



Financial Statements  
June 30, 2013 and 2012



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People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Board of Trustees and Health Center Officials

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Rob Robinson	Chairman	2014
Lans Flickinger	Secretary	2016
Anne McMillan	Treasurer	2014
Connie Brown	Trustee	2016
Vacant	Vice Chairman	-
	<u>Health Center Officials</u>	
Ed Maahs	Interim Chief Executive Officer	
Ed Cooper	Interim Chief Financial Officer	



## **Independent Auditor's Report**

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

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

We have audited the accompanying financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position, 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 Health Center'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 Health Center'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 People's Memorial Hospital, d/b/a Buchanan County Health Center, as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of A Matter**

#### *Implementation of Standards*

As discussed in Note 13, People's Memorial Hospital, d/b/a Buchanan County Health Center, implemented new Governmental Accounting Standards Board Statements during fiscal year 2013.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 32 and 33 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013 on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.



Dubuque, Iowa  
September 10, 2013

This discussion and analysis of the financial performance of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), provides an overall review of the Health Center's financial activities and balances as of and for the years ended June 30, 2013, 2012, and 2011. The intent of this discussion is to provide further information on the Health Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health Center's financial statements, including the notes thereto to enhance their understanding of the Health Center's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the balance sheets, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health Center's finances.

The Health Center's financial statements offer short and long term information about its activities. The balance sheets include all of the Health Center's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). The balance sheets also provide the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health Center's operations over the past year and can be used to determine whether the Health Center has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statements of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## Financial Highlights

The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Health Center and the changes in it. The Health Center's net position - the difference between assets and liabilities - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Balance Sheet at June 30, 2013, indicates total assets of \$30,088,894, total liabilities of \$12,492,268 and net position of \$17,596,626.
- The Statements of Revenues, Expenses, and Changes in Net Position indicates total net patient and resident service revenue of \$18,076,328 remained similar to the previous fiscal year, and total operating expenses of \$18,814,901 increased 8.8% from the previous year, resulting in a gain from operations of \$239,459, an 85% decrease from the previous year. Net non-operating revenues of \$955,659 brings the excess of revenues over expenses to \$1,195,118, a 52% decrease from the prior year.
- The Health Center's current assets exceeded its current liabilities by \$6,770,623 at June 30, 2013, providing a 2.9 current ratio.
- The Health Center's total days of cash on hand at June 30, 2013 were 134.
- Gross outpatient charges increased 2.1% during fiscal year 2013.
- Nursing Home gross charges increased 6.9% during fiscal year 2013.
- Net days in accounts receivable continue to be very favorable at 58 days at June 30, 2013
- Statistical information:
  - 11,767- Nursing Home patient days (1.0% increase)
  - 1,236- Surgical Cases (6.6% increase)
  - 58,797- Laboratory tests (2.0% decrease)
  - 8,878- Radiology tests (9.2% decrease)
  - 17,418- Physical Therapy modalities (8.4% decrease)
  - 4,378- Emergency Room visits (0.3% increase)
  - 947- Acute Care patient days (4.6% increase)
  - 697- SNF Care patient days (0.0% increase)

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis  
June 30, 2013 and 2012

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Condensed Financial Statements  
Balance Sheets

	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 6,261,109	\$ 5,275,806	\$ 3,353,591
Patient and resident receivables, net of estimated uncollectibles	2,893,399	2,360,348	1,902,649
Succeeding year property tax	1,004,180	970,000	936,049
Estimated third-party payor settlements	-	260,000	-
Other	238,998	398,098	471,792
Total current assets	<u>10,397,686</u>	<u>9,264,252</u>	<u>6,664,081</u>
Assets Limited as to Use or Restricted	<u>1,064,761</u>	<u>1,055,880</u>	<u>1,449,980</u>
Capital Assets, Net	<u>18,434,951</u>	<u>15,640,167</u>	<u>16,314,912</u>
Other Assets			
Beneficial interest in charitable trust	148,000	148,000	148,000
Deferred financing costs, net	43,496	47,146	50,796
Total other assets	<u>191,496</u>	<u>195,146</u>	<u>198,796</u>
Total assets	<u>\$ 30,088,894</u>	<u>\$ 26,155,445</u>	<u>\$ 24,627,769</u>



People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis  
June 30, 2013 and 2012

Condensed Financial Statements  
Balance Sheets (continued)

	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 569,534	\$ 444,681	\$ 391,483
Accounts payable			
Trade	486,137	326,515	348,398
Construction	-	-	317,165
Estimated third-party payor settlements	232,000	-	650,000
Accrued expenses	938,234	852,900	789,080
Deferred revenue	396,978	119,063	91,599
Deferred revenue for succeeding year property tax receivable	<u>1,004,180</u>	<u>970,000</u>	<u>936,049</u>
Total current liabilities	<u>3,627,063</u>	<u>2,713,159</u>	<u>3,523,774</u>
<b>Noncurrent Liabilities</b>			
Deferred revenue, net of current portion	548,475	-	-
Deposits	2,150,125	2,260,900	1,959,000
Long-term debt, less current maturities	<u>6,166,605</u>	<u>4,779,878</u>	<u>5,254,053</u>
Total noncurrent liabilities	<u>8,865,205</u>	<u>7,040,778</u>	<u>7,213,053</u>
Total liabilities	<u>12,492,268</u>	<u>9,753,937</u>	<u>10,736,827</u>
<b>Net Position</b>			
Net investment in capital assets	9,000,212	8,154,708	8,715,376
Restricted	217,012	197,696	199,567
Unrestricted	<u>8,379,402</u>	<u>8,049,104</u>	<u>4,975,999</u>
Total net position	<u>17,596,626</u>	<u>16,401,508</u>	<u>13,890,942</u>
Total liabilities and net position	<u>\$ 30,088,894</u>	<u>\$ 26,155,445</u>	<u>\$ 24,627,769</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis  
Years Ended June 30, 2013 and 2012

