



Financial Statements
June 30, 2012 and 2011



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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>	
Connie Brown	Chairperson	2016
Rob Robinson	Vice Chairperson	2014
Benjamin Riensche	Secretary	2012
Lans Flickinger	Treasurer	2016
Anne McMillan	Trustee	2014
	<u>Health Center Officials</u>	
Danielle Gearhart	Chief Executive Officer	
Ronald Timpe	Associate Administrator	



Independent Auditor's Report

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

We have audited the accompanying balance sheets of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), as of June 30, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health Center's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Health Center as of June 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2012, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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* and should be considered in assessing the results of our audits.

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 30 and 31 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.

Eide Bailly LLP

Dubuque, Iowa
September 10, 2012

This discussion and analysis of the financial performance of People's Memorial Hospital of Buchanan County, 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, 2012, 2011, and 2010. 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 assets, 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 assets. 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 Assets report the net assets of the Health Center and the changes in them. The Health Center's net assets - 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 assets 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, 2012, indicates total assets of \$26,155,445, total liabilities of \$9,753,937, and net assets of \$16,401,508.
- The Statements of Revenues, Expenses, and Changes in Net Assets indicates total net patient and resident service revenue of \$18,070,789 increased 11.2% over the previous fiscal year, total operating expenses of \$17,299,073 increased 8.7% resulting in a gain from operations of \$1,620,573 a 53% increase from the previous year. A net non-operating gain of \$879,993 brings the excess of revenues over expenses to \$2,500,566, a 34% increase from the prior year.
- The Health Center's current assets exceeded its current liabilities by \$6,551,093 at June 30, 2012, providing a 3.4 current ratio.
- The Health Center's total days of cash on hand at June 30, 2012 was 145
- Gross outpatient charges increased 18.7% during fiscal year 2012.
- Nursing Home gross charges increased 13.9% during fiscal year 2012.
- Total operating expenses increased 8.7% from the previous fiscal year.
- Net days in accounts receivable continue to be very favorable at 48days at June 30, 2012
- Statistical information:
 - 11,655- Nursing Home patient days (5.1% increase)
 - 1,145- Surgical Cases (53.7% increase)
 - 60,014-Laboratory tests (3.5% increase)
 - 9,681- Radiology tests (1.8% increase)
 - 19,007- Physical Therapy modalities (21.7% increase)
 - 4,365- Emergency Room visits (2.5% increase)
 - 905- Acute Care patient days (15.6% decrease)
 - 697- SNF Care patient days (19.2% decrease)

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
June 30, 2012 and 2011

Condensed Financial Statements
Balance Sheets

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Assets			
Current Assets			
Cash and cash equivalents	\$ 5,275,806	\$ 3,353,591	\$ 2,426,840
Patient and resident receivables, net of estimated uncollectibles	2,360,348	1,902,649	1,954,547
Succeeding year property tax	970,000	936,049	906,377
Estimated third-party payor settlements	260,000	-	114,000
Other	398,098	471,792	336,078
Total current assets	<u>9,264,252</u>	<u>6,664,081</u>	<u>5,737,842</u>
Assets Limited as to Use or Restricted	<u>1,055,880</u>	<u>1,449,980</u>	<u>1,681,653</u>
Capital Assets, Net	<u>15,640,167</u>	<u>16,314,912</u>	<u>14,458,035</u>
Other Assets			
Beneficial interest in charitable trust	148,000	148,000	148,000
Deferred financing costs, net	47,146	50,796	54,446
Total other assets	<u>195,146</u>	<u>198,796</u>	<u>202,446</u>
Total assets	<u>\$ 26,155,445</u>	<u>\$ 24,627,769</u>	<u>\$ 22,079,976</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
June 30, 2012 and 2011

Condensed Financial Statements
Balance Sheets (continued)

	<u>June 30,</u> <u>2012</u>	<u>June 30,</u> <u>2011</u>	<u>June 30,</u> <u>2010</u>
Liabilities and Net Assets			
Current Liabilities			
Current maturities of long-term debt	\$ 444,681	\$ 386,483	\$ 309,932
Accounts payable			
Trade	326,515	353,398	264,716
Construction	-	317,165	388,008
Estimated third-party payor settlements	-	650,000	-
Accrued expenses	852,900	789,080	745,801
Deferred revenue	119,063	91,599	97,520
Deferred revenue for succeeding year property tax receivable	<u>970,000</u>	<u>936,049</u>	<u>906,377</u>
Total current liabilities	<u>2,713,159</u>	<u>3,523,774</u>	<u>2,712,354</u>
Noncurrent Liabilities			
Deposits	2,260,900	1,959,000	2,096,600
Long-term debt, less current maturities	<u>4,779,878</u>	<u>5,254,053</u>	<u>5,324,114</u>
Total noncurrent liabilities	<u>7,040,778</u>	<u>7,213,053</u>	<u>7,420,714</u>
Total liabilities	<u>9,753,937</u>	<u>10,736,827</u>	<u>10,133,068</u>
Net Assets			
Invested in capital assets, net of related debt	8,154,708	8,715,376	6,727,389
Restricted	197,696	199,567	195,281
Unrestricted	<u>8,049,104</u>	<u>4,975,999</u>	<u>5,024,238</u>
Total net assets	<u>16,401,508</u>	<u>13,890,942</u>	<u>11,946,908</u>
Total liabilities and net assets	<u>\$ 26,155,445</u>	<u>\$ 24,627,769</u>	<u>\$ 22,079,976</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Management's Discussion and Analysis
June 30, 2012 and 2011

Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended June 30,		
	2012	2011	2010
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 18,070,789	\$ 16,246,573	\$ 15,244,540
Other operating revenues	848,857	727,750	861,392
Total Operating Revenues	<u>18,919,646</u>	<u>16,974,323</u>	<u>16,105,932</u>
Operating Expenses			
Salaries and wages	7,005,296	6,683,962	6,435,035
Supplies and other expenses	8,659,996	7,834,166	7,151,277
Depreciation and amortization	1,633,781	1,398,796	1,024,804
Total Operating Expenses	<u>17,299,073</u>	<u>15,916,924</u>	<u>14,611,116</u>
Operating Income	<u>1,620,573</u>	<u>1,057,399</u>	<u>1,494,816</u>
Nonoperating Revenues (Expenses)			
County tax revenue	933,495	909,012	893,339
Noncapital grants and contributions	30,215	22,599	12,969
Investment income	52,484	52,647	55,847
Interest expense	(184,730)	(225,361)	(207,661)
Rental income	48,529	47,268	45,308
Gain on disposal of capital assets	-	470	2,150
Net Nonoperating Revenues	<u>879,993</u>	<u>806,635</u>	<u>801,952</u>
Revenues in Excess of Expenses	2,500,566	1,864,034	2,296,768
Contributions for Capital Assets	<u>10,000</u>	<u>80,000</u>	<u>-</u>
Increase in Net Assets	2,510,566	1,944,034	2,296,768
Net Assets Beginning of Year	<u>13,890,942</u>	<u>11,946,908</u>	<u>9,650,140</u>
Net Assets End of Year	<u>\$ 16,401,508</u>	<u>\$ 13,890,942</u>	<u>\$ 11,946,908</u>

Capital Assets

March of 2009 the Health Center started on the first of the three phase renovation and construction of a new Emergency Room and remodeled Surgery Room projects which were completed in the spring of 2011. In 2010, the Health Center began converting to a new hospital software package (Meditech 6.0); implementation has continued in various stages with the first group of the modules September 1, 2011. Additional Meditech software modules are anticipated to be placed into operation over the upcoming fiscal years.

Long-Term Debt

Buchanan County Health Center had \$444,681 and \$4,779,878, respectively, in short-term and long-term debt for the year ended June 30, 2012 and \$386,483 and \$5,254,053, respectively, in short-term and long-term debt for the year ended June 30, 2011. The debt 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 2013 budget. Of primary consideration in the 2013 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>2012</u>	<u>2011</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,275,806	\$ 3,353,591
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,640,000 in 2012 and \$1,260,000 in 2011	2,360,348	1,902,649
Succeeding year property tax	970,000	936,049
Estimated third-party payor settlements	260,000	-
Other	36,983	134,456
Supplies	173,943	139,611
Prepaid expense	187,172	197,725
Total current assets	<u>9,264,252</u>	<u>6,664,081</u>
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted under debt agreements	49,696	51,567
By board for capital improvements	1,006,184	1,398,413
Total assets limited as to use or restricted	<u>1,055,880</u>	<u>1,449,980</u>
Capital Assets - Note 4		
Capital assets not being depreciated	628,881	682,971
Depreciable capital assets, net of accumulated depreciation	15,011,286	15,631,941
Total capital assets, net	<u>15,640,167</u>	<u>16,314,912</u>
Other Assets		
Beneficial interest in charitable trust	148,000	148,000
Deferred financing costs, net of accumulated amortization of \$25,854 in 2012 and \$22,204 in 2011	47,146	50,796
Total other assets	<u>195,146</u>	<u>198,796</u>
Total assets	<u>\$ 26,155,445</u>	<u>\$ 24,627,769</u>

See Notes to Financial Statements

People's Memorial Hospital
d/b/a Buchanan County Health Center
Balance Sheets
June 30, 2012 and 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt - Note 6	\$ 444,681	\$ 386,483
Accounts payable		
Trade	326,515	353,398
Construction	-	317,165
Estimated third-party payor settlements	-	650,000
Accrued expenses		
Salaries and wages	237,842	194,958
Vacation	541,194	475,435
Payroll taxes and other	73,864	118,687
Deferred revenue	119,063	91,599
Deferred revenue for succeeding year property tax receivable	970,000	936,049
Total current liabilities	2,713,159	3,523,774
Noncurrent Liabilities		
Deposits - Note 7	2,260,900	1,959,000
Long-term debt, less current maturities - Note 6	4,779,878	5,254,053
Total noncurrent liabilities	7,040,778	7,213,053
Total liabilities	9,753,937	10,736,827
Net Assets		
Invested in capital assets, net of related debt	8,154,708	8,715,376
Restricted		
Expendable for debt service	49,696	51,567
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	8,049,104	4,975,999
Total net assets	16,401,508	13,890,942
Total liabilities and net assets	\$ 26,155,445	\$ 24,627,769

