

**Henry County Soldiers' and  
Sailors' Memorial Hospital d/b/a  
Henry County Health Center  
Mt. Pleasant, Iowa**

**Financial Statements  
June 30, 2013 and 2012**

**Together with Independent Auditor's Report**

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Table of Contents**

---

	<u>Page</u>
Officials -- June 30, 2013 .....	1
Independent Auditor's Report .....	2 – 3
Management's Discussion and Analysis .....	4 – 7
Basic Financial Statements:	
Statements of Net Position	
June 30, 2013 and 2012 .....	8
Statements of Revenue, Expenses and Changes in Net Position	
For the Years Ended June 30, 2013 and 2012 .....	9
Statements of Cash Flows	
For the Years Ended June 30, 2013 and 2012 .....	10 – 11
Notes to Financial Statements	
June 30, 2013 and 2012 .....	12 – 26
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses	
and Changes in Net Position – Budget and Actual (Accrual Basis) .....	27
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue	
For the Years Ended June 30, 2013 and 2012 .....	28
Exhibit 2 - Other Operating Revenue	
For the Years Ended June 30, 2013 and 2012 .....	29
Exhibit 3 - Departmental Expenses	
For the Years Ended June 30, 2013 and 2012 .....	30
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	
For the Years Ended June 30, 2013 and 2012 .....	31
Exhibit 5 - Inventory/Prepaid Expenses	
For the Years Ended June 30, 2013 and 2012 .....	32
Exhibit 6 - Financial and Statistical Highlights	
For the Years Ended June 30, 2013 and 2012 .....	33
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 .....	34 – 35
Schedule of Findings and Questioned Costs .....	36 – 37
Summary Schedule of Prior Year Audit Findings .....	38
Audit Staff .....	39

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Officials  
June 30, 2013**

---

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
County Board of Supervisors:		
Gary See	Chairperson	December 2016
Mark Lindeen	Vice-Chairperson	December 2014
Greg Moeller	Member	December 2016
Hospital Board of Trustees:		
Robert Meyer	Chairperson	December 2018
Kent Severson	Vice-Chairperson	December 2016
Jan Towne	Secretary / Treasurer	December 2016
Megan Wenstrand	Trustee	December 2018
Carmen Heaton	Trustee	December 2014
Richard Garrels	Trustee	December 2014
Hospital Officials:		
Robb Gardner	President / Chief Executive Officer	
David Muhs	Chief Financial Officer	
Jodi Geerts	Chief Nursing Officer	

## Independent Auditor's Report

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

### Report on the Financial Statements

We have audited the accompanying financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

### 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 opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

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, 2013 and 2012, and the respective change in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

As explained in Note 1, the accompanying financial statements present only the Health Center Fund of Henry County, Iowa, and are not intended to present fairly the financial position of Henry County, Iowa, and changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Health Center's basic financial statements. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary statements (Exhibits 1 – 6) are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary statements (Exhibits 1 – 6) are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2013 on our consideration of the Health Center's internal control over financial reporting and 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* in considering the Health Center's internal control over financial reporting.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
August 29, 2013.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Management's Discussion and Analysis  
June 30, 2013 and 2012**

---

This discussion and analysis of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) financial performance provides an overview of financial activities for the fiscal years ended June 30, 2013 and 2012. This discussion and analysis should be read in conjunction with financial statements, which begin on page 8.

**Financial Highlights**

- The Health Center's net position increased in 2013 by \$1,707,282 or 5%. In 2012, net position increased by \$1,230,216 or 4%.
- The Health Center reported an operating income in 2013 of \$185,599 compared to an operating income of \$63,545 in 2012.
- The Health Center's non-operating revenues decreased by \$60,759 in 2013 compared to 2012.

**Using This Annual Report**

The Health Center's financial statements consist of three statements—a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Health Center, including resources held by the Health Center but restricted for specific purposes by contributors, grantors, or enabling legislation.

**The Statement of Net Position and Statement of Revenue, Expenses, and Changes in Net Position**

Analysis of the Health Center's finances begins on page 8. The Statement of Net Position and the Statement of Revenue, Expenses, and Changes in Net Position report information about the Health Center's resources and activities in a way that helps answer the question of whether the Health Center, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Health Center's net position and changes in them. Over time, increases or decreases in net position are an indicator of whether its financial health is improving or deteriorating. To assess the overall health of the Health Center, non-financial factors, such as changes in the patient base of the Health Center and measures of the quality of service it provides to the community, as well as local economic factors, need to be considered.

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

**Net Position**

The Health Center's net position is the difference between assets and liabilities reported in the Statement of Net Position on page 8. The Health Center's net position increased this past year by \$1,707,282 or 5%, as shown in **Table 1**.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Management's Discussion and Analysis  
June 30, 2013 and 2012

Table 1: Condensed Statement of Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Total current assets	\$ 8,004,508	7,766,107	7,730,638	238,401	3%
Capital assets, net	26,373,776	18,350,116	15,863,173	8,023,660	44%
Assets limited as to use	17,129,422	14,297,695	15,654,962	2,831,727	20%
Investments	3,654,113	3,398,589	3,139,794	255,524	8%
Other non-current assets	1,525,407	1,523,282	1,352,188	2,125	0%
Total assets	<u>\$ 56,687,226</u>	<u>45,335,789</u>	<u>43,740,755</u>	<u>11,351,437</u>	25%
<b>Liabilities:</b>					
Long-term debt	\$ 12,326,051	4,172,071	3,960,000	8,153,980	195%
Estimated third-party payor settlements	1,456,000	1,261,400	1,200,000	194,600	15%
Other current and non-current liabilities	4,822,637	3,527,062	3,435,715	1,295,575	37%
Total liabilities	18,604,688	8,960,533	8,595,715	9,644,155	108%
<b>Net Position:</b>					
Net position	<u>38,082,538</u>	<u>36,375,256</u>	<u>35,145,040</u>	<u>1,707,282</u>	5%
Total liabilities and net position	<u>\$ 56,687,226</u>	<u>45,335,789</u>	<u>43,740,755</u>	<u>11,351,437</u>	25%

**Operating Results and Changes in Net Position**

In 2013, the Health Center's net position increased by \$1,707,282 or 5%, as shown in **Table 2**. This increase is made up of several different components.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Management's Discussion and Analysis  
June 30, 2013 and 2012