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 18,076,328	\$ 18,070,789	\$ 16,189,469
Other operating revenues	978,032	848,857	784,854
Total Operating Revenues	<u>19,054,360</u>	<u>18,919,646</u>	<u>16,974,323</u>
Operating Expenses			
Salaries and wages	7,117,650	7,005,495	6,683,962
Supplies and other expenses	9,903,178	8,659,797	7,834,166
Depreciation and amortization	1,794,073	1,633,781	1,398,796
Total Operating Expenses	<u>18,814,901</u>	<u>17,299,073</u>	<u>15,916,924</u>
Operating Income	<u>239,459</u>	<u>1,620,573</u>	<u>1,057,399</u>
Nonoperating Revenues (Expenses)			
County tax revenue	975,484	933,495	909,012
Noncapital grants and contributions	16,175	30,215	22,599
Investment income	52,117	52,484	52,647
Interest expense	(152,086)	(184,730)	(225,361)
Rental income	65,301	48,529	47,268
Gain (loss) on disposal of capital assets	(1,332)	-	470
Net Nonoperating Revenues	<u>955,659</u>	<u>879,993</u>	<u>806,635</u>
Revenues in Excess of Expenses	1,195,118	2,500,566	1,864,034
Contributions for Capital Assets	<u>-</u>	<u>10,000</u>	<u>80,000</u>
Change in Net Position	1,195,118	2,510,566	1,944,034
Net Position, Beginning of Year	<u>16,401,508</u>	<u>13,890,942</u>	<u>11,946,908</u>
Net Position, End of Year	<u><u>\$ 17,596,626</u></u>	<u><u>\$ 16,401,508</u></u>	<u><u>\$ 13,890,942</u></u>

### **Capital Assets**

The Health Center has completed the conversion to almost all the new hospital software package (Meditech 6.0). Documentation was submitted in May for the Medicare Electronic Health Record incentive and in late June we received the funding in excess of \$1,000,000 for stage one of the incentive program. In April 2013, the Health Center completed the installation of an in-house MRI unit. The new Patient Rooms/Master Plan was started in early 2013 with an anticipated ground breaking in early 2014. A number of adjacent properties have been acquired to help facilitate the expansion.

### **Long-Term Debt**

Buchanan County Health Center had \$569,534 and \$6,166,605, respectively, in short-term and long-term debt for the year ended June 30, 2013 and \$444,681 and \$4,779,878, respectively, in short-term and long-term debt for the year ended June 30, 2012. The previous debt, as well as new borrowings of \$2,000,000 in the current year, was incurred to update the facility and continue to invest in new equipment and technology.

### **Economic and Other Factors and Next Year's Budget**

The Health Center's Board and management consider many factors when preparing the fiscal year 2014 budget. Of primary consideration in the 2014 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Nursing Care Center reimbursement
- Staffing benchmarks
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances
- Medical staff issues
- Lower return on investments

### **Summary**

The Health Center's Board of Trustees and Administrative Council continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 220 employees provide to every person they serve. We would also like to thank each member of the Health Center's medical staff for their dedication and support provided.

**Contacting the Health Center's Finance Department**

The Health Center's financial statements are designed to present users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Buchanan County Health Center  
1600 First Street East  
Independence, Iowa 50644

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,261,109	\$ 5,275,806
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,224,000 in 2013 and \$1,640,000 in 2012	2,893,399	2,360,348
Succeeding year property tax	1,004,180	970,000
Estimated third-party payor settlements	-	260,000
Other	15,049	36,983
Supplies	192,630	173,943
Prepaid expense	31,319	187,172
Total current assets	<u>10,397,686</u>	<u>9,264,252</u>
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under debt agreements	69,012	49,696
By board for capital improvements	995,749	1,006,184
Total assets limited as to use or restricted	<u>1,064,761</u>	<u>1,055,880</u>
Capital Assets - Note 4		
Capital assets not being depreciated	1,524,333	628,881
Depreciable capital assets, net of accumulated depreciation	16,910,618	15,011,286
Total capital assets, net	<u>18,434,951</u>	<u>15,640,167</u>
Other Assets		
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs, net of accumulated amortization of \$29,504 in 2013 and \$25,854 in 2012	43,496	47,146
Total other assets	<u>191,496</u>	<u>195,146</u>
Total assets	<u>\$ 30,088,894</u>	<u>\$ 26,155,445</u>

See Notes to Financial Statements

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Balance Sheets  
June 30, 2013 and 2012

	2013	2012
Liabilities and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 569,534	\$ 444,681
Accounts payable		
Trade	486,137	326,515
Estimated third-party payor settlements	232,000	-
Accrued expenses		
Salaries and wages	282,590	237,842
Vacation	499,312	541,194
Payroll taxes and other	156,332	73,864
Deferred revenue	122,741	119,063
Deferred electronic health records incentive revenue - Note 12	274,237	-
Deferred revenue for succeeding year property tax receivable	1,004,180	970,000
	3,627,063	2,713,159
Noncurrent Liabilities		
Deferred electronic health records incentive revenue, net of current portion - Note 12	548,475	-
Deposits - Note 7	2,150,125	2,260,900
Long-term debt, less current maturities - Note 6	6,166,605	4,779,878
	8,865,205	7,040,778
	12,492,268	9,753,937
Net Position		
Net investment in capital assets	9,000,212	8,154,708
Restricted		
Expendable for debt service	69,012	49,696
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	8,379,402	8,049,104
	17,596,626	16,401,508
	\$ 30,088,894	\$ 26,155,445