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$1,329,875 in 2012 and \$1,219,338 in 2011) - Note 2	\$ 18,070,789	\$ 16,246,573
Other operating revenues	<u>848,857</u>	<u>727,750</u>
Total Operating Revenues	<u>18,919,646</u>	<u>16,974,323</u>
Operating Expenses		
Salaries and wages	7,005,296	6,683,962
Supplies and other expenses	8,659,996	7,834,166
Depreciation and amortization	<u>1,633,781</u>	<u>1,398,796</u>
Total Operating Expenses	<u>17,299,073</u>	<u>15,916,924</u>
Operating Income	<u>1,620,573</u>	<u>1,057,399</u>
Nonoperating Revenues (Expenses)		
County tax revenue	933,495	909,012
Noncapital grants and contributions	30,215	22,599
Investment income	52,484	52,647
Interest expense	(184,730)	(225,361)
Rental income	48,529	47,268
Gain on disposal of capital assets	<u>-</u>	<u>470</u>
Net Nonoperating Revenues	<u>879,993</u>	<u>806,635</u>
Revenues in Excess of Expenses	2,500,566	1,864,034
Contributions for Capital Assets	<u>10,000</u>	<u>80,000</u>
Increase in Net Assets	2,510,566	1,944,034
Net Assets Beginning of Year	<u>13,890,942</u>	<u>11,946,908</u>
Net Assets End of Year	<u>\$ 16,401,508</u>	<u>\$ 13,890,942</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Receipts of patient and resident service revenue	\$ 16,730,554	\$ 17,056,550
Other receipts	946,330	626,542
Payments of salaries and wages	(6,896,653)	(6,650,505)
Payments of supplies and other expenses	<u>(8,755,481)</u>	<u>(7,770,168)</u>
Net Cash Provided by Operating Activities	<u>2,024,750</u>	<u>3,262,419</u>
Cash Flows from Noncapital Financing Activities		
County tax revenue received	933,495	909,012
Noncapital grants and contributions received	<u>30,215</u>	<u>22,599</u>
Net Cash Provided by Noncapital Financing Activities	<u>963,710</u>	<u>931,611</u>
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(1,272,551)	(3,292,491)
Proceeds from sale of capital assets	-	470
Contributions for capital assets	10,000	80,000
Proceeds from residency deposits	393,900	185,000
Payments of residency deposits	(92,000)	(322,600)
Proceeds from issuance of debt	-	360,000
Payment of principal on debt	(415,977)	(353,510)
Payment of interest on debt	<u>(184,730)</u>	<u>(255,736)</u>
Net Cash used for Capital and Related Financing Activities	<u>(1,561,358)</u>	<u>(3,598,867)</u>
Cash Flows from Investing Activities		
Decrease in assets limited as to use or restricted	394,100	231,673
Investment income received	52,484	52,647
Rental income received	<u>48,529</u>	<u>47,268</u>
Net Cash Provided by Investing Activities	<u>495,113</u>	<u>331,588</u>
Net Increase in Cash and Cash Equivalents	1,922,215	926,751
Cash and Cash Equivalents at Beginning of Year	<u>3,353,591</u>	<u>2,426,840</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,275,806</u>	<u>\$ 3,353,591</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,620,573	\$ 1,057,399
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,630,131	1,395,146
Amortization	3,650	3,650
Provision for bad debts	1,329,875	1,219,338
Changes in assets and liabilities		
Receivables	(1,690,101)	(1,268,648)
Estimated third-party payor settlements	(910,000)	764,000
Supplies	(34,332)	2,313
Prepaid expense	10,553	(36,819)
Trade accounts payable	(26,883)	88,682
Accrued expenses	63,820	43,279
Deferred revenue	27,464	(5,921)
Net Cash Provided by Operating Activities	\$ 2,024,750	\$ 3,262,419

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, People's Memorial Hospital, d/b/a Buchanan County 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. People's Memorial Hospital, d/b/a Buchanan County Health Center, has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

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

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributable to the acquisition, construction or improvement of those assets.

- *Restricted net assets:*

Expendable – Expendable net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Nonexpendable – Nonexpendable net assets are subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

- *Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have 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 Health Center's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

The Health Center uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis, using the economic resources measurement focus. Based on GASB Codification Topic 1600, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Health Center has elected not to apply the provisions of any pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

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.

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.

Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

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 cost (first-in, first-out) 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 assets 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	5-15 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, 2012 and 2011.

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 succeeding year property tax receivable.

Operating Revenues and Expenses

The Health Center's statement of revenues, expenses, and changes in net assets 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, other than financing costs.