Table 2: Condensed Statement of Revenue, Expenses, and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Operating revenue:</b>					
Net patient service revenue	\$ 30,453,885	29,244,952	30,708,621	1,208,933	4%
Provision for bad debt	(1,336,434)	(1,128,277)	(1,497,821)	(208,157)	18%
Other operating revenue	<u>2,099,885</u>	<u>2,407,060</u>	<u>1,690,124</u>	<u>(307,175)</u>	-13%
Total operating revenue	<u>31,217,336</u>	<u>30,523,735</u>	<u>30,900,924</u>	<u>693,601</u>	2%
<b>Operating Expenses:</b>					
Salaries and employee benefits	16,312,531	16,536,279	16,020,489	(223,748)	-1%
Purchased services and other	12,381,499	11,893,105	12,649,401	488,394	4%
Depreciation and amortization	2,142,462	1,838,794	1,974,646	303,668	17%
Interest	<u>195,245</u>	<u>192,012</u>	<u>228,017</u>	<u>3,233</u>	2%
Total operating expenses	<u>31,031,737</u>	<u>30,460,190</u>	<u>30,872,553</u>	<u>571,547</u>	2%
<b>Operating income</b>	<u>185,599</u>	<u>63,545</u>	<u>28,371</u>	<u>122,054</u>	
<b>Non-Operating Revenue and Expenses</b>					
Property taxes	591,931	568,586	552,692	23,345	4%
Investment income	318,966	475,957	612,573	(156,991)	-33%
Other non-operating revenue	<u>443,892</u>	<u>371,005</u>	<u>279,313</u>	<u>72,887</u>	20%
Total non-operating revenue, net	<u>1,354,789</u>	<u>1,415,548</u>	<u>1,444,578</u>	<u>(60,759)</u>	-4%
<b>Excess of revenue over expenses</b>	1,540,388	1,479,093	1,472,949	61,295	4%
<b>Capital grants and contributions</b>	372,819	--	--	--	100%
<b>Change in unrealized gains and losses</b>	<u>(205,925)</u>	<u>(248,877)</u>	<u>(216,423)</u>	<u>42,952</u>	-17%
Increase in net position	1,707,282	1,230,216	1,256,526	477,066	39%
Net position – beginning of year	<u>36,375,256</u>	<u>35,145,040</u>	<u>33,888,514</u>	<u>1,230,216</u>	4%
Net position – end of year	<u>\$ 38,082,538</u>	<u>36,375,256</u>	<u>35,145,040</u>	<u>1,707,282</u>	5%

**Operating Income**

The first component of the overall change in the Health Center's net position is its operating income —generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The primary components affecting operating income are:

- Medicare/Medicaid Cost Report Settlements and other third party contractual relationships.
- Salary adjustments to stay competitive.
- Employee health insurance.
- Professional/Physician contracts for ancillary departments.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Management's Discussion and Analysis  
June 30, 2013 and 2012**

---

A component of the Health Center's costs is expenses for salaries and benefits. In 2013 salaries and benefit costs totaled \$16,312,531. In 2012 salaries and benefit costs totaled \$16,536,279.

The Health Center at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Health Center.

**Non-operating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes levied for the Health Center, interest revenue, and investment earnings. The county tax levy amounted to \$591,931 in 2013 and \$568,586 in 2012.

**Cash Flows**

Changes in cash flows are consistent with changes in operating income and non-operating revenues and expenses, discussed earlier. Cash flows provided by operating activities increase in 2013 due to proceeds from long term debt and sale of investments.

**Capital Asset and Debt Administration**

**Capital Assets**

At the end of 2013, the Health Center had \$26,373,776 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2013, the Health Center purchased new equipment costing \$7,466,075 and had Construction in Progress of over \$5,900,000. See Note 6 for a discussion of the Health Center's renovation, construction, and expansion project.

**Debt**

At fiscal year-end, the Health Center had \$12,326,051 in capital loan notes outstanding. During 2012 the Health Center entered into notes available in multiple advances not to exceed \$12,500,000. During 2013 and 2012, the Health Center also retired 1,420,000 and \$1,250,000, respectively, of notes early. The amount of debt issued is subject to limitations that apply to the County and its component units as a whole. There have been no changes in the Health Center's debt ratings in the past two years.

**Other Economic Factors**

The 2013 fiscal year provided the Health Center substantial challenges due to federal program reimbursement requirements, pressures from other insurers, and the fluctuation of patient demand.

Inflation continued in 2013 with supply and equipment costs increasing at market rates and the pressure on nursing and other salary costs being driven by the shortage of supply of these health care professionals.

**Contacting Health Center Financial Management**

This financial report is designed to provide patients, suppliers, taxpayers, and creditors with a general overview of the Health Center finances. Questions about this report or requests for additional information should be directed to:

Henry County Health Center  
Attn: David J. Muhs, CFO  
407 South White Street  
Mount Pleasant IA 52641  
319-385-6716

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Net Position  
June 30, 2013 and 2012**

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 3,091,453	2,341,867
Assets limited as to use or restricted, current portion	222,242	753,006
Receivables -		
Patient, net of allowance for doubtful accounts of \$950,000 and \$920,000 in 2013 and 2012, respectively	3,023,792	3,012,538
Other receivables	122,921	124,143
Current portion of notes receivable	921	6,448
Inventories	596,717	578,178
Prepaid expenses	340,557	367,203
Succeeding year property tax receivable	605,905	582,724
Total current assets	<u>8,004,508</u>	<u>7,766,107</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	17,129,422	14,297,695
Investments	3,654,113	3,398,589
Capital assets, net	26,373,776	18,350,116
Other assets	1,349,539	1,334,306
Deferred financing costs	175,868	188,976
Total assets	<u>\$ 56,687,226</u>	<u>45,335,789</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Current portion of long-term debt	\$ 222,242	744,591
Accounts payable -		
Trade	785,123	718,623
Construction	1,555,918	147,553
Accrued salaries and vacation	1,802,589	1,895,987
Other accrued expenses	73,102	182,175
Estimated third-party payor settlements	1,456,000	1,261,400
Deferred revenue for succeeding year property tax receivable	605,905	582,724
Total current liabilities	<u>6,500,879</u>	<u>5,533,053</u>
Noncurrent liabilities:		
Long-term debt, net of current portion	<u>12,103,809</u>	<u>3,427,480</u>
Total liabilities	<u>18,604,688</u>	<u>8,960,533</u>
Commitments and Contingencies:		
<b>NET POSITION</b>		
Net invested in capital assets	14,047,725	14,178,045
Restricted - expendable	1,000,000	1,500,000
Unrestricted	<u>23,034,813</u>	<u>20,697,211</u>
Total net position	<u>38,082,538</u>	<u>36,375,256</u>
Total liabilities and net position	<u>\$ 56,687,226</u>	<u>45,335,789</u>