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$1,366,700 in 2013 and \$1,329,875 in 2012) - Note 2	\$ 18,076,328	\$ 18,070,789
Other operating revenues	<u>978,032</u>	<u>848,857</u>
Total Operating Revenues	<u>19,054,360</u>	<u>18,919,646</u>
Operating Expenses		
Salaries and wages	7,117,650	7,005,495
Supplies and other expenses	9,903,178	8,659,797
Depreciation and amortization	<u>1,794,073</u>	<u>1,633,781</u>
Total Operating Expenses	<u>18,814,901</u>	<u>17,299,073</u>
Operating Income	<u>239,459</u>	<u>1,620,573</u>
Nonoperating Revenues (Expenses)		
County tax revenue	975,484	933,495
Noncapital grants and contributions	16,175	30,215
Investment income	52,117	52,484
Interest expense	(152,086)	(184,730)
Rental income	65,301	48,529
Loss on disposal of capital assets	<u>(1,332)</u>	<u>-</u>
Net Nonoperating Revenues	<u>955,659</u>	<u>879,993</u>
Revenues in Excess of Expenses	1,195,118	2,500,566
Contributions for Capital Assets	<u>-</u>	<u>10,000</u>
Change in Net Position	1,195,118	2,510,566
Net Position, Beginning of Year	<u>16,401,508</u>	<u>13,890,942</u>
Net Position, End of Year	<u>\$ 17,596,626</u>	<u>\$ 16,401,508</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Receipts of patient and resident service revenue	\$ 18,038,955	\$ 16,730,554
Other receipts	1,822,678	946,330
Payments of salaries and wages	(7,114,784)	(6,896,852)
Payments of supplies and other expenses	(9,523,922)	(8,755,282)
	3,222,927	2,024,750
Cash Flows from Noncapital Financing Activities		
County tax revenue received	975,484	933,495
Noncapital grants and contributions received	16,175	30,215
	991,659	963,710
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(4,586,539)	(1,272,551)
Contributions for capital assets	-	10,000
Proceeds from residency deposits	80,500	393,900
Payments of residency deposits	(191,275)	(92,000)
Proceeds from issuance of debt	2,000,000	-
Payment of principal on debt	(488,420)	(415,977)
Payment of interest on debt	(152,086)	(184,730)
	(3,337,820)	(1,561,358)
Net Cash used for Capital and Related Financing Activities		
Cash Flows from Investing Activities		
(Increase) decrease in assets limited as to use or restricted	(8,881)	394,100
Investment income received	52,117	52,484
Rental income received	65,301	48,529
	108,537	495,113
Net Cash Provided by Investing Activities		
Net Increase in Cash and Cash Equivalents	985,303	1,922,215
Cash and Cash Equivalents at Beginning of Year	5,275,806	3,353,591
Cash and Cash Equivalents at End of Year	\$ 6,261,109	\$ 5,275,806



People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Cash Flows  
Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 239,459	\$ 1,620,573
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,790,423	1,630,131
Amortization	3,650	3,650
Provision for bad debts	1,366,700	1,329,875
Changes in assets and liabilities		
Receivables	(1,877,817)	(1,690,101)
Estimated third-party payor settlements	492,000	(910,000)
Supplies	(18,687)	(34,332)
Prepaid expense	155,853	10,553
Trade accounts payable	159,622	(26,883)
Accrued expenses	85,334	63,820
Deferred revenue	826,390	27,464
Net Cash Provided by Operating Activities	\$ 3,222,927	\$ 2,024,750

## **Note 1 - Organization and Significant Accounting Policies**

### **Organization**

People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), located in Independence, Iowa, is a 25-bed public hospital and a 39-bed nursing care center, organized under Chapter 347A of the Iowa Code and governed by a five member Board of Trustees elected for alternating terms of six years. The Health Center also operates an independent living center (Oak View), which develops housing facilities within the Independence, Iowa, area for retired individuals with a lifelong plan for independent living and dependent care.

### **Tax Exempt Status**

The Health Center is an Iowa non-profit corporation and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Health Center is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose, as applicable.

The Health Center believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Health Center would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

### **Reporting Entity**

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Health Center to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Health Center. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of one year or less, excluding assets limited as to use or restricted.

### **Basis of Presentation**

The balance sheet displays the Health Center's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

- *Net Investment in Capital Assets* consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, capital lease obligations, and other debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted net position:*

*Nonexpendable* – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

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

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

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

#### **Measurement Focus and Basis of Accounting**

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

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

#### **Patient and Resident Receivables**

Patient and resident receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed.

Patient and resident accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health Center 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 and residents who have third-party coverage, the Health Center 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 self-pay patients and residents (which includes both patients and residents without insurance and patients and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients and residents are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rate (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.

The Health Center's process for calculating the allowance for doubtful accounts for self-pay patients and residents has not significantly changed from June 30, 2012 to June 30, 2013. The Health Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Health Center has not significantly changed its charity care or uninsured discount policies during fiscal years 2012 or 2013.

### **Property Tax Receivable**

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

### **Supplies**

Supplies are stated at lower of average cost or market.

### **Assets Limited as to Use or Restricted**

Assets limited as to use include 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.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health Center for its stated purposes. Restricted funds also include assets which are restricted by debt agreements.

### **Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Capital assets donated for Health Center operations are recorded as additions to net position at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The estimated useful lives of capital assets are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

### **Deferred Financing Costs**

Deferred financing costs are amortized over the period the related obligation is outstanding using the straight-line method.

### **Compensated Absences**

Health Center employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the balance sheet based on pay rates that are in effect at June 30, 2013 and 2012.

### **Deferred Revenue**

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of advance payments for the nursing home, the succeeding year property tax receivable, and electronic health record incentive payment receipts.

### **Operating Revenues and Expenses**

The Health Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including interest income, taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

### **Net Patient and Resident Service Revenue**

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Health Center recognizes patient and resident service revenue associated with services provided to patients and residents who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Health Center recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated. On the basis of historical experience, a certain portion of the Health Center's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Health Center records a provision for bad debts related to uninsured patients in the period the services are provided.

### **Charity Care and Community Benefits**

The Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Health Center's charity care policy were \$333,240 and \$264,304, for the years ended June 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were \$181,000 and \$137,000 at June 30, 2013 and 2012, based on an average ratio of cost to gross charges.

