



Financial Statements
June 30, 2014 and 2013



BUCHANAN
COUNTY
HEALTH CENTER

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Rob Robinson	Chairperson	2014
Carmen Mescher	Vice Chairperson	2018
Lans Flickinger	Secretary	2016
Anne McMillan	Treasurer	2014
Connie Brown	Trustee	2016
	<u>Health Center Officials</u>	
Steve Slessor	Chief Executive Officer	
Ben Stevens	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, 2014 and 2013, 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, 2014 and 2013, and the changes in its net financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10 and the Budgetary Comparison Information on pages 31 and 32 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 August 20, 2014 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
August 20, 2014

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, 2014, 2013 and 2012. 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, liabilities, and deferred inflows of resources 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 and deferred inflows of resources - 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, 2014, indicates total assets of \$30,902,569, total liabilities of \$11,007,982, total deferred inflows of resources of \$1,687,247, and net position of \$18,207,340.
- The Statements of Revenues, Expenses, and Changes in Net Position indicates total net patient and resident service revenue of \$20,617,605 increased 14.0% and total operating expenses of \$22,014,866 increased 17.0% from the previous year, resulting in an operating loss of \$326,558. Net non-operating revenues of \$937,272 brings the excess of revenues over expenses to \$610,714, a 48.8% decrease from the prior year.
- The Health Center's current assets exceeded its current liabilities by \$9,206,523 at June 30, 2014, providing a 2.7 current ratio.
- The Health Center's total days of cash on hand at June 30, 2014 were 146.
- Gross outpatient charges increased 12.9% during fiscal year 2014.
- Nursing Home gross charges increased 18.4% during fiscal year 2014.
- Net days in accounts receivable continue to be very favorable at 51 days at June 30, 2014.
- Statistical information:
 - 13,041- Nursing Home patient days (10.8% increase)
 - 1,269 - Surgical Cases (2.6% increase)
 - 54,633 - Laboratory tests (7.0% decrease)
 - 9,211 - Radiology tests (3.7% increase)
 - 19,246 - Physical Therapy modalities (10.4% increase)
 - 4,778 - Emergency Room visits (9.1% increase)
 - 864- Acute Care patient days (8.7% decrease)
 - 816- SNF Care patient days (17.0% increase)

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
June 30, 2014 and 2013

Condensed Financial Statements
Balance Sheets

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 7,051,586	\$ 6,261,109	\$ 5,275,806
Patient and resident receivables, net of estimated uncollectibles	3,155,114	2,893,399	2,360,348
Succeeding year property tax	1,018,605	1,004,180	970,000
Estimated third-party payor settlements	255,000	-	260,000
Other	504,544	238,998	398,098
Total current assets	<u>11,984,849</u>	<u>10,397,686</u>	<u>9,264,252</u>
Assets Limited as to Use or Restricted	<u>1,053,864</u>	<u>1,064,761</u>	<u>1,055,880</u>
Capital Assets, Net	<u>17,715,856</u>	<u>18,434,951</u>	<u>15,640,167</u>
Other Assets			
Beneficial interest in charitable trust	148,000	148,000	148,000
Deferred financing costs, net	-	43,496	47,146
Total other assets	<u>148,000</u>	<u>191,496</u>	<u>195,146</u>
Total assets	<u><u>\$ 30,902,569</u></u>	<u><u>\$ 30,088,894</u></u>	<u><u>\$ 26,155,445</u></u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
June 30, 2014 and 2013

Condensed Financial Statements
Balance Sheets (continued)