See notes to financial statements

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Revenue, Expenses and Changes in Net Position  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>OPERATING REVENUE:</b>		
Net patient service revenue before provision for bad debt	\$ 30,453,885	29,244,952
Provision for bad debt	<u>(1,336,434)</u>	<u>(1,128,277)</u>
Net patient service revenue	29,117,451	28,116,675
Other operating revenue	<u>2,099,885</u>	<u>2,407,060</u>
Total operating revenue	<u>31,217,336</u>	<u>30,523,735</u>
<b>OPERATING EXPENSES:</b>		
Salaries	12,504,667	12,564,312
Employee benefits	3,807,864	3,971,967
Professional fees	2,786,911	2,357,006
Supplies	4,876,017	4,932,085
Other expenses	4,718,571	4,604,014
Depreciation and amortization	2,142,462	1,838,794
Interest	<u>195,245</u>	<u>192,012</u>
Total operating expenses	<u>31,031,737</u>	<u>30,460,190</u>
OPERATING INCOME	<u>185,599</u>	<u>63,545</u>
<b>NONOPERATING REVENUES, NET:</b>		
County tax revenues	591,931	568,586
Investment income, net	318,966	475,957
Noncapital grants and contributions	2,833	22,498
Gain from equity investments	490,069	403,028
Gain (loss) from disposal of capital assets	(10,814)	4,026
Rental activity, net	<u>(38,196)</u>	<u>(58,547)</u>
Nonoperating revenues, net	<u>1,354,789</u>	<u>1,415,548</u>
EXCESS OF REVENUE OVER EXPENSES	1,540,388	1,479,093
CAPITAL GRANTS AND CONTRIBUTIONS	372,819	--
CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	<u>(205,925)</u>	<u>(248,877)</u>
INCREASE IN NET POSITION	1,707,282	1,230,216
NET POSITION, beginning of year	<u>36,375,256</u>	<u>35,145,040</u>
NET POSITION, end of year	<u>\$ 38,082,538</u>	<u>36,375,256</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Cash Flows  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third party payors	\$ 29,300,797	28,558,168
Cash paid for employee salaries and benefits	(16,405,929)	(16,408,242)
Cash paid to suppliers and contractors	(12,312,105)	(11,935,448)
Other receipts and payments, net	<u>2,099,885</u>	<u>2,407,060</u>
Net cash provided by operating activities	<u>2,682,648</u>	<u>2,621,538</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
County tax receipts	591,931	568,586
Noncapital grants and contributions	<u>2,833</u>	<u>22,498</u>
Net cash provided by noncapital financing activities	<u>594,764</u>	<u>591,084</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from issuance of long term debt	10,406,928	2,092,071
Bond issuance costs	--	(196,622)
Payments on long-term debt	(2,252,948)	(1,880,000)
Interest payments	(203,660)	(200,288)
Purchase of property and equipment, net	<u>(8,649,689)</u>	<u>(4,400,911)</u>
Net cash used in capital and related financing activities	<u>(699,369)</u>	<u>(4,585,750)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	338,496	510,128
Deposits to investments	(3,029,952)	(2,001,135)
Proceeds from sale of investments	2,755,424	1,692,088
Deposits to assets limited as to use or restricted	(12,167,927)	(6,409,688)
Proceeds from sale of assets limited as to use or restricted	9,671,816	7,445,318
Proceeds from equity investments	374,837	253,693
Proceeds from rental activities, net	<u>228,849</u>	<u>205,692</u>
Net cash provided by (used in) investing activities	<u>(1,828,457)</u>	<u>1,696,096</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	749,586	322,968
CASH AND CASH EQUIVALENTS - Beginning of year	<u>2,341,867</u>	<u>2,018,899</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 3,091,453</u>	<u>2,341,867</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Statements of Cash Flows (Continued)  
For the Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 185,599	63,545
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	2,142,462	1,838,794
Interest expense included in operating expenses	195,245	192,012
Forgiveness of notes and physician receivables	5,526	36,455
(Increase) decrease in current assets -		
Receivables -		
Patients	(11,254)	380,093
Other	1,222	19,198
Current portion of notes receivable	5,527	(922)
Inventories	(18,539)	13,084
Prepaid expenses	26,646	3,438
Increase (decrease) in current liabilities -		
Accounts payable - trade	66,500	(118,385)
Accrued salaries and vacation	(93,398)	128,037
Other accrued expenses	(17,488)	4,789
Estimated third-party payor settlements	194,600	61,400
Net cash provided by operating activities	\$ <u>2,682,648</u>	<u>2,621,538</u>

*See notes to financial statements*

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

**(1) Description of Reporting Entity and Summary of Significant Accounting Policies**

The following is a description of the reporting entity and a summary of significant accounting policies of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center). These policies are in accordance with accounting principles generally accepted in the United States of America. The Health Center is a Critical Access Hospital, operating with 25 acute-care beds and 49 long-term care beds. The Health Center also has related health care ancillary and outpatient services.

**A. Reporting Entity**

Generally accepted accounting principles require the financial reporting entity to include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The Health Center was organized in 1919 under Chapter 347 of the Iowa Code. The Health Center is a municipal corporation governed by a Board of Trustees, which is elected by the public and has the exclusive responsibility and accountability for the decisions it makes. It has the right to sue and to be sued and has the right to buy, sell, lease or mortgage property in its own name. Based upon these criteria, the Health Center is considered a primary government and there are no agencies or entities which should be presented with the Health Center.

**B. Industry Environment**

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Health Center is in compliance with government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

**C. Basis of Presentation**

The Statements of Net Position display 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 – This component of net position 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 position - Expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

Unrestricted net position – This component of net position consists of net position not meeting the definition of the preceding categories. Unrestricted net positions often have constraints on resources imposed by management which can be removed or modified.

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

*D. Basis of Accounting and Accounting Standards*

The Health Center's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, expenses are recognized when incurred.

The Health Center's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements. Governments had been also required to follow the statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board opinions, and Accounting Research Bulletins issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements. In December 2010, GASB issued statement No. 62 which incorporated all relevant guidance in GASB standards.

*E. Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

*F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include certain investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees and under note agreements.

*G. Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

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

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient 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 due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

*H. Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

*I. 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. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors 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 Supervisors 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.

*J. Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

Board of Trustees - Periodically, the Health Center's Board of Trustees has set aside assets for future capital improvements and debt retirement. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

Hospital Revenue Capital Loan Refunding Note or Hospital Revenue Note Agreements – These funds are reserve funds held as security for the Series 2002, 2011 and 2012 Notes. These funds are used for the payment of principal and interest on the Series 2002, 2011 and 2012 Notes when insufficient funds are available in the sinking fund.

*K. Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

*L. Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses unless the investments are trading securities. Periodically the Health Center reviews its investments to determine whether any unrealized losses are other than temporary. During 2013 and 2012, there were no investment declines that were determined to be other than temporary.