In addition, the Health Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Health Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

### **Electronic Health Record Incentive Payments**

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

#### *Medicare*

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

As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the Health Center must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over the life of the qualifying assets.

### *Medicaid*

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Health Center recognizes Medicaid EHR incentive payments in the year received.

EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.

### **Grants and Contributions**

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

### **Investment Income**

Interest on cash and deposits is included in nonoperating revenues and expenses.

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$170,566 and \$47,754 for advertising costs for the years ended June 30, 2013 and 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Reclassifications**

Reclassifications have been made to the June 30, 2012, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

## **Note 2 - Net Patient and Resident Service Revenue**

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

**Medicare:** The Health Center is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services at cost with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare fiscal intermediary. The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2010. Clinical services are paid on a cost basis or a fixed fee schedule.

### **Medicaid:**

**Health Center:** Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2010.

**Nursing Care Center:** Routine services rendered to nursing care center residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

**Other Payors:** The Health Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health Center under these agreements may include prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 48% and 8%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2013, and 43% and 9%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2012. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient and resident service revenue for the year ended June 30, 2013, decreased approximately \$157,000 and the net patient and resident service revenue for the year ended June 30, 2012, increased approximately \$164,000 due to prior-year retroactive adjustments in excess of amounts previously estimated.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims subsequent to October 1, 2007, are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health Center may incur a liability for a claims overpayment at a future date. The Health Center is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health Center and CMS.



A summary of patient and resident service revenue, contractual adjustments, policy discounts, and provision for bad debts for the years ended June 30, 2013 and 2012, is as follows:

	2013	2012
Total Patient and Resident Service Revenue	\$ 32,732,988	\$ 31,815,503
Contractual Adjustments		
Medicare	(7,418,680)	(7,216,872)
Medicaid	(1,680,418)	(1,440,099)
Other	(4,154,537)	(3,735,167)
Total contractual adjustments	(13,253,635)	(12,392,138)
Policy discounts	(36,325)	(22,701)
Net Patient and Resident Service Revenue	19,443,028	19,400,664
Provision for Bad Debts	(1,366,700)	(1,329,875)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 18,076,328	\$ 18,070,789

### Note 3 - Cash and Deposits

The Health Center's deposits in banks at June 30, 2013 and 2012, were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

At June 30, 2013 and 2012, the Health Center's carrying amounts of cash and deposits are as follows:

	2013	2012
Checking, Savings, and Money Market Accounts	\$ 5,349,962	\$ 4,371,915
Certificates of Deposit	1,966,770	1,947,497
Accrued Interest Receivable	9,138	12,274
	\$ 7,325,870	\$ 6,331,686
 Included in the Following Balance Sheet Captions:		
Cash and cash equivalents	\$ 6,261,109	\$ 5,275,806
Assets limited as to use or restricted	1,064,761	1,055,880
	\$ 7,325,870	\$ 6,331,686

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health Center are:

1. Safety: Safety and preservation of principal in the overall portfolio.
2. Liquidity: Maintaining the necessary liquidity to match expected liabilities.
3. Return: Obtaining a reasonable return.

The Health Center attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**Note 4 - Capital Assets**

Capital assets activity for the years ended June 30, 2013 and 2012, was as follows:

	June 30, 2012 Balance	Additions and Transfers	Deductions	June 30, 2013 Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 233,964	\$ 386,000	\$ -	\$ 619,964
Construction in progress	394,917	509,452	-	904,369
Total capital assets not being depreciated	<u>628,881</u>	<u>895,452</u>	<u>-</u>	<u>1,524,333</u>
<b>Capital Assets Being Depreciated</b>				
Land improvements	519,879	-	-	519,879
Buildings	19,763,696	2,116,183	-	21,879,879
Equipment	8,047,601	1,574,904	109,055	9,513,450
Total capital assets being depreciated	<u>28,331,176</u>	<u>3,691,087</u>	<u>109,055</u>	<u>31,913,208</u>
<b>Less Accumulated Depreciation for</b>				
Land improvements	276,399	24,811	-	301,210
Buildings	8,279,971	840,446	-	9,120,417
Equipment	4,763,520	925,165	107,722	5,580,963
Total accumulated depreciation	<u>13,319,890</u>	<u>1,790,422</u>	<u>107,722</u>	<u>15,002,590</u>
Total Capital Assets Being Depreciated, Net	<u>15,011,286</u>	<u>1,900,665</u>	<u>1,333</u>	<u>16,910,618</u>
Total Capital Assets, Net	<u>\$ 15,640,167</u>	<u>\$ 2,796,117</u>	<u>\$ 1,333</u>	<u>\$ 18,434,951</u>

Construction in progress at June 30, 2013, consists of approximately \$806,000 of costs incurred for the new hospital wing project. The new hospital wing project is still in the design and planning phase and the total estimated cost and completion date of the project are unknown. The remaining \$98,000 of costs in construction in progress relates to the Meditech software modules for public health and the operating room. These modules are expected to be completed in September 2014, and the estimated additional cost to complete these projects is \$48,000 which will be funded with internal funds.