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.

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. Revenue from services to these patients and residents is recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient and resident service revenue, depending on the timing of the charity determination.

The Health Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy. The amounts of charges foregone were \$264,304 and \$192,472, for the years ended June 30, 2012 and 2011, respectively. The estimated costs of the charges foregone, based upon the Health Center's overall cost-to-charge ratio calculation, for the years ended June 30, 2012 and 2011, were \$137,000 and \$105,000, respectively.

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.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$47,754 and \$44,661 for advertising costs for the years ended June 30, 2012 and 2011, respectively.

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.

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, 2011, financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net assets.

Note 2 - Net Patient 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, 2009.

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 43% and 9%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2012, and 41% and 8%, respectively, of the Health Center's net patient and resident service revenue for the year ended June 30, 2011. 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 years ended June 30, 2012 and 2011, increased approximately \$164,000 and \$21,000, respectively, due to prior-year retroactive adjustments in excess of amounts previously estimated.

People's Memorial Hospital
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Notes to Financial Statements
June 30, 2012 and 2011

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, 2012 and 2011, is as follows:

	<u>2012</u>	<u>2011</u>
Total Patient and Resident Service Revenue	<u>\$ 31,815,503</u>	<u>\$ 27,758,097</u>
Contractual Adjustments		
Medicare	(7,216,872)	(6,154,504)
Medicaid	(1,440,099)	(1,200,871)
Other	<u>(3,735,167)</u>	<u>(2,900,459)</u>
Total contractual adjustments	<u>(12,392,138)</u>	<u>(10,255,834)</u>
Policy discounts	<u>(22,701)</u>	<u>(36,352)</u>
Net Patient and Resident Service Revenue	19,400,664	17,465,911
Provision for Bad Debts	<u>(1,329,875)</u>	<u>(1,219,338)</u>
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	<u>\$ 18,070,789</u>	<u>\$ 16,246,573</u>

Note 3 - Cash and Deposits

The Health Center's deposits in banks at June 30, 2012 and 2011, 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, 2012 and 2011, the Health Center's carrying amounts of cash and deposits are as follows:

	2012	2011
Checking, Savings, and Money Market Accounts	\$ 4,371,915	\$ 2,872,827
Certificates of Deposit	1,947,497	1,927,120
Accrued Interest Receivable	12,274	3,624
	\$ 6,331,686	\$ 4,803,571

Included in the Following Balance Sheet Captions:

Cash and cash equivalents	\$ 5,275,806	\$ 3,353,591
Assets limited as to use or restricted	1,055,880	1,449,980
	\$ 6,331,686	\$ 4,803,571

All of the above cash and deposits have a maturity date of less than fifteen months.

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, 2012 and 2011, was as follows:

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

Construction in progress at June 30, 2012, consists mainly of costs incurred for the Air Handler Unit Replacement project. The project is expected to be completed in July 2012, with a total estimated cost of \$369,000. The Health Center is financing this project with internal funds. Also included in construction in progress are costs associated with the MRI Remodel and the Meditech Upgrade. The total estimated cost of the MRI project is approximately \$2,235,000, with an anticipated completion date of December 2012. The project will be financed through internal funds and the issuance of debt. The total estimated cost of the Meditech Upgrade is approximately \$137,000, with an anticipated completion date during the Fall of 2012. Financing for this project will be through internal funds.

People's Memorial Hospital
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Notes to Financial Statements
June 30, 2012 and 2011

	<u>June 30, 2010 Balance</u>	<u>Additions and Transfers</u>	<u>June 30, 2011 Balance</u>
Capital Assets Not Being Depreciated			
Land	\$ 129,964	\$ -	\$ 129,964
Construction in progress	930,080	(377,073)	553,007
Total capital assets not being depreciated	<u>1,060,044</u>	<u>(377,073)</u>	<u>682,971</u>
Capital Assets Being Depreciated			
Land improvements	472,356	37,928	510,284
Buildings	17,860,298	1,897,398	19,757,696
Equipment	5,359,950	1,693,770	7,053,720
Total capital assets being depreciated	<u>23,692,604</u>	<u>3,629,096</u>	<u>27,321,700</u>
Less Accumulated Depreciation for			
Land improvements	227,951	23,090	251,041
Buildings	6,646,723	787,166	7,433,889
Equipment	3,419,939	584,890	4,004,829
Total accumulated depreciation	<u>10,294,613</u>	<u>1,395,146</u>	<u>11,689,759</u>
Total Capital Assets Being Depreciated, Net	<u>13,397,991</u>	<u>2,233,950</u>	<u>15,631,941</u>
Total Capital Assets, Net	<u>\$ 14,458,035</u>	<u>\$ 1,856,877</u>	<u>\$ 16,314,912</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, 2012 and 2011, was \$98,314 and \$93,627, respectively. The capitalized leased assets consist of:

	<u>2012</u>	<u>2011</u>
Equipment	\$ 527,726	\$ 527,726
Less Accumulated Amortization	(369,408)	(263,863)
	<u>\$ 158,318</u>	<u>\$ 263,863</u>

