200
	<u>\$ 206,921</u>	<u>\$ 157,059</u>	<u>\$ 15,584</u>	<u>\$ 213,844</u>	<u>\$ 91,831</u>	<u>\$ 73,742</u>	<u>\$ 1,236</u>	<u>\$ 28,397</u>	<u>\$ 196,032</u>	<u>\$ 32,189</u>	<u>\$ 7,119</u>	<u>\$ 33,574</u>	<u>\$ 27,611</u>	<u>\$ 1,085,139</u>

See accompanying independent auditors' report.