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Notes to Financial Statements  
June 30, 2013 and 2012

	June 30, 2011 Balance	Additions and Transfers	Deductions	June 30, 2012 Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 129,964	\$ 104,000	\$ -	\$ 233,964
Construction in progress	553,007	(158,090)	-	394,917
Total capital assets not being depreciated	<u>682,971</u>	<u>(54,090)</u>	<u>-</u>	<u>628,881</u>
<b>Capital Assets Being Depreciated</b>				
Land improvements	510,284	9,595	-	519,879
Buildings	19,757,696	6,000	-	19,763,696
Equipment	7,053,720	993,881	-	8,047,601
Total capital assets being depreciated	<u>27,321,700</u>	<u>1,009,476</u>	<u>-</u>	<u>28,331,176</u>
<b>Less Accumulated Depreciation for</b>				
Land improvements	251,041	25,358	-	276,399
Buildings	7,433,889	846,082	-	8,279,971
Equipment	4,004,829	758,691	-	4,763,520
Total accumulated depreciation	<u>11,689,759</u>	<u>1,630,131</u>	<u>-</u>	<u>13,319,890</u>
Total Capital Assets Being Depreciated, Net	<u>15,631,941</u>	<u>(620,655)</u>	<u>-</u>	<u>15,011,286</u>
Total Capital Assets, Net	<u>\$ 16,314,912</u>	<u>\$ (674,745)</u>	<u>\$ -</u>	<u>\$ 15,640,167</u>

**Note 5 - Leases**

The Health Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total equipment rental expense for all operating leases for the years ended June 30, 2013 and 2012, was \$119,030 and \$98,314, respectively. The capitalized leased assets consist of:

	2013	2012
Equipment	\$ 527,726	\$ 527,726
Less Accumulated Amortization	(474,953)	(369,408)
	<u>\$ 52,773</u>	<u>\$ 158,318</u>

People's Memorial Hospital  
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June 30, 2013 and 2012

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

Year Ending June 30,	
2014	\$ 67,055
Less interest	(758)
Present Value of Minimum Lease Payments - Note 6	\$ 66,297

**Note 6 - Long-Term Debt**

A summary of changes in the Health Center's long-term debt for the years ended June 30, 2013 and 2012, is as follows:

	June 30 2012 Balance	Additions	Payments	June 30 2013 Balance	Amounts Due Within One Year
2.95% Hospital Promissory Note Payable to Bank of Iowa Due in monthly Installments of \$19,315 Through April 1, 2018	\$ -	\$ 2,000,000	\$ 43,739	\$ 1,956,261	\$ 160,748
0% Hospital Promissory Note, Payable to Independence Light & Power, Due in Monthly Installments of \$4,285 Through August 15, 2017	265,716	-	51,429	214,287	51,429
Hospital Revenue Note, Series 2004, Maturity Date of May 1, 2025, Interest Only Payments Through August 1, 2006, with Principal Payments Starting September 1, 2006 (A)	3,680,513	-	246,423	3,434,090	252,861
Hospital Revenue Note, Series 2009, Maturity Date of November 1, 2030, Interest Only Payments Through April 1, 2011 (B)	1,101,400	-	36,196	1,065,204	38,199
Capitalized Lease Obligation - Note 5	176,930	-	110,633	66,297	66,297
	\$ 5,224,559	\$ 2,000,000	\$ 488,420	6,736,139	\$ 569,534
Less Current Maturities				(569,534)	
Long-Term Debt, Less Current Maturities				\$ 6,166,605	

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	June 30 2011 Balance	Additions	Payments	June 30 2012 Balance	Amounts Due Within One Year
0% Hospital Promissory Note, Payable to Independence Light & Power, Due in Monthly Installments of \$4,285 Through August 15, 2017	\$ 317,144	\$ -	\$ 51,428	\$ 265,716	\$ 51,429
Hospital Revenue Note, Series 2004, Maturity Date of May 1, 2025, Interest Only Payments Through August 1, 2006, with Principal Payments Starting September 1, 2006 (A)	3,914,533	-	234,020	3,680,513	246,423
Hospital Revenue Note, Series 2009, Maturity Date of November 1, 2030, Interest Only Payments Through April 1, 2011 (B)	1,125,000	-	23,600	1,101,400	36,196
Capitalized Lease Obligation	283,859	-	106,929	176,930	110,633
	<u>\$ 5,640,536</u>	<u>\$ -</u>	<u>\$ 415,977</u>	5,224,559	<u>\$ 444,681</u>
Less Current Maturities				(444,681)	
Long-Term Debt, Less Current Maturities				<u>\$ 4,779,878</u>	

- (A) The interest rate on this note through November 1, 2011 was 4.5%. According to the loan documents, in December 2011 and 2018 (interest rate adjustment dates), the rate will adjust to a rate equal to 102% of the Federal Home Loan Bank Eighth District Seven-year Fixed Rate Advance as posted on the Federal Home Loan Bank of Des Moines website. On December 1, 2011, the interest rate was adjusted to 2.48%. The adjusted rate shall remain in effect until the next adjustment date.
- (B) Principal and interest payments on this note are due at a rate of 5.4% until November 1, 2014. In November 2014, 2019, and 2024, the interest rate will be adjusted to a fixed rate per annum equal to the average of the Federal Home Loan Bank Eleventh District Five-Year Advance Rate for the week immediately preceding an interest rate adjustment date as published by the Federal Home Loan Bank Board plus 225 basis points. The rate shall in no event be less than 4.75% per annum. The adjusted rate shall remain in effect until the next adjustment date or until final maturity of the notes, as appropriate.

Long-term debt maturities are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 569,534	\$ 210,707	\$ 780,241
2015	531,480	181,707	713,187
2016	545,564	167,623	713,187
2017	560,344	152,843	713,187
2018	1,572,609	132,390	1,704,999
2019-2023	1,783,952	365,937	2,149,889
2024-2028	965,765	122,772	1,088,537
2029-2031	206,891	13,808	220,699
	<u>\$ 6,736,139</u>	<u>\$ 1,347,787</u>	<u>\$ 8,083,926</u>

Substantially all of the outstanding debt is secured by the net revenues of the Health Center.

#### **Note 7 - Deposits**

The Health Center enters into residency agreements with the tenants of the Oak View independent living units. At the time a residency agreement is signed, the tenant must pay the full amount of an entrance payment. Prior to July 1, 2000, Oak View recognized 10% of the entrance payment as income in the year the residency agreement was entered into. The remaining 90% of the entrance payment is fully refundable upon termination of the residency agreement, regardless of the number of years a tenant occupies a unit. From July 1, 2000 through June 30, 2012, 20% of the entrance payment is recognized as income, and the remaining 80% of the entrance payment is fully refundable upon termination. As of July 1, 2012, 30% of the entrance payment is recognized as income, and the remaining 70% of the entrance payment is fully refundable upon termination. The refundable amounts are shown as deposits under noncurrent liabilities on the balance sheet.