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

Year Ending June 30,	
2013	\$ 114,949
2014	<u>67,053</u>
Total Minimum Lease Payments	182,002
Less interest	<u>(5,072)</u>
 Present Value of Minimum Lease Payments - Note 6	 <u><u>\$ 176,930</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, 2012 and 2011, is as follows:

	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 - Note 5	<u>283,859</u>	<u>-</u>	<u>106,929</u>	<u>176,930</u>	<u>110,633</u>
Less Current Maturities	<u><u>\$ 5,640,536</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 415,977</u></u>	<u><u>5,224,559</u></u> <u>(444,681)</u>	<u><u>\$ 444,681</u></u>
Long-Term Debt, Less Current Maturities				<u><u>\$ 4,779,878</u></u>	

People's Memorial Hospital
d/b/a Buchanan County Health Center
Notes to Financial Statements
June 30, 2012 and 2011

	June 30 2010 Balance	Additions	Payments	June 30 2011 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	\$ -	\$ 360,000	\$ 42,856	\$ 317,144	\$ 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)	4,114,129	-	199,596	3,914,533	207,985
Hospital Revenue Note, Series 2009, Maturity Date of November 1, 2030, Interest Only Payments Through April 1, 2011 (B)	1,125,000	-	-	1,125,000	20,140
8.0% Note Payable to BankIowa for Equipment, Due in Monthly Installments of \$918 Through June 30, 2011	7,733	-	7,733	-	-
Capitalized Lease Obligation	387,184	-	103,325	283,859	106,929
	<u>\$ 5,634,046</u>	<u>\$ 360,000</u>	<u>\$ 353,510</u>	5,640,536	<u>\$ 386,483</u>
Less Current Maturities				(386,483)	
Long-Term Debt, Less Current Maturities				<u>\$ 5,254,053</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:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 444,681	\$ 151,674	\$ 596,355
2014	408,786	139,675	548,461
2015	350,947	130,460	481,407
2016	359,680	121,727	481,407
2017	368,700	112,707	481,407
2018-2022	1,741,051	417,407	2,158,458
2023-2027	1,262,606	161,095	1,423,701
2028-2031	288,108	27,404	315,512
	<u>\$ 5,224,559</u>	<u>\$ 1,262,149</u>	<u>\$ 6,486,708</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. As of July 1, 2000, 20% of the entrance payment is recognized as income, and the remaining 80% 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 5.38% of their annual covered salary, and the Health Center is required to contribute 8.07% of annual covered payroll for the year ended June 30, 2012. For the year ended June 30, 2011, plan members were required to contribute 4.50% of their annual covered salary, and the Health Center was required to contribute 6.95% of annual covered payroll. For the year ended June 30, 2010, plan members were required to contribute 4.30% of their annual covered salary, and the Health Center was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute.

The Health Center's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$546,645, \$449,353, and \$420,674, 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 employees annual compensation. The Health Center's contributions to the plan for the years ended June 30, 2012, 2011, and 2010, were \$73,317, \$74,649, and \$71,681, 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 - Concentrations 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, 2012 and 2011, was as follows:

	2012	2011
Medicare	37%	37%
Medicaid	7%	6%
Commerical Insurance	31%	31%
Other Third-Party Payors, Patients, and Residents	25%	26%
	100%	100%

Note 11 - Commitments and 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.

Equipment Purchase

The Health Center entered into a commitment to purchase a MRI machine in fiscal year ended June 30, 2012, costing an estimated \$883,878. The machine is scheduled to arrive by December 2012. Financing for this purchase is currently undecided.

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.

Note 12 - Subsequent Events

In July 2012, the Health Center agreed to purchase land and a building adjacent to the Health Center property. The purchase price will be \$285,000 and will be financed through operations.

The Health Center has evaluated subsequent events through September 10, 2012, the date which the financial statements were available to be issued.



Required Supplementary Information
June 30, 2012



People's Memorial Hospital
d/b/a Buchanan County Health Center
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets –
 Budget and Actual (Cash Basis)
 Required Supplementary Information
 Year Ended June 30, 2012

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 933,495	\$ -	\$ 933,495	\$ 936,049	\$ (2,554)
Estimated Other Revenues/Receipts	<u>19,060,874</u>	<u>(1,242,762)</u>	<u>17,818,112</u>	<u>22,147,400</u>	<u>(4,329,288)</u>
	19,994,369	(1,242,762)	18,751,607	23,083,449	(4,331,842)
Expenses/Disbursements	<u>17,483,803</u>	<u>(260,311)</u>	<u>17,223,492</u>	<u>23,174,300</u>	<u>5,950,808</u>
Net	2,510,566	(982,451)	1,528,115	(90,851)	<u>\$ 1,618,966</u>
Balance, Beginning of Year	<u>13,890,942</u>	<u>(9,087,371)</u>	<u>4,803,571</u>	<u>2,898,393</u>	
Balance, End of Year	<u>\$ 16,401,508</u>	<u>\$ (10,069,822)</u>	<u>\$ 6,331,686</u>	<u>\$ 2,807,542</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 perspective 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, 2012.