	<u>June 30,</u> <u>2014</u>	<u>June 30,</u> <u>2013</u>	<u>June 30,</u> <u>2012</u>
Liabilities, Net Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 632,242	\$ 569,534	\$ 444,681
Accounts payable			
Trade	890,637	486,137	326,515
Estimated third-party payor settlements	-	232,000	-
Accrued expenses	<u>1,255,447</u>	<u>938,234</u>	<u>852,900</u>
Total current liabilities	<u>2,778,326</u>	<u>2,225,905</u>	<u>1,624,096</u>
Noncurrent Liabilities			
Deposits	2,186,700	2,150,125	2,260,900
Long-term debt, less current maturities	<u>6,042,956</u>	<u>6,166,605</u>	<u>4,779,878</u>
Total noncurrent liabilities	<u>8,229,656</u>	<u>8,316,730</u>	<u>7,040,778</u>
Total liabilities	<u>11,007,982</u>	<u>10,542,635</u>	<u>8,664,874</u>
Deferred Inflows of Resources			
Deferred revenue for succeeding year property tax receivable	1,018,605	1,004,180	970,000
Electronic health records incentive	548,474	822,712	-
Deferred revenue	<u>120,168</u>	<u>122,741</u>	<u>119,063</u>
Total deferred inflows of resources	<u>1,687,247</u>	<u>1,949,633</u>	<u>1,089,063</u>
Net Position			
Net investment in capital assets	8,853,958	9,548,687	8,154,708
Restricted	216,987	217,012	197,696
Unrestricted	<u>9,136,395</u>	<u>7,830,927</u>	<u>8,049,104</u>
Total net position	<u>18,207,340</u>	<u>17,596,626</u>	<u>16,401,508</u>
Total liabilities and net position	<u>\$ 30,902,569</u>	<u>\$ 30,088,894</u>	<u>\$ 26,155,445</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
Years Ended June 30, 2014 and 2013

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2014	2013	2012
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 20,617,605	\$ 18,076,328	\$ 18,070,789
Other operating revenues	1,070,703	978,032	848,857
Total Operating Revenues	<u>21,688,308</u>	<u>19,054,360</u>	<u>18,919,646</u>
Operating Expenses			
Salaries and wages	8,445,311	7,117,650	7,005,495
Supplies and other expenses	11,476,477	9,903,178	8,659,797
Depreciation and amortization	2,093,078	1,794,073	1,633,781
Total Operating Expenses	<u>22,014,866</u>	<u>18,814,901</u>	<u>17,299,073</u>
Operating Income (Loss)	<u>(326,558)</u>	<u>239,459</u>	<u>1,620,573</u>
Nonoperating Revenues (Expenses)			
County tax revenue	1,004,841	975,484	933,495
Noncapital grants and contributions	4,070	16,175	30,215
Investment income	49,168	52,117	52,484
Interest expense	(187,622)	(152,086)	(184,730)
Rental income	70,953	65,301	48,529
Loss on disposal of capital assets	(4,138)	(1,332)	-
Net Nonoperating Revenues	<u>937,272</u>	<u>955,659</u>	<u>879,993</u>
Revenues in Excess of Expenses	610,714	1,195,118	2,500,566
Contributions for Capital Assets	-	-	10,000
Change in Net Position	610,714	1,195,118	2,510,566
Net Position, Beginning of Year	<u>17,596,626</u>	<u>16,401,508</u>	<u>13,890,942</u>
Net Position, End of Year	<u>\$ 18,207,340</u>	<u>\$ 17,596,626</u>	<u>\$ 16,401,508</u>

Capital Assets

Buchanan County Health Center utilized capital assets in a diverse fashion during fiscal year 2014. Significant projects consist of:

- \$410,000 improvements to Radiology R&F Equipment and room upgrades
- \$103,555 new patient beds for the Acute Care and Long-Term Care departments.
- \$446,000 of new property acquisitions on the north and west side of the Health Center property.
- \$40,300 of new defibrillator machines for Surgery, Emergency Department, and Acute Care

Long-Term Debt

Buchanan County Health Center had \$632,242 and \$6,042,956 respectively, in short-term and long-term debt for the year ended June 30, 2014 and \$569,534 and \$6,166,605, respectively, in short-term and long-term debt for the year ended June 30, 2013. The previous debt, as well as new borrowings of \$531,722 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 2015 budget. Of primary consideration in the 2015 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 234 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>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,051,586	\$ 6,261,109
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,203,000 in 2014 and \$1,224,000 in 2013	3,155,114	2,893,399
Succeeding year property tax	1,018,605	1,004,180
Estimated third-party payor settlements	255,000	-
Other	30,544	15,049
Supplies	196,325	192,630
Prepaid expense	277,675	31,319
Total current assets	<u>11,984,849</u>	<u>10,397,686</u>
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under debt agreements	68,987	69,012
By board for capital improvements	984,877	995,749
Total assets limited as to use or restricted	<u>1,053,864</u>	<u>1,064,761</u>
Capital Assets - Note 4		
Capital assets not being depreciated	1,187,041	1,524,333
Depreciable capital assets, net of accumulated depreciation	16,528,815	16,910,618
Total capital assets, net	<u>17,715,856</u>	<u>18,434,951</u>
Other Assets		
Beneficial interest in charitable trust	148,000	148,000
Debt issuance costs, net	-	43,496
Total other assets	<u>148,000</u>	<u>191,496</u>
Total assets	<u>\$ 30,902,569</u>	<u>\$ 30,088,894</u>