#### **Note 8 - Pension and Retirement Benefits**

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary, and the Health Center is required to contribute 8.67% of annual covered payroll for the year ended June 30, 2013. Plan members were required to contribute 5.38% and 4.50% of their annual covered salary, and the Health Center was required to contribute 8.07% and 6.95% of annual covered payroll for the years ended June 30, 2012 and 2011, respectively. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$595,514, \$546,645, and \$449,353, respectively, equal to the required contributions for each year.

In addition to IPERS, the Health Center also has a 403(b) plan under which employees can participate after three months of service. The maximum matching contribution made by the Health Center may not exceed 4% of the employee's annual compensation. The Health Center's contributions to the plan for the years ended June 30, 2013, 2012, and 2011, were \$77,913, \$73,317, and \$74,649, respectively.

**Note 9 - Risk Management**

People's Memorial Hospital, d/b/a Buchanan County Health Center, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. This coverage has not changed significantly from the previous year. The Health Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

**Note 10 - Concentration of Credit Risk**

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2013 and 2012, was as follows:

	2013	2012
Medicare	41%	37%
Medicaid	6%	7%
Commerical Insurance	30%	31%
Other Third-Party Payors, Patients, and Residents	23%	25%
	100%	100%

**Note 11 - Contingencies**

**Malpractice Insurance**

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



### **Litigation, Claims, and Disputes**

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

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

The Hospital is currently investigating a compliance issue occurring in the normal course of its business. As the Health Center is currently in the discovery stage of this process, no potential liability has been accrued as of June 30, 2013.

### **Note 12 - Electronic Health Record Incentive Payments**

During the year ended June 30, 2013, the Health Center received \$1,096,949 as a lump sum incentive payment related to Medicare EHR. The Health Center is recognizing the revenue ratably over a four-year period. As a result, the Health Center recognized revenue of \$274,237 for the year ended June 30, 2013 as other operating revenue. The remaining deferred revenue of \$822,712 related to EHR incentive payments will be recognized as income over the next three years.

The Health Center recognized revenue of \$35,800 for the year ended June 30, 2013 related to the initial Medicaid EHR incentive payment received. The incentive payment is included in other operating revenue in the accompanying financial statements. This amount represents 40% of the potential benefit to be received from the State of Iowa Medicaid program. Since the remaining payments are contingent upon the Health Center meeting future EHR objectives, there are no amounts accrued as receivable from the State of Iowa Medicaid program.

### **Note 13 - New Accounting Pronouncements**

#### **Newly Implemented Standards**

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, *The Financial Reporting Entity*, which amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements— and Management's Discussion and Analysis—for State and Local Governments*. Changes under Statement No. 61 include an increased emphasis on financial relationships between primary governments and other organizations, clarification of the requirements to blend component units, and clarification of reporting equity interests in legally separate organizations. Statement No. 61 was effective for the Health Center's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. That Statement supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Statement 62 was effective for the Health Center's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. That Statement amends Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis–for State and Local Governments* and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Statement No. 63 was effective for financial statements for the Health Center's June 30, 2013, financial statements; however, the adoption of this Statement did not have a material impact on the financial statements.

#### **Standards Not Yet Implemented**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. That Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for financial statements for periods beginning after December 15, 2012, with early application encouraged. The Health Center has elected not to implement this Statement early for the year ended June 30, 2013.

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans*, which revises existing guidance for the financial reports of most pension plans and Statement No. 68, *Accounting and Financial Reporting for Pensions*, which revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. Among other provisions, Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). This Statement calls for immediate recognition of more pension expense than is currently required. The provisions in Statement No. 67 are effective for financial statements for periods beginning after June 15, 2013. The provisions in Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The Health Center has not elected to implement these statements early. The Health Center is currently evaluating the impact of these statements on the financial statements when implemented.

#### **Note 14 - Subsequent Events**

The Health Center has evaluated subsequent events through September 10, 2013, the date which the financial statements were available to be issued.



Required Supplementary Information  
June 30, 2013



**People's Memorial Hospital**  
**d/b/a Buchanan County Health Center**  
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position  
 – Budget and Actual (Cash Basis)  
 Required Supplementary Information  
 Year Ended June 30, 2013

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be					
Raised by Taxation	\$ 975,484	\$ -	\$ 975,484	\$ 970,000	\$ 5,484
Estimated Other					
Revenues/Receipts	<u>19,186,621</u>	<u>2,808,605</u>	<u>21,995,226</u>	<u>22,545,400</u>	<u>(550,174)</u>
	20,162,105	2,808,605	22,970,710	23,515,400	(544,690)
Expenses/Disbursements	<u>18,966,987</u>	<u>3,009,539</u>	<u>21,976,526</u>	<u>24,590,350</u>	<u>2,613,824</u>
Net	1,195,118	(200,934)	994,184	(1,074,950)	<u>\$ 2,069,134</u>
Balance, Beginning of Year	<u>16,401,508</u>	<u>(10,069,822)</u>	<u>6,331,686</u>	<u>5,052,836</u>	
Balance, End of Year	<u>\$ 17,596,626</u>	<u>\$ (10,270,756)</u>	<u>\$ 7,325,870</u>	<u>\$ 3,977,886</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2013.

For the year ended June 30, 2013, the Health Center's expenditures did not exceed the amount budgeted.