The investments in joint ventures and cooperative arrangements with other health care entities are accounted for by the equity method of accounting, under which the net income or loss of the affiliates is recognized as income or expense and distributions are treated as reductions to the investment account. As of June 30, 2013, the Health Center has a 25% interest in Southeastern Renal Dialysis, L.C. and is a member of Health Enterprises.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

*M. Capital Assets*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Health Center's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

*N. Deferred Financing Costs*

Deferred financing costs related to the issuance of the long-term debt are being amortized over the life of the related debt under the effective interest method for the Series 2002 note and the straight line method for the Series 2011 and 2012 notes. Amortization expense of \$13,108 and \$37,486 for fiscal year 2013 and 2012, respectively, is included in depreciation and amortization in the accompanying statements of revenue, expenses and changes in net position.

*O. Compensated Absences*

Paid Time Off (PTO) vests bi-weekly and may be carried forward by an employee in an amount not to exceed 576 hours for management and 512 for staff. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2013 and 2012 was \$980,554 and \$993,487, respectively.

Short-term disability does not vest and, therefore, no liability has been accrued. The payment for short-term disability is based on 70% of the regular earnings of the employee and is available for up to eight weeks.

*P. Self-Insured Employee Health Benefits*

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

*Q. Income Taxes*

Under the Code of Iowa, Chapter 347, the Health Center is an instrumentality of the County of Henry, Iowa. As such, the Health Center is exempt from paying income taxes.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

*R. Excess of Revenue Over Expenses*

The statements of revenue, expenses and changes in net position include excess of revenue over expense as a performance indicator. Changes in unrestricted net position that are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and capital grants and contributions (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

*S. Net Patient 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 and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*T. Grants and Contributions*

From time to time, the Health Center receives grants and contributions from individuals and private organizations. Revenue 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 restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

*U. Charity Care*

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported in the statements of revenue, expenses and changes in net position.

The Health Center is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Health Center provides a variety of community health services at or below cost.

*V. Risk Management*

The 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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Notes to Financial Statements  
June 30, 2013 and 2012

---

W. *Change in Accounting Principle*

GASB Statements No. 63 requires the Health Center to refer "Net Assets" as "Net Position" in the statements of net positions.

X. *Subsequent Events*

The Health Center considered events occurring through August 29, 2013 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

**(2) Cash, Investments and Assets Limited as to Use or Restricted**

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

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; equities; 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.

The Health Center manages the following risks in accordance with their formal investment policy:

*Credit Risk:* The Health Center has invested in U.S. treasuries, government agencies securities, and corporate bonds. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

*Interest Rate Risk:* The Health Center has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the hospital within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days. When investing assets of the Health Center for a period longer than 397 days, the Health Center shall request competitive investment proposals for comparable credit and term investments from a minimum of two investment providers.

The weighted average duration of securities invested in U.S. treasuries, government agencies, corporate bonds, and certificate of deposits was 17 months as of June 30, 2013.

*Custodial credit risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Health Center's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Health Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Health Center's agent in the Health Center's name.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

The composition of investments and assets limited as to use or restricted as of June 30, 2013 and 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Investments:		
Operating reserves:		
Money market funds	\$ 38,302	39,330
U.S. treasury and government agency securities	2,685,099	2,609,943
Corporate bonds	664,982	738,880
Mutual fund – Ultra short bond fund	249,260	--
Accrued interest	16,470	10,436
Total Investments	<u>\$ 3,654,113</u>	<u>3,398,589</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Money market funds	\$ 2,759,092	214,733
U.S. treasury and government agency securities	10,562,657	10,607,758
Corporate bonds	2,563,059	2,497,571
Mutual fund – International equities	393,819	--
Accrued interest	64,234	78,493
	<u>16,342,861</u>	<u>13,398,555</u>
Bond retirement and sinking fund accounts:		
Money market funds	<u>8,803</u>	<u>105,711</u>
By bond agreements:		
Debt service fund accounts:		
Money market funds	<u>--</u>	<u>46,435</u>
Reserve account:		
U.S. treasury securities	--	500,000
Certificates of deposit	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,500,000</u>
Total assets limited as to use or restricted	17,351,664	15,050,701
Less amounts required to meet current obligations	<u>222,242</u>	<u>753,006</u>
Long-term portion	<u>\$ 17,129,422</u>	<u>14,297,695</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 351,061	477,342
Realized losses, net	<u>(32,095)</u>	<u>(1,385)</u>
	318,966	475,957
Change in unrealized loss, net	<u>(205,925)</u>	<u>(248,877)</u>
Total investment return	<u>\$ 113,041</u>	<u>227,080</u>

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Notes to Financial Statements  
June 30, 2013 and 2012

(3) Net Patient Service Revenue

The Health Center recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. See summary of payment arrangements below. 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. On the basis of historical experience, a significant portion of the Health Center's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Health Center records a significant provision for bad debts related to uninsured patients in the period the services are provided. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized during the year from these major payer sources, is as follows:

	June 30, 2013					
	Medicare	Medicaid	BCBS	Other Payors	Self Pay	Total
Gross patient charges	\$ 23,773,933	5,221,569	11,823,409	5,118,010	3,730,607	49,667,528
Less: Contractual allowances and discounts	11,031,365	2,168,676	3,885,991	1,988,757	138,854	19,213,643
Net patient service revenue before provision for bad debt	\$ 12,742,568	3,052,893	7,937,418	3,129,253	3,591,753	30,453,885
	June 30, 2012					
	Medicare	Medicaid	BCBS	Other Payors	Self Pay	Total
Gross patient charges	\$ 22,069,178	5,240,456	12,455,711	5,455,676	3,439,996	48,661,017
Less: Contractual allowances and discounts	10,636,756	2,284,571	4,358,660	1,971,800	164,278	19,416,065
Net patient service revenue before provision for bad debt	\$ 11,432,422	2,955,885	8,097,051	3,483,876	3,275,718	29,244,952

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.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Outpatient services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center and audit thereof by the Medicare Administrative Contractor. The Health Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2011.