See Notes to Financial Statements

People's Memorial Hospital
d/b/a Buchanan County Health Center
Balance Sheets
June 30, 2014 and 2013

	2014	2013
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 632,242	\$ 569,534
Accounts payable		
Trade	890,637	486,137
Estimated third-party payor settlements	-	232,000
Accrued expenses		
Salaries and wages	402,789	282,590
Vacation	632,680	499,312
Payroll taxes and other	219,978	156,332
	<u>2,778,326</u>	<u>2,225,905</u>
Noncurrent Liabilities		
Deposits - Note 7	2,186,700	2,150,125
Long-term debt, less current maturities - Note 6	6,042,956	6,166,605
	<u>8,229,656</u>	<u>8,316,730</u>
	<u>11,007,982</u>	<u>10,542,635</u>
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax receivable	1,018,605	1,004,180
Electronic health records incentive	548,474	822,712
Deferred revenue	120,168	122,741
	<u>1,687,247</u>	<u>1,949,633</u>
Net Position		
Net investment in capital assets	8,853,958	9,548,687
Restricted		
Expendable for debt service	68,987	69,012
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	9,136,395	7,830,927
	<u>18,207,340</u>	<u>17,596,626</u>
	<u>\$ 30,902,569</u>	<u>\$ 30,088,894</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$1,402,602 in 2014 and \$1,366,700 in 2013) - Note 2	\$ 20,617,605	\$ 18,076,328
Other operating revenues	1,070,703	978,032
Total Operating Revenues	21,688,308	19,054,360
Operating Expenses		
Salaries and wages	8,445,311	7,117,650
Supplies and other expenses	11,476,477	9,903,178
Depreciation and amortization	2,093,078	1,794,073
Total Operating Expenses	22,014,866	18,814,901
Operating Income (Loss)	(326,558)	239,459
Nonoperating Revenues (Expenses)		
County tax revenue	1,004,841	975,484
Noncapital grants and contributions	4,070	16,175
Investment income	49,168	52,117
Interest expense	(187,622)	(152,086)
Rental income	70,953	65,301
Loss on disposal of capital assets	(4,138)	(1,332)
Net Nonoperating Revenues	937,272	955,659
Change in Net Position	610,714	1,195,118
Net Position, Beginning of Year	17,596,626	16,401,508
Net Position, End of Year	\$ 18,207,340	\$ 17,596,626

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Receipts of patient and resident service revenue	\$ 19,866,317	\$ 18,038,955
Other receipts	780,970	1,822,678
Payments of salaries and wages	(8,191,744)	(7,114,784)
Payments of supplies and other expenses	<u>(10,835,284)</u>	<u>(9,523,922)</u>
Net Cash Provided by Operating Activities	<u>1,620,259</u>	<u>3,222,927</u>
Cash Flows from Noncapital Financing Activities		
County tax revenue received	1,004,841	975,484
Noncapital grants and contributions received	<u>4,070</u>	<u>16,175</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,008,911</u>	<u>991,659</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,241,301)	(4,586,539)
Proceeds from sale of capital assets	15,300	-
Proceeds from residency deposits	323,000	80,500
Payments of residency deposits	(286,425)	(191,275)
Proceeds from issuance of debt	-	2,000,000
Payment of principal on debt	(592,663)	(488,420)
Payment of interest on debt	<u>(187,622)</u>	<u>(152,086)</u>
Net Cash used for Capital and Related Financing Activities	<u>(1,969,711)</u>	<u>(3,337,820)</u>
Cash Flows from Investing Activities		
(Increase) decrease in assets limited as to use or restricted	10,897	(8,881)
Investment income received	49,168	52,117
Rental income received	<u>70,953</u>	<u>65,301</u>
Net Cash Provided by Investing Activities	<u>131,018</u>	<u>108,537</u>
Net Increase in Cash and Cash Equivalents	790,477	985,303
Cash and Cash Equivalents at Beginning of Year	<u>6,261,109</u>	<u>5,275,806</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,051,586</u>	<u>\$ 6,261,109</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of Operating Income to Net Cash Provided by		
Operating Activities		
Operating income (loss)	\$ (326,558)	\$ 239,459
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Depreciation	2,049,582	1,790,423
Amortization	43,496	3,650
Expense of non-capitalized construction in progress	806,034	-
Provision for bad debts	1,402,602	1,366,700
Changes in assets and liabilities		
Receivables	(1,679,812)	(1,877,817)
Estimated third-party payor settlements	(487,000)	492,000
Supplies	(3,695)	(18,687)
Prepaid expense	(246,356)	155,853
Trade accounts payable	21,564	159,622
Accrued expenses	317,213	85,334
Deferred revenue	(276,811)	826,390
Net Cash Provided by Operating Activities	\$ 1,620,259	\$ 3,222,927
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Equipment financed through capital lease arrangements	\$ 531,722	\$ -
Supplemental Disclosure of Cash Flow Information		
Capital assets during the year financed through accounts payable	\$ 382,936	\$ -