For the year ended June 30, 2012, the Health Center's expenditures did not exceed the amount budgeted.



Supplementary Information
June 30, 2012 and 2011





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, 2012 and June 30, 2011, and our report thereon dated September 10, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, patient and resident receivables, allowance for doubtful accounts, 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 supplementary information is fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient and resident receivables, allowance for doubtful accounts, 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, 2012

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2012 and 2011

	2012	2011
Patient and Resident Service Revenue		
Routine services - hospital	\$ 1,484,039	\$ 1,661,697
Routine services - nursing care center	1,859,103	1,632,462
Operating and recovery rooms	3,965,906	2,404,962
Central services and supply	608,480	648,438
Emergency services	6,451,406	5,566,327
Laboratory and blood bank	5,027,477	4,719,076
Cardiac rehab	119,066	182,191
Electrocardiology	349,516	351,557
Sleep studies	274,094	364,609
Radiology	6,427,493	5,667,932
Pharmacy	1,999,963	2,019,121
Anesthesiology	1,104,276	661,885
Respiratory therapy	362,703	309,516
Physical therapy	1,749,606	1,382,874
Speech and occupational therapy	296,679	377,922
	32,079,807	27,950,569
Charity care	(264,304)	(192,472)
	\$ 31,815,503	\$ 27,758,097
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 5,942,690	\$ 5,932,340
Outpatient revenue	26,137,117	22,018,229
Charity care	(264,304)	(192,472)
	31,815,503	27,758,097
Contractual Adjustments		
Medicare	(7,216,872)	(6,154,504)
Medicaid	(1,440,099)	(1,200,871)
Other	(3,735,167)	(2,900,459)
	(12,392,138)	(10,255,834)
Policy Discounts	(22,701)	(36,352)
Net Patient and Resident Service Revenue	19,400,664	17,465,911
Provision for Bad Debts	(1,329,875)	(1,219,338)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 18,070,789	\$ 16,246,573

People's Memorial Hospital
 d/b/a Buchanan County Health Center
 Schedules of Other Operating Revenues
 Years Ended June 30, 2012 and 2011

	2012	2011
Other Operating Revenues		
Independent Living Center	\$ 344,562	\$ 255,149
Wellness Center fees	246,336	229,451
Outpatient clinic	132,511	82,694
Transcription fees	44,760	41,030
Cafeteria	33,681	33,016
Grants	13,495	51,821
Other nonpatient meals	10,643	8,265
Laundry	4,647	3,050
Flu shot clinic	4,226	4,206
Nonpatient pharmacy sales	2,792	5,823
Immunization clinic	110	40
Medical records transcript fees	80	236
Other	11,014	12,969
Total Other Operating Revenues	\$ 848,857	\$ 727,750

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Nursing Administration		
Salaries and wages	\$ 124,381	\$ 121,980
Supplies and other expenses	3,539	5,172
	<u>127,920</u>	<u>127,152</u>
Routine Nursing Services		
Salaries and wages	2,211,634	2,328,676
Supplies and other expenses	164,159	189,688
	<u>2,375,793</u>	<u>2,518,364</u>
Social Services		
Salaries and wages	60,891	57,176
Supplies and other expenses	107	3
	<u>60,998</u>	<u>57,179</u>
Operating and Recovery Rooms		
Salaries and wages	245,021	182,428
Supplies and other expenses	389,150	401,448
	<u>634,171</u>	<u>583,876</u>
Central Services and Supply		
Salaries and wages	73,680	72,631
Supplies and other expenses	106,753	40,795
	<u>180,433</u>	<u>113,426</u>
Emergency Services		
Salaries and wages	333,739	124,714
Supplies and other expenses	871,301	800,288
	<u>1,205,040</u>	<u>925,002</u>
Laboratory and Blood Bank		
Salaries and wages	399,857	380,249
Supplies and other expenses	545,511	543,395
	<u>945,368</u>	<u>923,644</u>
Electrocardiology		
Supplies and other expenses	13,536	16,147
Sleep Studies		
Supplies and other expenses	74,000	113,610
Radiology		
Salaries and wages	368,312	352,724
Supplies and other expenses	455,084	428,093
	<u>823,396</u>	<u>780,817</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	2012	2011
Pharmacy		
Salaries and wages	\$ 162,712	\$ 166,901
Supplies and other expenses	591,546	471,327
	<u>754,258</u>	<u>638,228</u>
Anesthesiology		
Supplies and other expenses	<u>321,443</u>	<u>208,450</u>
Respiratory Therapy		
Salaries and wages	79,599	70,838
Supplies and other expenses	16,972	18,848
	<u>96,571</u>	<u>89,686</u>
Physical Therapy		
Salaries and wages	571,673	520,807
Supplies and other expenses	47,220	49,066
	<u>618,893</u>	<u>569,873</u>
Speech and Occupational Therapy		
Supplies and other expenses	<u>139,985</u>	<u>185,710</u>
Independent Living		
Salaries and wages	94,678	88,704
Supplies and other expenses	44,543	35,342
	<u>139,221</u>	<u>124,046</u>
Outpatient Clinic		
Salaries and wages	75,457	102,769
Supplies and other expenses	32,800	29,091
	<u>108,257</u>	<u>131,860</u>
Community Care		
Salaries and wages	-	(165)
Supplies and other expenses	-	609
	<u>-</u>	<u>444</u>
Medical Records		
Salaries and wages	275,874	256,615
Supplies and other expenses	55,202	62,690
	<u>331,076</u>	<u>319,305</u>
Dietary		
Salaries and wages	333,039	340,130
Supplies and other expenses	264,062	272,205
	<u>597,101</u>	<u>612,335</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Plant Operation and Maintenance		
Salaries and wages	\$ 261,479	\$ 239,358
Supplies and other expenses	707,942	720,592
	<u>969,421</u>	<u>959,950</u>
Housekeeping		
Salaries and wages	269,508	257,094
Supplies and other expenses	63,620	31,944
	<u>333,128</u>	<u>289,038</u>
Laundry and Linen		
Salaries and wages	21,082	20,147
Supplies and other expenses	142,620	121,505
	<u>163,702</u>	<u>141,652</u>
Administrative Services		
Salaries and wages	1,042,680	1,000,186
Supplies and other expenses	922,159	666,547
	<u>1,964,839</u>	<u>1,666,733</u>
Unassigned Expenses		
Depreciation and amortization	1,633,781	1,398,796
Insurance	94,919	110,991
Employee benefits	2,591,823	2,310,610
	<u>4,320,523</u>	<u>3,820,397</u>
Total Operating Expenses	<u>\$ 17,299,073</u>	<u>\$ 15,916,924</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center