**Medicaid.** Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center.

The Health Center has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Health Center under these agreements includes discounts from established charges and prospectively determined rates.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

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

	<u>2013</u>	<u>2012</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 6,764,953	7,194,505
Outpatient	39,938,761	38,745,943
Long-term care	2,598,596	2,298,573
Clinic	365,218	421,996
	<u>49,667,528</u>	<u>48,661,017</u>
Deductions from patient service revenue:		
Medicare	11,031,365	10,636,756
Medicaid	2,168,676	2,284,571
Other payors	5,874,748	6,330,460
Charity care	138,854	164,278
	<u>19,213,643</u>	<u>19,416,065</u>
Total deductions from patient service revenue	<u>19,213,643</u>	<u>19,416,065</u>
Net patient service revenue before provision for bad debt	\$ <u>30,453,885</u>	<u>29,244,952</u>

The Health Center reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 42% and 10%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2013 compared to 39% for Medicare and 10% for Medicaid in 2012. The Health Center grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 and 2012 net patient service revenue increased approximately \$640,000 and \$840,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

**(4) Other Revenue**

Other revenue for the years ended June 30, 2013 and 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 538,975	844,702
Public health grants	471,624	451,171
Miscellaneous	387,009	336,281
Dietary	187,778	192,371
Management services, physician billings	175,358	163,307
Professional services to others	173,890	177,603
Ideal protein	93,664	179,908
Rental income	60,967	60,967
Reference lab	10,620	750
	<u>2,099,885</u>	<u>2,407,060</u>
Total other revenue	\$ <u>2,099,885</u>	<u>2,407,060</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2011, Health Services qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2014. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

The Hospital has elected to record a portion of the incentive payment as other operating revenue in the period earned, and defer amounts related to future Medicare reimbursement. Amounts recorded are as follows:

	<u>2013</u>	<u>2012</u>
Medicare Electronic health record incentive payments	\$ 237,375	543,102
Medicaid Electronic health record incentive payments	<u>301,600</u>	<u>301,600</u>
Total electronic health record incentive payments	<u>\$ 538,975</u>	<u>844,702</u>
Deferred Medicare reimbursement	<u>\$ 391,043</u>	<u>351,977</u>

**(5) Composition of Patient Receivables**

Patient receivables as of June 30, 2013 and 2012 consist of the following:

	<u>2013</u>	<u>2012</u>
Patient receivables	\$ 5,582,792	5,572,615
Less estimated third-party contractual adjustments	(1,609,000)	(1,640,077)
Less allowance for doubtful accounts	<u>(950,000)</u>	<u>(920,000)</u>
	<u>\$ 3,023,792</u>	<u>3,012,538</u>

The Health Center is located in Mt. Pleasant, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	25%	26%
Medicaid	9	6
Blue Cross	18	20
Other third-party payors	14	15
Private pay	<u>34</u>	<u>33</u>
	<u>100%</u>	<u>100%</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

**(6) Capital Assets**

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

	<u>June 30, 2012</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2013</u>
Capital assets, not being depreciated:				
Land	\$ 911,061	--	--	911,061
Construction in progress	2,941,390	9,978,514	(7,013,415)	5,906,489
Total capital assets, not being depreciated	<u>3,852,451</u>	<u>9,978,514</u>	<u>(7,013,415)</u>	<u>6,817,550</u>
Capital assets, being depreciated:				
Land improvements	1,569,386	126,148	(52,688)	1,642,846
Buildings	25,220,558	1,867,467	(598,838)	26,489,187
Fixed equipment	6,842,776	4,995,133	(577,295)	11,260,614
Major moveable equipment	11,800,031	477,327	(335,722)	11,941,636
Total capital assets, being depreciated	<u>45,432,751</u>	<u>7,466,075</u>	<u>(1,564,543)</u>	<u>51,334,283</u>
Less accumulated depreciation:				
Land improvements	(1,394,099)	(32,382)	52,687	(1,373,794)
Buildings	(15,826,906)	(969,948)	596,930	(16,199,924)
Fixed equipment	(5,968,119)	(373,077)	574,647	(5,766,549)
Major moveable equipment	(7,745,962)	(1,020,992)	329,164	(8,437,790)
Total accumulated depreciation	<u>(30,935,086)</u>	<u>(2,396,399)</u>	<u>1,553,428</u>	<u>(31,778,057)</u>
Total capital assets, being depreciated, net	<u>14,497,665</u>	<u>5,069,676</u>	<u>(11,115)</u>	<u>19,556,226</u>
Total capital assets, net	<u>\$ 18,350,116</u>	<u>15,048,190</u>	<u>(7,024,530)</u>	<u>26,373,776</u>
	<u>June 30, 2011</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 911,061	--	--	911,061
Construction in progress	407,702	3,625,596	(1,091,908)	2,941,390
Total capital assets, not being depreciated	<u>1,318,763</u>	<u>3,625,596</u>	<u>(1,091,908)</u>	<u>3,852,451</u>
Capital assets, being depreciated:				
Land improvements	1,582,824	--	(13,438)	1,569,386
Buildings	25,304,139	168,338	(251,919)	25,220,558
Fixed equipment	7,252,196	88,030	(497,450)	6,842,776
Major moveable equipment	10,551,296	1,684,245	(435,510)	11,800,031
Total capital assets, being depreciated	<u>44,690,455</u>	<u>1,940,613</u>	<u>(1,198,317)</u>	<u>45,432,751</u>
Less accumulated depreciation:				
Land improvements	(1,378,861)	(28,676)	13,438	(1,394,099)
Buildings	(15,271,276)	(911,577)	355,947	(15,826,906)
Fixed equipment	(6,257,204)	(208,365)	497,450	(5,968,119)
Major moveable equipment	(7,238,704)	(916,929)	409,671	(7,745,962)
Total accumulated depreciation	<u>(30,146,045)</u>	<u>(2,065,547)</u>	<u>1,276,506</u>	<u>(30,935,086)</u>
Total capital assets, being depreciated, net	<u>14,544,410</u>	<u>(124,934)</u>	<u>78,189</u>	<u>14,497,665</u>
Total capital assets, net	<u>\$ 15,863,173</u>	<u>3,500,662</u>	<u>(1,013,719)</u>	<u>18,350,116</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

The Henry County Health Center is in process of constructing approximately 54,000 square feet and renovating 22,000 square feet for the Health Center facilities. The project will consist of multiple phases and cover multiple years. Fiscal year 2012 phases included creating a central plant for cooling towers, high-efficiency modular boilers, and gas-fired water heaters which were capitalized in 2012. Fiscal year 2013 phases includes construction of a surgery center. Funding for the estimated \$15.6 million renovation, construction, and expansion project were be provided through the Series 2011 and 2012 notes as seen in Note 8 with the remainder to be provided by operations.

**(7) Other Assets**

Other assets held by the Health Center as of June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Investments in joint ventures and cooperative arrangements with other health care entities	\$ 1,337,039	1,221,806
Physician receivables	13,421	118,948
	<u>1,350,460</u>	<u>1,340,754</u>
Less current portion of notes receivable	921	6,448
	<u>\$ 1,349,539</u>	<u>1,334,306</u>

Physician receivables are related to physician income guarantee agreements and sign-on bonuses to recruit physicians to the community of Mount Pleasant, Iowa. An offsetting physician income guarantee liability of \$12,500 and \$112,500 representing the maximum potential payments under the agreements are included in other accrued expenses for 2013 and 2012, respectively. All monies advanced under these agreements will be forgiven up to a five year period in which the physicians practice in the community. Advances must be repaid with interest if the physician fails to fulfill their contract responsibilities.