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, 2013 to June 30, 2014. 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 2013 or 2014.

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 Outflows and Inflows of Resources

Deferred Outflows

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Health Center currently has no items that qualify for reporting in this category.

Deferred Inflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Health Center's three items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable, deferred electronic health record incentive amounts, and deferred nursing home charges. The property tax revenue is recognized in the succeeding year when it becomes available. The electronic medical record incentive amounts are recognized as revenue ratably over the life of the qualify assets. The nursing home charges are recognized as revenue in the month in which services are rendered.

Deferred Financing Costs

Financing costs are expensed as incurred.

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, 2014 and 2013.

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, and are reported under deferred inflows of resources on the balance sheet.

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 \$131,564 and \$333,240, for the years ended June 30, 2014 and 2013. Total direct and indirect costs related to these foregone charges were \$75,000 and \$181,000 at June 30, 2014 and 2013, 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 EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Health Center recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance the Health Center will comply with the conditions attached to the incentive payments. 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 \$64,957 and \$170,566 for advertising costs for the years ended June 30, 2014 and 2013.

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, 2013 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net 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, 2012. 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, Medicaid, and Blue Cross programs accounted for approximately 47%, 9% and 19%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2014, and 48%, 8%, and 19%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2013. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient and resident service revenue for the year ended June 30, 2014, increased approximately \$223,000 and the net patient and resident service revenue for the year ended June 30, 2013, decreased approximately \$157,000 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, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Total Patient and Resident Service Revenue	\$ 36,733,674	\$ 32,732,988
Contractual Adjustments		
Medicare	(7,871,119)	(7,418,680)
Medicaid	(1,636,473)	(1,680,418)
Other	<u>(5,171,141)</u>	<u>(4,154,537)</u>
Total contractual adjustments	<u>(14,678,733)</u>	<u>(13,253,635)</u>
Policy discounts	<u>(34,734)</u>	<u>(36,325)</u>
Net Patient and Resident Service Revenue	22,020,207	19,443,028
Provision for Bad Debts	<u>(1,402,602)</u>	<u>(1,366,700)</u>
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	<u>\$ 20,617,605</u>	<u>\$ 18,076,328</u>

Note 3 - Cash and Deposits

The Health Center's deposits in banks at June 30, 2014 and 2013 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, 2014 and 2013 the Health Center's carrying amounts of cash and deposits are as follows:

	2014	2013
Checking, Savings, and Money Market Accounts	\$ 6,118,207	\$ 5,349,962
Certificates of Deposit	1,980,731	1,966,770
Accrued Interest Receivable	6,512	9,138
	\$ 8,105,450	\$ 7,325,870

Included in the Following Balance Sheet Captions:

Cash and Cash Equivalents	\$ 7,051,586	\$ 6,261,109
Assets Limited as to Use or Restricted	1,053,864	1,064,761
	\$ 8,105,450	\$ 7,325,870

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, 2014 and 2013 was as follows:

	June 30, 2013 Balance	Additions and Transfers	Deductions	June 30, 2014 Balance
Capital Assets Not Being Depreciated				
Land	\$ 619,964	\$ 446,068	\$ -	\$ 1,066,032
Construction in progress	904,369	22,674	806,034	121,009
Total capital assets not being depreciated	1,524,333	468,742	806,034	1,187,041
Capital Assets Being Depreciated				
Land improvements	519,879	-	-	519,879
Buildings	21,879,879	53,572	53,435	21,880,016
Equipment	9,513,450	1,633,627	1,095,267	10,051,810
Total capital assets being depreciated	31,913,208	1,687,199	1,148,702	32,451,705
Less Accumulated Depreciation for				
Land improvements	301,210	22,603	-	323,813
Buildings	9,120,417	917,998	34,015	10,004,400
Equipment	5,580,963	1,108,981	1,095,267	5,594,677
Total accumulated depreciation	15,002,590	2,049,582	1,129,282	15,922,890
Total Capital Assets Being Depreciated, Net	16,910,618	(362,383)	19,420	16,528,815
Total Capital Assets, Net	\$ 18,434,951	\$ 106,359	\$ 825,454	\$ 17,715,856