Supplementary Information  
June 30, 2013 and 2012





## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

We have audited the financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), as of and for the years ended June 30, 2013 and June 30, 2012, and our report thereon dated September 10, 2013, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, patient and resident receivables, collection statistics, supplies and prepaid expense, insurance, and statistical information are presented for the purposes of additional analysis and are not a required part of the financial statements. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, and supplies and prepaid expense are the responsibility of management and were derived from and relate 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 audits 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 schedules of net patient and resident service revenue, other operating revenues, operating expenses, and supplies and prepaid expense are fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient and resident receivables, collection statistics, insurance, and statistical information have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*Eide Bailly LLP*

Dubuque, Iowa  
September 10, 2013

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Net Patient and Resident Service Revenue  
Years Ended June 30, 2013 and 2012

	2013	2012
Patient and Resident Service Revenue		
Routine services - hospital	\$ 1,619,106	\$ 1,484,039
Routine services - nursing care center	1,987,784	1,859,103
Operating and recovery rooms	4,758,789	3,965,906
Delivery and labor rooms	2,101	-
Central services and supply	511,888	608,480
Emergency services	6,362,257	6,451,406
Laboratory and blood bank	4,982,762	5,027,477
Cardiac rehab	169,493	119,066
Electrocardiology	272,999	349,516
Sleep studies	262,715	274,094
Radiology	6,158,014	6,427,493
Pharmacy	2,365,863	1,999,963
Anesthesiology	1,183,374	1,104,276
Respiratory therapy	398,832	362,703
Physical therapy	1,736,593	1,749,606
Occupational therapy	125,426	-
Speech therapy	168,232	296,679
	33,066,228	32,079,807
Charity care (charges foregone)	(333,240)	(264,304)
	33,066,228	32,079,807
Total patient and resident service revenue*	\$ 32,732,988	\$ 31,815,503
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 6,372,272	\$ 5,942,690
Outpatient revenue	26,693,956	26,137,117
Charity care (charges foregone)	(333,240)	(264,304)
Total patient and resident service revenue	32,732,988	31,815,503
Contractual Adjustments		
Medicare	(7,418,680)	(7,216,872)
Medicaid	(1,680,418)	(1,440,099)
Other	(4,154,537)	(3,735,167)
Total contractual adjustments	(13,253,635)	(12,392,138)
Policy Discounts	(36,325)	(22,701)
Net Patient and Resident Service Revenue	19,443,028	19,400,664
Provision for Bad Debts	(1,366,700)	(1,329,875)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 18,076,328	\$ 18,070,789



People's Memorial Hospital  
 d/b/a Buchanan County Health Center  
 Schedules of Other Operating Revenues  
 Years Ended June 30, 2013 and 2012

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	2013	2012
Other Operating Revenues		
Independent Living Center	\$ 276,558	\$ 344,562
Medicare and Medicaid EHR incentive revenue	310,037	-
Wellness Center fees	225,306	246,336
Outpatient clinic	75,602	132,511
Cafeteria	32,412	33,681
Grants	29,290	13,495
Transcription fees	1,286	44,760
Other	27,541	33,512
 Total Other Operating Revenues	 \$ 978,032	 \$ 848,857

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	2013	2012
Nursing Administration		
Salaries and wages	\$ 69,342	\$ 124,381
Supplies and other expenses	40,608	3,539
	<u>109,950</u>	<u>127,920</u>
Routine Nursing Services		
Salaries and wages	1,967,524	2,211,833
Supplies and other expenses	182,476	163,960
	<u>2,150,000</u>	<u>2,375,793</u>
Social Services		
Salaries and wages	63,537	60,891
Supplies and other expenses	3,038	107
	<u>66,575</u>	<u>60,998</u>
Operating and Recovery Rooms		
Salaries and wages	300,221	245,021
Supplies and other expenses	451,465	389,150
	<u>751,686</u>	<u>634,171</u>
Central Services and Supply		
Salaries and wages	75,210	73,680
Supplies and other expenses	112,744	106,753
	<u>187,954</u>	<u>180,433</u>
Emergency Services		
Salaries and wages	444,881	333,739
Supplies and other expenses	1,186,121	871,301
	<u>1,631,002</u>	<u>1,205,040</u>
Laboratory and Blood Bank		
Salaries and wages	349,683	399,857
Supplies and other expenses	706,686	545,511
	<u>1,056,369</u>	<u>945,368</u>
Electrocardiology		
Supplies and other expenses	7,184	13,536
Sleep Studies		
Supplies and other expenses	73,033	74,000
Radiology		
Salaries and wages	375,597	368,312
Supplies and other expenses	529,571	455,084
	<u>905,168</u>	<u>823,396</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	2013	2012
Pharmacy		
Salaries and wages	\$ 162,314	\$ 162,712
Supplies and other expenses	765,615	591,546
	<u>927,929</u>	<u>754,258</u>
Anesthesiology		
Supplies and other expenses	<u>348,288</u>	<u>321,443</u>
Respiratory Therapy		
Salaries and wages	82,674	79,599
Supplies and other expenses	37,707	16,972
	<u>120,381</u>	<u>96,571</u>
Physical Therapy		
Salaries and wages	575,436	571,673
Supplies and other expenses	49,026	47,220
	<u>624,462</u>	<u>618,893</u>
Speech Therapy		
Supplies and other expenses	<u>62,543</u>	<u>139,985</u>
Occupational Therapy		
Supplies and other expenses	<u>63,786</u>	<u>-</u>
Ambulance		
Salaries and wages	30,629	-
Supplies and other expenses	3,495	-
	<u>34,124</u>	<u>-</u>
Independent Living		
Salaries and wages	85,216	94,678
Supplies and other expenses	42,224	44,543
	<u>127,440</u>	<u>139,221</u>
Outpatient Clinic		
Salaries and wages	99,042	75,457
Supplies and other expenses	32,361	32,800
	<u>131,403</u>	<u>108,257</u>
Community Care		
Salaries and wages	(26)	-
Supplies and other expenses	14,273	-
	<u>14,247</u>	<u>-</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2013 and 2012