**(8) Long-Term Debt**

Long-term debt activity of the Health Center as of June 30, 2013 and 2012 consisted of the following:

	<u>June 30, 2012</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2013</u>	<u>Due Within One Year</u>
Series 2002 (A)	\$ 2,080,000	--	(2,080,000)	--	--
Series 2012 (B)	50,001	2,449,609	(34,590)	2,465,020	44,448
Series 2011 (B)	2,042,070	7,957,319	(138,358)	9,861,031	177,794
	<u>\$ 4,172,071</u>	<u>10,406,928</u>	<u>(2,252,948)</u>	<u>12,326,051</u>	<u>222,242</u>
	<u>June 30, 2011</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Series 2002 (A)	\$ 3,960,000	--	(1,880,000)	2,080,000	660,000
Series 2012 (B)	--	50,001	--	50,001	50,001
Series 2011 (B)	--	2,042,070	--	2,042,070	34,590
	<u>\$ 3,960,000</u>	<u>2,092,071</u>	<u>(1,880,000)</u>	<u>4,172,071</u>	<u>744,591</u>

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

- (A) The Health Center issued \$6,055,000 of Hospital Revenue Capital Loan Refunding Notes, Series 2002. The proceeds of these bonds were used to achieve a current refunding of its Hospital Revenue Notes, Series 1993 and for paying bond issuance costs incurred. During 2013 the Health Center paid the remaining 2014 and 2015 principal amounts totaling \$1,420,000.
- (B) The Health Center entered into Hospital Revenue Notes, Series 2011, for multiple advances not to exceed \$10,000,000 and Hospital Revenue Notes, Series 2012 for multiple advances not to exceed \$2,500,000. The proceeds of these bonds will be used to pay the cost to construct the multiple phases Health Center project as noted in Note 6. The Series 2011 and 2012 notes bear interest at a rate of 2.875%. Monthly principal and interest payments of \$37,883 to \$89,740 are due on the Hospital Revenue Notes, Series 2011, through November 2026. Monthly principal and interest payments of \$9,471 to \$22,435 are due on the Hospital Revenue Notes, Series 2012, through November 2026.

The Series 2011 and 2012 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Health Center. The terms of the trust indenture require the Health Center to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the health care facilities and require the Health Center to maintain various reserve accounts.

A summary of the Health Center's future principal and interest payments as of June 30, 2013 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 222,242	351,502	573,744
2015	223,147	345,101	568,248
2016	245,437	339,311	584,748
2017	543,876	327,432	871,308
2018	1,040,820	305,292	1,346,112
2019 – 2023	5,676,259	1,054,301	6,730,560
2024 – 2027	4,374,270	224,043	4,598,313
	<u>\$ 12,326,051</u>	<u>2,946,982</u>	<u>15,273,033</u>

The Health Center's policy is to capitalize interest cost on the construction in progress. For the year ended June 30, 2013 and 2012, the Health Center capitalized \$247,398 and \$13,655, respectively, of interest cost associated with the Series 2011 and 2012 notes.

**(9) Professional Liability Insurance**

The Health Center carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Health Center carries an umbrella policy which also provides \$9,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

**(10) Pension Plan**

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, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual salary and the Health Center is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Health Center's contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$1,061,791, \$991,390, and \$845,259, respectively, equal to the required contributions for each year.

**(11) Contingencies**

The Health Center is involved in litigation arising in the normal course of business. These claims are covered under policies of their previous insurance carrier. After consultation with legal counsel, management estimates these matters will be resolved without material adverse affect on the Health Center's future financial position or results from operations.

**(12) Self-Funded Health Insurance**

The Health Center has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Health Center's contributions are deposited into a separate benefit trust account. Under the self-insured plan, the Health Center pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Health Center incurred health insurance expenses of \$1,290,284 and \$1,442,396 as of June 30, 2013 and 2012, respectively.

**(13) Commitments and Contingencies**

Operating Leases

The Health Center leases certain equipment under an operating lease expiring in 2018. Future minimum lease payments under operating leases as of June 30, 2013 are as follows:

<u>Year</u>	<u>Payments</u>
2014	\$ 95,028
2015	95,028
2016	95,028
2017	95,028
2018	71,271

**(14) Deferred Compensation Plan**

The Health Center offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to all Health Center employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The plan complies with IRC Section 457(g), which requires the plan to hold its assets in trust. Under these requirements, the Health Center does not own the amounts deferred by employees and, therefore, the liability and corresponding investment is not reflected in the financial statements. The plan assets totaled \$2,491,383 and \$2,318,821 as of June 30, 2013 and 2012, respectively.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Notes to Financial Statements  
June 30, 2013 and 2012**

---

**(15) Management Services**

The Health Center has various contractual agreements with Great Rivers Health Systems, Inc. (GRHS) under which GRHS provides management consultation, therapy, emergency, and other services to the Health Center. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Health Center. The amount paid to GRHS for the years ended June 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Emergency room contract services	\$ 1,204,432	1,294,785
Physical and speech therapy contract services	560,582	568,745
Administration	280,058	264,489
Laundry	70,554	70,567
Critical access hospital	20,000	20,000
Telephone	--	2,395
	<u>\$ 2,135,626</u>	<u>2,220,981</u>

**(16) Risks and Uncertainties**

Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Budgetary Comparison Schedule of Revenue, Expenses  
and Changes in Net Position – Budget and Actual (Accrual Basis)  
June 30, 2013**

---

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.

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 accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 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.

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

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 591,931	582,724	9,207
Estimated other revenues / receipts	32,147,088	45,992,131	(13,845,043)
Expenses / Disbursements	<u>31,031,737</u>	<u>46,642,985</u>	<u>15,611,248</u>
Net	1,707,282	(68,130)	<u>1,775,412</u>
Balance beginning of year	<u>36,375,256</u>	<u>18,783,517</u>	
Balance end of year	<u>\$ 38,082,538</u>	<u>18,715,387</u>	