Construction in progress at June 30, 2014, includes \$35,000 in costs incurred for a hospital expansion project which is still in the design and planning phase. The total cost of the project is estimated to be \$42 million, which will be financed through long-term debt. The project is anticipated to be completed in 2019. Remaining costs in construction in progress represent smaller projects including software upgrades.

People's Memorial Hospital
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Notes to Financial Statements
June 30, 2014 and 2013

	June 30, 2012 Balance	Additions and Transfers	Deductions	June 30, 2013 Balance
Capital Assets Not Being Depreciated				
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>
Capital Assets Being Depreciated				
Land improvements	519,879	-	-	519,879
Buildings	19,763,696	2,116,183	-	21,879,879
Equipment	<u>8,047,601</u>	<u>1,574,904</u>	<u>109,055</u>	<u>9,513,450</u>
Total capital assets being depreciated	<u>28,331,176</u>	<u>3,691,087</u>	<u>109,055</u>	<u>31,913,208</u>
Less Accumulated Depreciation for				
Land improvements	276,399	24,811	-	301,210
Buildings	8,279,971	840,446	-	9,120,417
Equipment	<u>4,763,520</u>	<u>925,165</u>	<u>107,722</u>	<u>5,580,963</u>
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>

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, 2014 and 2013 was \$178,173 and \$119,030, respectively. The capitalized leased assets consist of:

	2014	2013
Equipment	\$ 531,723	\$ 527,726
Less Accumulated Amortization	<u>(53,172)</u>	<u>(474,953)</u>
	<u>\$ 478,551</u>	<u>\$ 52,773</u>

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

<u>Year Ending June 30,</u>	
2015	\$ 114,652
2016	114,652
2017	114,652
2018	114,652
2019	<u>105,098</u>
Total Minimum Lease Payments	<u>563,706</u>
Less interest	<u>(40,210)</u>
Present Value of Minimum Lease Payments - Note 6	<u><u>\$ 523,496</u></u>

Note 6 - Long-Term Debt

A summary of changes in the Health Center's long-term debt for the years ended June 30, 2014 and 2013 is as follows:

	<u>June 30 2013 Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30 2014 Balance</u>	<u>Amounts Due Within One Year</u>
2.95% Hospital Promissory Note Payable to Bank of Iowa Due in monthly Installments of \$19,315 Through April 1, 2018	\$ 1,956,261	\$ -	\$ 175,651	\$ 1,780,610	\$ 180,976
0% Hospital Promissory Note, Payable to Independence Light & Power, Due in Monthly Installments of \$4,285 Through August 15, 2017	214,287	-	51,429	162,858	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)	3,434,090	-	252,861	3,181,229	259,204
Hospital Revenue Note, Series 2009, Maturity Date of November 1, 2030, Interest Only Payments Through April 1, 2011 (B)	1,065,204	-	38,199	1,027,005	40,314
Capitalized Lease Obligation - Note 5	<u>66,297</u>	<u>531,722</u>	<u>74,523</u>	<u>523,496</u>	<u>100,319</u>
	<u>\$ 6,736,139</u>	<u>\$ 531,722</u>	<u>\$ 592,663</u>	<u>6,675,198</u>	<u>\$ 632,242</u>
Less Current Maturities				<u>(632,242)</u>	
Long-Term Debt, Less Current Maturities				<u><u>\$ 6,042,956</u></u>	

People's Memorial Hospital
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Notes to Financial Statements
June 30, 2014 and 2013