Schedules of Patient and Resident Receivables, Allowance for Doubtful Accounts, and Collection Statistics
(Unaudited)

June 30, 2012 and 2011

Analysis of Aging

<u>Days Since Discharge</u>	2012		2011	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30 Days	\$ 3,669,636	59.91%	\$ 2,337,534	50.13%
1 - 2 Months	943,135	15.40%	1,004,694	21.55%
2 - 3 Months	367,765	6.00%	292,406	6.27%
3 - 6 Months	309,688	5.06%	224,574	4.82%
6 - 12 Months	170,776	2.79%	550,599	11.81%
Over 12 Months	664,348	10.85%	252,842	5.42%
	<u>6,125,348</u>	<u>100.00%</u>	<u>4,662,649</u>	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	1,640,000		1,260,000	
Allowance for Contractual Adjustments	2,125,000		1,500,000	
Net	<u>\$ 2,360,348</u>		<u>\$ 1,902,649</u>	

Allowance for Doubtful Accounts

	<u>Years Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>
Balance, Beginning of Year	\$ 1,260,000	\$ 1,025,000
Add: Provision for Bad Debts	1,329,875	1,219,338
Recoveries of Accounts Written Off	73,909	59,452
Less: Accounts Written Off	<u>(1,023,784)</u>	<u>(1,043,790)</u>
Balance, End of Year	<u>\$ 1,640,000</u>	<u>\$ 1,260,000</u>

	<u>2012</u>	<u>2011</u>
Collection Statistics		
Net accounts receivable - patients and residents	\$ 2,360,348	\$ 1,902,649
Number of days charges outstanding (1)	47	47
Uncollectible accounts (2)	\$ 1,666,020	\$ 1,436,817
Percentage of uncollectible accounts to total charges	5.2%	5.1%

(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, 2012 and 2011

	2012	2011
Supplies		
Pharmacy	\$ 103,816	\$ 83,273
Central stores	50,341	38,377
Dietary	19,786	17,961
Total	\$ 173,943	\$ 139,611
 Prepaid Expense		
Insurance	\$ 148,158	\$ 163,992
Other	39,014	33,733
Total	\$ 187,172	\$ 197,725

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedule of Insurance in Force at June 30, 2012 (Unaudited)

Company Policy Number	Description	Amount of Coverage	Annual Premium	Expiration Date
General Casualty #CFE072116512	Building and contents Blanket earnings and expense Earthquake Boiler	\$ 42,272,420 \$ 18,245,000 \$ 5,000,000 \$ 4,000,000	\$ 47,824	06/15/13
EMC Insurance Co. #T222750	Employee dishonesty	\$ 500,000	\$ 1,070	06/15/13
General Casualty #92967	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 2,850	06/15/13
Pro Assurance #134277	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 15,757	08/14/12
#134276	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 4,232	08/14/12
#142037	Umbrella excess liability	\$ 4,000,000 / \$ 4,000,000	\$ 32,000	08/14/12
Farm Bureau Financial Services #7211290	Worker's compensation	\$ 500,000	87,461	04/01/13
Travelers #9414	Directors' and officers' liability	\$ 2,000,000	\$ 11,427	06/15/13