*See accompanying independent auditor's report*

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Exhibit 1

Patient Service Revenue  
For the Years Ended June 30, 2013 and 2012

	2013					2012				
	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total
<b>DAILY PATIENT SERVICES:</b>										
Long term care	\$ --	--	--	2,598,596	2,598,596	--	--	--	2,298,573	2,298,573
Medical and surgical	1,448,863	--	--	--	1,448,863	1,189,034	--	--	--	1,189,034
Swing bed	351,117	--	--	--	351,117	376,068	--	--	--	376,068
Observation	320,535	--	--	--	320,535	339,939	--	--	--	339,939
Nursery	169,016	--	--	--	169,016	182,005	--	--	--	182,005
Dialysis	26,811	--	--	--	26,811	74,301	--	--	--	74,301
	<u>2,316,342</u>	<u>--</u>	<u>--</u>	<u>2,598,596</u>	<u>4,914,938</u>	<u>2,161,347</u>	<u>--</u>	<u>--</u>	<u>2,298,573</u>	<u>4,459,920</u>
<b>OTHER NURSING SERVICES:</b>										
Operating and recovery room	886,697	7,733,834	--	--	8,620,531	1,128,629	7,869,392	--	--	8,998,021
Emergency services	75,311	4,532,086	--	--	4,607,397	89,122	4,329,168	--	--	4,418,290
Delivery and labor room	319,536	157,078	--	--	476,614	322,118	158,336	--	--	480,454
Aide	--	28,645	--	--	28,645	--	32,236	--	--	32,236
	<u>1,281,544</u>	<u>12,451,643</u>	<u>--</u>	<u>--</u>	<u>13,733,187</u>	<u>1,539,869</u>	<u>12,389,132</u>	<u>--</u>	<u>--</u>	<u>13,929,001</u>
<b>OTHER PROFESSIONAL SERVICES:</b>										
Pharmacy	1,177,279	7,120,661	--	--	8,297,940	1,387,843	6,621,164	--	--	8,009,007
Laboratory	484,260	4,451,687	--	--	4,935,947	469,987	4,017,423	--	--	4,487,410
CT scans	224,242	3,118,496	--	--	3,342,738	162,013	2,976,816	--	--	3,138,829
Physical, occupational and respiratory therapy	785,485	1,722,074	--	--	2,507,559	912,213	1,935,417	--	--	2,847,630
Anesthesiology	237,543	2,296,889	--	--	2,534,432	294,976	2,345,783	--	--	2,640,759
Radiology	39,742	1,600,911	--	--	1,640,653	37,226	1,682,604	--	--	1,719,830
MRI	23,140	1,279,119	--	--	1,302,259	16,183	1,295,800	--	--	1,311,983
Ambulance	24,179	1,824,412	--	--	1,848,591	33,775	1,519,345	--	--	1,553,120
EKG	19,839	1,083,754	--	--	1,103,593	13,484	1,097,604	--	--	1,111,088
Chemotherapy	71,741	1,492,664	--	--	1,564,405	99,154	1,448,848	--	--	1,548,002
Nuclear medicine	45,820	670,540	--	--	716,360	28,237	590,334	--	--	618,571
Ultrasound	28,157	825,861	--	--	854,018	28,536	825,193	--	--	853,729
Central supply	5,640	50	--	--	5,690	9,662	480	--	--	10,142
Clinic	--	--	365,218	--	365,218	--	--	421,996	--	421,996
	<u>3,167,067</u>	<u>27,487,118</u>	<u>365,218</u>	<u>--</u>	<u>31,019,403</u>	<u>3,493,289</u>	<u>26,356,811</u>	<u>421,996</u>	<u>--</u>	<u>30,272,096</u>
Gross patient service revenue	\$ 6,764,953	39,938,761	365,218	2,598,596	49,667,528	7,194,505	38,745,943	421,996	2,298,573	48,661,017
<b>LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>										
Contractual allowances and other deductions, primarily Medicare and Medicaid					(19,074,789)					(19,251,787)
Charity care services					(138,854)					(164,278)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>					30,453,885					29,244,952
Provision for bad debt					(1,336,434)					(1,128,277)
<b>NET PATIENT SERVICE REVENUE</b>					\$ 29,117,451					\$ 28,116,675

See accompanying independent auditor's report

**Other Operating Revenue**  
**For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Electronic health record incentive payments	\$ 538,975	844,702
Public health grants	471,624	451,171
Miscellaneous	387,009	336,281
Dietary	187,778	192,371
Management services, physician billings	175,358	163,307
Professional services to others	173,890	177,603
Ideal protein	93,664	179,908
Rental income	60,967	60,967
Reference lab	10,620	750
	<u>\$ 2,099,885</u>	<u>2,407,060</u>

*See accompanying independent auditor's report*

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Departmental Expenses  
For the Years Ended June 30, 2013 and 2012

	2013				2012			
	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL
<b>NURSING SERVICES:</b>								
Operating and recovery room	\$ 1,808,798	--	1,576,887	3,385,685	1,886,025	568	1,599,472	3,486,065
Medical and surgical	1,474,311	280,758	644,792	2,399,861	1,478,285	86,311	653,657	2,218,253
Long-term care	1,237,171	392	672,469	1,910,032	1,164,471	1,441	573,373	1,739,285
Emergency room	587,696	1,455,051	227,026	2,269,773	585,592	1,297,565	242,660	2,125,817
Nursing administration	153,699	--	106,503	260,202	123,122	100	72,012	195,234
	<u>5,261,675</u>	<u>1,736,201</u>	<u>3,227,677</u>	<u>10,225,553</u>	<u>5,237,495</u>	<u>1,385,985</u>	<u>3,141,174</u>	<u>9,764,654</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	332,533	13,424	2,068,917	2,414,874	360,431	--	2,130,330	2,490,761
Physical, occupational and speech therapy	223,519	580,582	141,087	945,188	214,004	568,745	132,021	914,770
Laboratory	429,047	228,464	583,500	1,241,011	419,916	163,696	680,484	1,264,096
Ambulance	629,594	--	367,286	996,880	580,580	--	376,431	957,011
Anesthesiology	617,406	--	175,538	792,944	689,142	--	182,196	871,338
Community health	383,336	10,350	210,340	604,026	406,927	731	232,692	640,350
Radiology	306,182	--	856,494	1,162,676	294,009	--	828,169	1,122,178
Respiratory therapy	226,820	9,230	129,276	365,326	244,392	7,873	129,807	382,072
EKG	196,496	2,160	57,119	255,775	194,271	3,633	69,239	267,143
Medical and surgical supplies	115,645	--	138,534	254,179	116,924	--	110,998	227,922
CT scans	42,186	--	318,085	360,271	40,312	--	318,277	358,589
Physician offices	128,396	--	41,193	169,589	125,750	--	39,889	165,639
Chemotherapy	184,996	176,927	103,700	465,623	181,967	181,684	88,324	451,975
Nuclear medicine	17,939	--	115,576	133,515	17,703	--	110,468	128,171
Ultrasound	75,916	--	25,789	101,705	72,775	--	34,075	106,850
Clinic	183,355	18,360	114,221	315,936	143,312	39,298	101,161	283,771
	<u>4,093,366</u>	<u>1,039,497</u>	<u>5,446,655</u>	<u>10,579,518</u>	<u>4,102,415</u>	<u>965,660</u>	<u>5,564,561</u>	<u>10,632,636</u>
<b>GENERAL SERVICES:</b>								
Plant	373,620	--	1,206,676	1,580,296	352,573	--	1,130,156	1,482,729
Dietary	349,558	--	520,566	870,124	379,430	--	517,018	896,448
Housekeeping	372,212	5,780	226,800	604,792	362,291	--	278,765	641,056
Laundry and linen	16,629	--	118,286	134,915	14,332	--	104,818	119,150
	<u>1,112,019</u>	<u>5,780</u>	<u>2,072,328</u>	<u>3,190,127</u>	<u>1,108,626</u>	<u>--</u>	<u>2,030,757</u>	<u>3,139,383</u>
<b>ADMINISTRATIVE SERVICES:</b>								
Finance	228,104	--	192,735	420,839	233,735	--	172,598	406,333
Patient accounts	233,698	--	253,844	487,542	237,309	--	224,530	461,839
Registration	245,895	--	113,598	359,493	282,273	--	117,526	399,799
Information technology	246,387	--	803,208	1,049,595	237,167	--	762,208	999,375
Administration	339,802	--	800,444	1,140,246	304,380	--	788,887	1,093,267
Human resources	166,355	--	115,191	281,546	163,978	--	117,191	281,169
Medical records	266,299	--	80,913	347,212	272,668	--	103,359	376,027
Other administrative services	311,067	5,433	295,859	612,359	384,266	5,361	485,275	874,902
	<u>2,037,607</u>	<u>5,433</u>	<u>2,655,792</u>	<u>4,698,832</u>	<u>2,115,776</u>	<u>5,361</u>	<u>2,771,574</u>	<u>4,892,711</u>
<b>NO DEPARTMENTAL:</b>								
Depreciation and amortization	--	--	2,142,462	2,142,462	--	--	1,838,794	1,838,794
Interest	--	--	195,245	195,245	--	--	192,012	192,012
	<u>--</u>	<u>--</u>	<u>2,337,707</u>	<u>2,337,707</u>	<u>--</u>	<u>--</u>	<u>2,030,806</u>	<u>2,030,806</u>
<b>TOTAL EXPENSES</b>	<u>\$ 12,504,667</u>	<u>2,786,911</u>	<u>15,740,159</u>	<u>31,031,737</u>	<u>12,564,312</u>	<u>2,357,006</u>	<u>15,538,872</u>	<u>30,460,190</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
For the Years Ended June 30, 2013 and 2012**