	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
	<u>\$ 5,224,559</u>	<u>\$ 2,000,000</u>	<u>\$ 488,420</u>	6,736,139	<u>\$ 569,534</u>
Less Current Maturities				(569,534)	
Long-Term Debt, Less Current Maturities				<u>\$ 6,166,605</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
2015	\$ 632,242	\$ 195,596	\$ 827,838
2016	648,935	178,905	827,840
2017	666,859	160,981	827,840
2018	1,667,018	137,288	1,804,306
2019	439,754	95,322	535,076
2020-2024	1,837,155	312,733	2,149,888
2025-2029	662,059	91,313	753,372
2030-2031	121,176	4,708	125,884
	<u>\$ 6,675,198</u>	<u>\$ 1,176,846</u>	<u>\$ 7,852,044</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 5.95% of their annual covered salary, and the Health Center is required to contribute 8.93% of annual covered payroll for the year ended June 30, 2014. Plan members were required to contribute 5.78% and 5.38% of their annual covered salary, and the Health Center was required to contribute 8.67% and 8.07% of annual covered payroll for the years ended June 30, 2013 and 2012, respectively. Contribution requirements are established by state statute. The Health Center's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$725,371, \$595,514, and \$546,645, 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, 2014, 2013, and 2012 were \$63,200, \$77,913, and \$73,317, 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, 2014 and 2013 was as follows:

	2014	2013
Medicare	38%	41%
Medicaid	6%	6%
Blue Cross	10%	8%
Commerical Insurance	23%	22%
Other Third-Party Payors, Patients, and Residents	23%	23%
	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, 2014.

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 \$264,731 and \$274,237 for the years ended June 30, 2014 and 2013, respectively, as other operating revenue. The remaining deferred revenue of \$548,474 related to EHR incentive payments at June 30, 2014, will be recognized as income over the next two years.

The Health Center recognized revenue of \$35,800 for each of the years ended June 30, 2014 and 2013 related to Medicaid EHR incentive payments received. The incentive payments are included in other operating revenue in the accompanying financial statements. 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 - Subsequent Events

The Health Center has evaluated subsequent events through August 20, 2014, the date which the financial statements were available to be issued.



Required Supplementary Information
June 30, 2014



BUCHANAN
COUNTY
HEALTH CENTER

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, 2014

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 1,004,841	\$ -	\$ 1,004,841	\$ 1,004,180	\$ 661
Estimated Other Revenues/Receipts	<u>21,808,361</u>	<u>(1,021,583)</u>	<u>20,786,778</u>	<u>27,559,166</u>	<u>(6,772,388)</u>
	22,813,202	(1,021,583)	21,791,619	28,563,346	(6,771,727)
Expenses/Disbursements	<u>22,202,488</u>	<u>(1,190,449)</u>	<u>21,012,039</u>	<u>30,619,747</u>	<u>9,607,708</u>
Net	610,714	168,866	779,580	(2,056,401)	<u>\$ 2,835,981</u>
Balance, Beginning of Year	<u>17,596,626</u>	<u>(10,270,756)</u>	<u>7,325,870</u>	<u>6,605,242</u>	
Balance, End of Year	<u>\$ 18,207,340</u>	<u>\$ (10,101,890)</u>	<u>\$ 8,105,450</u>	<u>\$ 4,548,841</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, 2014.

For the year ended June 30, 2014, the Health Center's expenditures did not exceed the amount budgeted.



Supplementary Information
June 30, 2014 and 2013





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, 2014 and June 30, 2013, and our report thereon dated August 20, 2014, 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.

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

Dubuque, Iowa
August 20, 2014

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2014 and 2013

	2014	2013
Patient and Resident Service Revenue		
Routine services - hospital	\$ 1,767,840	\$ 1,619,106
Routine services - nursing care center	2,354,529	1,987,784
Operating and recovery rooms	4,237,537	4,758,789
Delivery and labor rooms	20,387	2,101
Central services and supply	1,569,073	511,888
Emergency services	7,304,265	6,362,257
Laboratory and blood bank	5,181,881	4,982,762
Cardiac rehab	212,261	169,493
Electrocardiology	458,649	272,999
Sleep studies	339,211	262,715
Radiology	7,102,095	6,158,014
Pharmacy	2,547,282	2,365,863
Anesthesiology	985,063	1,183,374
Respiratory therapy	349,987	398,832
Physical therapy	2,055,859	1,736,593
Occupational therapy	230,354	125,426
Speech therapy	148,965	168,232
	36,865,238	33,066,228
Charity care (charges foregone)	(131,564)	(333,240)
	36,733,674	32,732,988
Total patient and resident service revenue*	\$ 36,733,674	\$ 32,732,988
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 6,725,106	\$ 6,372,272
Outpatient revenue	30,140,132	26,693,956
Charity care (charges foregone)	(131,564)	(333,240)
Total patient and resident service revenue	36,733,674	32,732,988
Contractual Adjustments		
Medicare	(7,871,119)	(7,418,680)
Medicaid	(1,636,473)	(1,680,418)
Other	(5,171,141)	(4,154,537)
Total contractual adjustments	(14,678,733)	(13,253,635)
Policy Discounts	(34,734)	(36,325)
Net Patient and Resident Service Revenue	22,020,207	19,443,028
Provision for Bad Debts	(1,402,602)	(1,366,700)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 20,617,605	\$ 18,076,328