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2012 and 2011

	2012	2011
Patient Days		
Hospital		
Acute	905	1,072
Swing-bed	697	863
Nursing Care Center	11,655	11,087
 Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
 Percentage of Occupancy		
Hospital	18%	21%
Nursing Care Center	82%	78%
 Discharges		
Hospital		
Acute	292	326
Swing-bed	85	91
Nursing Care Center	24	37
 Average Length of Stay		
Hospital		
Acute	3.1	3.3
Swing-bed	8.2	9.5
Nursing Care Center	486	300



**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 the accompanying balance sheet of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), as of and for the year ended June 30, 2012, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 10, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of the Health Center is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Health Center's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness, and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item I-A-12 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses as item I-B-12 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Health Center's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Health Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. While we have expressed our conclusions on the Health Center's responses, we did not audit the Health Center's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees and management of People's Memorial Hospital, d/b/a Buchanan County Health Center, and is not intended to be and should not be used by anyone other than these specified parties.



Dubuque, Iowa
September 10, 2012

Part I: Findings Related to the Financial Statements:

Material Weakness:

I-A-12 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. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an organization of your size. Also, a material adjusting journal entry (related to allowances for doubtful accounts) was proposed and made to the financial statements during the audit.

Cause – 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. 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. Also, interim financial statements may be misstated if material adjusting journal entries are made at year end.

Recommendation – 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.

Conclusion – Response accepted.

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

Significant Deficiency:

I-B-12 Segregation of Duties

Criteria – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Condition – Certain employees perform duties that are incompatible.

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

Effect – 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. 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.

Conclusion – Response accepted.

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-12 Certified Budget** – Disbursements during the year ended June 30, 2012, did not exceed the amount budgeted.
- II-B-12 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-12 Travel Expense** – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- II-D-12 Business Transactions** – We noted no material transactions between the Health Center and Health Center officials and/or employees.
- II-E-12 Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-F-12 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.



September 10, 2012

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, for the year ended June 30, 2012, and have issued our report thereon dated September 10, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 24, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by People's Memorial Hospital, d/b/a Buchanan County Health Center, are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the Health Center during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements relate to the collectibility of patient and resident receivables, the amounts either owed to or receivable from third-party payors, and depreciation expense.

Collectibility of Patient and Resident Receivables – Management's estimate of the collectibility of patient and resident receivables is based on historical trends for uncollectible accounts and contractual adjustments.

Estimated Third-Party Payor Settlements – Management's estimate of the amounts either owed to or receivable from third-party payors is based on both final and tentatively settled cost reports. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. There is a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that the estimates for all open years are adequate. Any differences between the estimates and the final settlements will be recorded in the period the final settlements are made and will not be treated as prior period adjustments.

Depreciation Expense – Management's estimate of depreciation expense is based on the estimated useful lives assigned using industry recommended averages and historical experience. Depreciation is calculated using the straight-line method.

We evaluated the key factors and assumptions used to develop the estimates related to the collectibility of patient and resident receivables, amounts either owed to or receivable from third-party payors, and depreciation expense in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following adjustments, one which is considered material, were made during the audit. Significant adjustments are listed separately.

To adjust allowance for doubtful accounts on accounts receivable	\$	204,000
To adjust accounts payable		40,000
To adjust prepaid expenses		15,000
Other adjustments		8,000

The net effect of the adjustments was to increase net assets by approximately \$267,000.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 10, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Health Center's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Health Center's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matter

Following is an additional comment for informational purposes only:

Accounting for Leases

On August 17, 2010, the Financial Accounting Standards Board (FASB) issued Proposed Accounting Standards Update 1850-100, Leases. This proposal has been discussed over the last several years and seeks to change the way in which substantially all leases are reflected in financial statements. Under the guidance in the proposed standard, the lessee would recognize an asset representing its right to use the leased ('underlying') asset for the lease term (the 'right-of-use' asset) and a liability to make lease payments. Substantially all leases currently considered operating leases would now be recognized on the balance sheet. Assets and liabilities recognized by lessees and lessors would be measured on a basis that:

- Assumes the longest possible lease term that is more likely than not to occur, taking into account the effect of any options to extend or terminate the lease.
- Uses an expected outcome technique to reflect the lease payments, including contingent rentals and expected payments under term option penalties and residual value guarantees, specified by the lease.
- Is updated when changes in facts or circumstances indicate that there would be a significant change in those assets or liabilities since the previous reporting period.

The joint committee was expected to issue a final standard to be voted on by the FASB and IASB boards in 2011. If approved, it was anticipated that the effective date would have been for financial statements issued in calendar year 2013. After the announcement of the new exposure draft, the timeline for an effective date of the final standard is unknown.

We recommend that you review the proposed guidance and consider its impact on future financial reporting for the Health Center.

This information is intended solely for the use of the Board of Trustees and management of People's Memorial Hospital, d/b/a Buchanan County Health Center, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

EIDE BAILLY LLP



xc: Ms. Danielle Gearhart, CEO