	2013	2012
Medical Records		
Salaries and wages	\$ 294,939	\$ 275,874
Supplies and other expenses	57,513	55,202
	352,452	331,076
Dietary		
Salaries and wages	325,996	333,039
Supplies and other expenses	260,260	264,062
	586,256	597,101
Plant Operation and Maintenance		
Salaries and wages	237,296	261,479
Supplies and other expenses	725,706	707,942
	963,002	969,421
Housekeeping		
Salaries and wages	284,515	269,508
Supplies and other expenses	52,231	63,620
	336,746	333,128
Laundry and Linen		
Salaries and wages	21,951	21,082
Supplies and other expenses	144,834	142,620
	166,785	163,702
Administrative Services		
Salaries and wages	1,271,673	1,042,680
Supplies and other expenses	1,184,920	922,159
	2,456,593	1,964,839
Unassigned Expenses		
Depreciation and amortization	1,794,073	1,633,781
Insurance	138,172	94,919
Employee benefits	2,627,298	2,591,823
	4,559,543	4,320,523
Total Operating Expenses	\$ 18,814,901	\$ 17,299,073

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Patient and Resident Receivables and Collection Statistics (Unaudited)  
June 30, 2013 and 2012

**Analysis of Aging**

<u>Days Since Discharge</u>	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30 Days	\$ 3,729,086	57.93%	\$ 3,669,636	59.91%
1 - 2 Months	1,109,514	17.24%	943,135	15.40%
2 - 3 Months	624,801	9.71%	367,765	6.00%
3 - 6 Months	183,221	2.85%	309,688	5.06%
6 - 12 Months	83,533	1.30%	170,776	2.79%
Over 12 Months	707,244	10.99%	664,348	10.85%
	<u>6,437,399</u>	<u>100.00%</u>	<u>6,125,348</u>	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	1,224,000		1,640,000	
Allowance for Contractual Adjustments	<u>2,320,000</u>		<u>2,125,000</u>	
Net	<u>\$ 2,893,399</u>		<u>\$ 2,360,348</u>	

**Collection Statistics**

	<u>2013</u>	<u>2012</u>
Net accounts receivable - patients and residents	\$ 2,893,399	\$ 2,360,348
Number of days charges outstanding (1)	58	47
Uncollectible accounts (2)	\$ 1,733,440	\$ 1,666,020
Percentage of uncollectible accounts to total charges	5.2%	5.2%

(1) Based on average daily net patient and resident service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Supplies and Prepaid Expense  
June 30, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Supplies		
Pharmacy	\$ 118,793	\$ 103,816
Central stores	52,559	50,341
Dietary	<u>21,278</u>	<u>19,786</u>
Total	<u>\$ 192,630</u>	<u>\$ 173,943</u>
Prepaid Expense		
Insurance	\$ 8,047	\$ 148,158
Other	<u>23,272</u>	<u>39,014</u>
Total	<u>\$ 31,319</u>	<u>\$ 187,172</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedule of Insurance in Force at June 30, 2013 (Unaudited)

Company Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
General Casualty #CFE072116512	Building and contents Blanket earnings and expense Earthquake Employee dishonesty	\$ 44,087,250 \$ 18,337,600 \$ 5,000,000 \$ 500,000	\$ 54,164	6/1/14
General Casualty #CBA 0721165	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 3,043	6/1/14
Pro Assurance #CH360	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 17,453	6/1/14
#134276	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 3,790	6/1/14
#CH361	Umbrella excess liability	\$ 4,000,000 / \$ 4,000,000	\$ 22,772	6/1/14
Farm Bureau Financial Services #7211290	Worker's compensation	\$ 500,000	\$ 104,052	4/1/14
Travelers #105788627	Directors' and officers' liability	\$ 2,000,000	\$ 12,539	6/1/14

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2013 and 2012

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	<u>2013</u>	<u>2012</u>
Patient Days		
Hospital		
Acute	947	905
Swing-bed	697	697
Nursing Care Center	11,767	11,655
Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
Percentage of Occupancy		
Hospital	18%	18%
Nursing Care Center	83%	82%
Discharges		
Hospital		
Acute	261	292
Swing-bed	71	85
Nursing Care Center	28	24
Average Length of Stay		
Hospital		
Acute	3.6	3.1
Swing-bed	9.8	8.2
Nursing Care Center	420	486





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

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 Health Center'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 Responses, that we consider to be significant deficiencies. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings and Responses as items I-A-13 and I-B-13 to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Health Center'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*.

### **Health Center's Responses to Findings**

The Health Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Health Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **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 Health Center'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 Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dubuque, Iowa  
September 10, 2013

**Part I: Findings Related to the Financial Statements:**

**Significant Deficiencies:**

**I-A-13 Preparation of Financial Statements**

**Criteria** – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

**Condition** – People's Memorial Hospital, d/b/a Buchanan County Health Center, does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements.

**Cause** – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP, can be considered costly and ineffective.

**Effect** – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Health Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting.

**Recommendation** – It is the responsibility of Health Center 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. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally.

**Response** – This finding and recommendation is not a result of any change in the Health Center's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

**Part I: Findings Related to the Financial Statements: (continued)**

**I-B-13 Segregation of Duties**

**Criteria** – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization's assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

**Condition** – Certain employees perform duties that are incompatible.

**Cause** – The limited number of office personnel prevents a proper segregation of accounting functions necessary to ensure optimal effective internal control. This is not an unusual condition in organizations of your size.

**Effect** – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

**Recommendation** – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Health Center should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

**Response** – Management agrees with the finding and has reviewed the operating procedures of People's Memorial Hospital, d/b/a Buchanan County Health Center. Due to the limited number of office employees, management will continue to monitor the Health Center's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

**Part II: Other Findings Related to Required Statutory Reporting:**

- II-A-13 Certified Budget** – Disbursements during the year ended June 30, 2013, did not exceed the amount budgeted.
- II-B-13 Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- II-C-13 Travel Expense** – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-13 Business Transactions** – We noted no material transactions between the Health Center and Health Center officials and/or employees.
- II-E-13 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-13 Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center’s investment policy were noted.