People's Memorial Hospital
d/b/a Buchanan County Health Center
 Schedules of Other Operating Revenues
 Years Ended June 30, 2014 and 2013

	2014	2013
Other Operating Revenues		
Independent Living Center	\$ 402,933	\$ 276,558
Medicare and Medicaid EHR incentive revenue	300,531	310,037
Wellness Center fees	216,234	225,306
Outpatient clinic	77,750	75,602
Cafeteria	40,780	32,412
Grants	14,742	29,290
Transcription fees	-	1,286
Other	17,733	27,541
	\$ 1,070,703	\$ 978,032
Total Other Operating Revenues		

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Nursing Administration		
Salaries and wages	\$ 130,288	\$ 69,342
Supplies and other expenses	33,777	40,608
	<u>164,065</u>	<u>109,950</u>
Routine Nursing Services		
Salaries and wages	2,060,255	1,967,524
Supplies and other expenses	209,356	182,476
	<u>2,269,611</u>	<u>2,150,000</u>
Social Services		
Salaries and wages	103,902	63,537
Supplies and other expenses	461	3,038
	<u>104,363</u>	<u>66,575</u>
Operating and Recovery Rooms		
Salaries and wages	461,001	330,850
Supplies and other expenses	293,828	454,960
	<u>754,829</u>	<u>785,810</u>
Central Services and Supply		
Salaries and wages	77,414	75,210
Supplies and other expenses	255,229	112,744
	<u>332,643</u>	<u>187,954</u>
Emergency Services		
Salaries and wages	704,796	444,881
Supplies and other expenses	1,254,799	1,186,121
	<u>1,959,595</u>	<u>1,631,002</u>
Laboratory and Blood Bank		
Salaries and wages	351,933	349,683
Supplies and other expenses	657,723	706,686
	<u>1,009,656</u>	<u>1,056,369</u>
Electrocardiology		
Supplies and other expenses	12,056	7,184
Sleep Studies		
Supplies and other expenses	73,101	73,033
Radiology		
Salaries and wages	493,644	375,597
Supplies and other expenses	417,504	529,571
	<u>911,148</u>	<u>905,168</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Pharmacy		
Salaries and wages	\$ 188,554	\$ 162,314
Supplies and other expenses	647,661	765,615
	<u>836,215</u>	<u>927,929</u>
Anesthesiology		
Supplies and other expenses	370,145	348,288
Respiratory Therapy		
Salaries and wages	104,846	82,674
Supplies and other expenses	36,240	37,707
	<u>141,086</u>	<u>120,381</u>
Physical Therapy		
Salaries and wages	724,103	575,436
Supplies and other expenses	44,402	49,026
	<u>768,505</u>	<u>624,462</u>
Speech Therapy		
Supplies and other expenses	64,679	62,543
Occupational Therapy		
Supplies and other expenses	93,429	63,786
Independent Living		
Salaries and wages	88,670	85,216
Supplies and other expenses	52,130	42,224
	<u>140,800</u>	<u>127,440</u>
Outpatient Clinic		
Salaries and wages	108,528	99,016
Supplies and other expenses	19,296	32,361
	<u>127,824</u>	<u>131,377</u>
Community Care		
Supplies and other expenses	116	14,273
Medical Records		
Salaries and wages	324,637	294,939
Supplies and other expenses	72,873	57,513
	<u>397,510</u>	<u>352,452</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2014 and 2013

	2014	2013
Dietary		
Salaries and wages	\$ 358,373	\$ 325,996
Supplies and other expenses	272,114	260,260
	630,487	586,256
Plant Operation and Maintenance		
Salaries and wages	299,004	237,296
Supplies and other expenses	837,739	725,706
	1,136,743	963,002
Housekeeping		
Salaries and wages	339,451	284,515
Supplies and other expenses	57,205	52,231
	396,656	336,746
Laundry and Linen		
Salaries and wages	26,012	21,951
Supplies and other expenses	144,318	144,834
	170,330	166,785
Administrative Services		
Salaries and wages	1,499,900	1,271,673
Supplies and other expenses	2,624,783	1,184,920
	4,124,683	2,456,593
Unassigned Expenses		
Depreciation and amortization	2,093,078	1,794,073
Insurance	103,211	138,172
Employee benefits	2,828,302	2,627,298
	5,024,591	4,559,543
Total Operating Expenses	\$ 22,014,866	\$ 18,814,901