ANALYSIS OF AGING:

Days Since Discharge	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0-30	\$ 3,257,191	58.34 %	3,729,186	66.92 %
31-60	841,658	15.08	610,174	10.95
61-90	433,411	7.76	271,072	4.86
91-120	316,907	5.68	233,598	4.19
121 and over	<u>733,625</u>	<u>13.14</u>	<u>728,585</u>	<u>13.08</u>
	5,582,791	100.00 %	5,572,615	100.00 %
Less:				
Allowance for doubtful accounts	(950,000)		(920,000)	
Allowance for contractual adjustments	<u>(1,609,000)</u>		<u>(1,640,077)</u>	
	<u>\$ 3,023,791</u>		<u>3,012,538</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (920,000)		(1,100,000)	
Provision of uncollectible accounts	1,336,434		1,128,277	
Recoveries of accounts previously written off	413,365		422,883	
Accounts written off	<u>(1,779,799)</u>		<u>(1,371,160)</u>	
Balance, end of year	<u>\$ (950,000)</u>		<u>(920,000)</u>	

See accompanying independent auditor's report

**Inventory/Prepaid Expenses**  
**For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
INVENTORY:		
Pharmacy	\$ 324,858	301,973
Central service	71,923	82,214
Surgery	188,742	186,925
Other	11,194	7,066
	<u>\$ 596,717</u>	<u>578,178</u>
PREPAID EXPENSES:		
Deposits	\$ 74,097	103,138
Service contracts	93,819	88,986
Insurance	84,171	75,504
Other	88,470	99,575
	<u>\$ 340,557</u>	<u>367,203</u>

*See accompanying independent auditor's report*

**Financial and Statistical Highlights  
For the Years Ended June 30, 2013 and 2012**

---

	<u>2013</u>	<u>2012</u>
Patient days:		
Adult and pediatric -		
Medicare	857	780
All other	629	663
Swing-bed -		
Skilled	617	766
Intermediate	106	48
Newborn	263	296
Long-term care	<u>16,537</u>	<u>15,121</u>
Total	<u><u>19,009</u></u>	<u><u>17,674</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	275	241
All other	<u>255</u>	<u>262</u>
Total	<u><u>530</u></u>	<u><u>503</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.12 days	3.24 days
All other	2.47 days	2.53 days
Surgical procedures	1,966	2,137
Emergency room visits	8,468	8,450
Number of employees - full-time equivalents	264.46	264.20

*See accompanying independent auditor's report*

**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**

To the Board of Trustees  
Henry County Soldiers' and Sailors' Memorial Hospital  
d/b/a Henry County Health Center  
Mt. Pleasant, Iowa:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Henry County Soldiers' and Sailors' Memorial Hospital d/b/a Henry County Health Center (Health Center) as of and for the years ended June 30, 2013 and 2012 and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements, and have issued our report thereon dated August 29, 2013.

*Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Health Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item II-A-13, which we consider 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, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Health Center. 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.

Health Center's Response to Findings

The Health Center's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Health Center's response was not subjected to auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose

SEIM JOHNSON, LLP

Omaha, Nebraska,  
August 29, 2013.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013

---

**Part I: Summary of the Independent Auditor's Results**

- (a) An unmodified opinion was issued on the financial statements.
- (b) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

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

**II-A-13**

***Instances of Non-Compliance:***

No matters were reported.

***Significant Deficiencies:***

**Segregation of Duties:** One important aspect of internal controls is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control. Due to a limited number of administrative personnel, a lack of segregation of duties exists.

**Recommendation:** Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist. We recommend the Health Center continue to monitor and improve its segregation of duties.

**Response:** Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties.

**Conclusion:** Response accepted.

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

**III-A-13**

**Official Depositories:** A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2013.

**III-B-12**

**Certified Budget:** Health Center disbursements during the year ended June 30, 2013 did not exceed amounts budgeted.

**III-C-12**

**Questionable Expenditure:** We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013**

---

**III-D-12**

Travel Expense: No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

**III-E-12**

Business Transactions: No business transactions between the Health Center and Health Center officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Health Center to \$1,500 without publicly invited and opened written competitive bids.

**III-F-12**

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

**III-G-12**

Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

**III-H-12**

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Health Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center

Summary Schedule of Prior Year Audit Findings  
For the Year Ended June 30, 2013

---

<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-12	Segregation of duties in the accounting and data processing areas.	Not corrected.	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Health Center to employ additional personnel for the purpose of greater segregation of duties. The Health Center will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-13.

**Henry County Soldiers' and Sailors' Memorial Hospital d/b/a  
Henry County Health Center**

**Audit Staff  
For the Year Ended June 30, 2013**

---

**This audit was performed by:**

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

J. Alex Morton, CPA, In-Charge