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Patient and Resident Receivables and Collection Statistics (Unaudited)
June 30, 2014 and 2013

Analysis of Aging

<u>Days Since Discharge</u>	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30 Days	\$ 3,642,677	55.63%	\$ 3,729,086	57.93%
1 - 2 Months	1,301,558	19.88%	1,109,514	17.24%
2 - 3 Months	486,265	7.43%	624,801	9.71%
3 - 6 Months	263,327	4.02%	183,221	2.85%
6 - 12 Months	183,086	2.80%	83,533	1.30%
Over 12 Months	671,201	10.25%	707,244	10.99%
	<u>6,548,114</u>	<u>100.00%</u>	<u>6,437,399</u>	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	1,203,000		1,224,000	
Allowance for Contractual Adjustments	<u>2,190,000</u>		<u>2,320,000</u>	
Net	<u>\$ 3,155,114</u>		<u>\$ 2,893,399</u>	

	<u>2014</u>	<u>2013</u>
Collection Statistics		
Net accounts receivable - patients and residents	\$ 3,155,114	\$ 2,893,399
Number of days charges outstanding (1)	51	58
Uncollectible accounts (2)	\$ 1,554,320	\$ 1,733,440
Percentage of uncollectible accounts to total charges	4.2%	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, 2014 and 2013

	2014	2013
Supplies		
Pharmacy	\$ 117,994	\$ 118,793
Central stores	61,746	52,559
Dietary	16,585	21,278
Total	\$ 196,325	\$ 192,630
 Prepaid Expense		
Insurance	\$ 250,417	\$ 8,047
Other	27,258	23,272
Total	\$ 277,675	\$ 31,319

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedule of Insurance in Force at June 30, 2014 (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	\$ 45,930,520 \$ 19,613,817 \$ 5,000,000 \$ 500,000	\$ 49,844	6/1/15
General Casualty #CBA 0721165	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 3,150	6/1/15
Pro Assurance #CH360	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 17,247	6/1/15
#134276	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 3,907	6/1/15
#CH361	Umbrella excess liability	\$ 4,000,000 / \$ 4,000,000	\$ 19,324	6/1/15
LaMair-Mulock-Condon #2000006488	Worker's compensation	\$ 500,000	\$ 191,870	4/1/15
Travelers #105788627	Directors' and officers' liability	\$ 2,000,000	\$ 13,593	6/1/15

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2014 and 2013

	2014	2013
Patient Days		
Hospital		
Acute	864	947
Swing-bed	816	697
Nursing Care Center	13,041	11,767
 Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
 Percentage of Occupancy		
Hospital	18%	18%
Nursing Care Center	92%	83%
 Discharges		
Hospital		
Acute	242	261
Swing-bed	82	71
Nursing Care Center	28	28
 Average Length of Stay		
Hospital		
Acute	3.6	3.6
Swing-bed	10.0	9.8
Nursing Care Center	466	420



**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, 2014, and the related notes to the financial statements, and have issued our report thereon dated August 20, 2014.

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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control, one which we consider to be a material weakness and one which we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Health Center's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2013-A to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2013-B to be a significant deficiency.

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
August 20, 2014

Part I: Findings Related to the Financial Statements:

Material Weakness:

2013-A Preparation of Financial Statements and Material Audit Adjustments

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. Also, a material adjusting entry (related to estimated third-party payor settlements) was proposed and made to the financial statements during the audit. Other significant entries were also made such as to adjust accumulated depreciation and depreciation expense.

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. Interim financial statements may be misstated if material adjusting journal entries are made at year end. 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 and prevent material adjusting journal entries at year end.

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)

Significant Deficiency:

2013-B 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:

- 2013-IA-A Certified Budget** – Disbursements during the year ended June 30, 2014, did not exceed the amount budgeted.
- 2013-IA-B 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.
- 2013-IA-C Travel Expense** – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- 2013-IA-D Business Transactions** – We noted no material transactions between the Health Center and Health Center officials and/or employees.
- 2013-IA-E Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2013-IA-F 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.