

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

**Financial Statements and Supplementary Information
June 30, 2014 and 2013**

Together with Independent Auditor's Report

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

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

**Officials
June 30, 2014**

Name	Title	Term Expires
County Board of Supervisors:		
Mark Lindeen	Chairperson	December 2014
Greg Moeller	Vice-Chairperson	December 2016
Gary See	Member	December 2016
Hospital Board of Trustees:		
Kent Severson	Chairperson	December 2016
Ron Clouse	Vice-Chairperson	December 2016
Jan Towne	Secretary / Treasurer	December 2016
Robert Meyer	Trustee	December 2018
Megan Wenstrand	Trustee	December 2018
Carmen Heaton	Trustee	December 2014
Sally Olson	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, 2014 and 2013, 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Health Center as of June 30, 2014 and 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2014 the Health Center adopted new accounting guidance to reflect the provisions of Statement No. 65 of the Governmental Accounting Standards Board, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 7) and budgetary comparison information (page 27) 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.

Supplementary 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 information (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 information (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 September 9, 2014 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 and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,
September 8, 2014

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

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, 2014 and 2013. 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 decreased in 2014 by \$328,819 or 1%. In 2013, net position increased by \$1,531,414 or 4%.
- The Health Center reported an operating loss in 2014 of \$1,975,269 compared to an operating income of \$198,707 in 2013.
- The Health Center's non-operating revenues decreased by \$159,280 in 2014 compared to 2013.

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 decreased this past year by \$328,819 or 1%, 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, 2014 and 2013

Table 1: Condensed Statement of Net Position

	<u>2014</u>	<u>2013 Restated</u>	<u>2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:					
Total current assets	\$ 7,692,108	8,004,508	7,766,107	(312,400)	-4%
Capital assets, net	28,162,927	26,373,776	18,350,116	1,789,151	7%
Assets limited as to use	15,080,670	17,129,422	14,297,695	(2,048,752)	-12%
Investments	3,724,597	3,654,113	3,398,589	70,484	2%
Other non-current assets	1,275,846	1,349,539	1,523,282	(73,693)	-5%
Total assets	<u>55,936,148</u>	<u>56,511,358</u>	<u>45,335,789</u>	<u>(575,210)</u>	-1%
Liabilities:					
Long-term debt	12,894,671	12,326,051	4,172,071	568,620	5%
Estimated third-party payor settlements	1,255,000	1,456,000	1,261,400	(201,000)	-14%
Other current and non-current liabilities	3,612,267	4,216,732	3,527,062	(604,465)	-14%
Total liabilities	<u>17,761,938</u>	<u>17,998,783</u>	<u>8,960,533</u>	<u>(236,845)</u>	-1%
Deferred Inflows of Resources,					
Unavailable property tax revenue	596,359	605,905	--	(9,546)	-2%
Net Position:					
Net position	<u>\$ 37,577,851</u>	<u>37,906,670</u>	<u>36,375,256</u>	<u>(328,819)</u>	-1%

Operating Results and Changes in Net Position

In 2014, the Health Center's net position decreased by \$328,819 or 1%, as shown in **Table 2**. This decrease 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, 2014 and 2013

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

	2014	2013 Restated	2012	Dollar Change	Percent Change
Operating revenue:					
Net patient service revenue	\$ 30,773,287	30,453,885	29,244,952	319,402	1%
Provision for bad debt	(1,435,666)	(1,336,434)	(1,128,277)	(99,232)	7%
Other operating revenue	1,773,124	2,099,885	2,407,060	(326,761)	-16%
Total operating revenue	<u>31,110,745</u>	<u>31,217,336</u>	<u>30,523,735</u>	<u>(106,591)</u>	0%
Expenses:					
Salaries and employee benefits	16,743,148	16,312,531	16,536,279	430,617	3%
Purchased services and other	13,368,347	12,381,499	11,893,105	986,848	8%
Depreciation and amortization	2,691,546	2,129,354	1,838,794	562,192	26%
Interest	282,973	195,245	192,012	87,728	45%
Total expenses	<u>33,086,014</u>	<u>31,018,629</u>	<u>30,460,190</u>	<u>2,067,385</u>	7%
Operating income (loss):	<u>(1,975,269)</u>	<u>198,707</u>	<u>63,545</u>	<u>(2,173,976)</u>	
Non-Operating Revenue					
Property taxes	613,807	591,931	568,586	21,876	4%
Investment income	266,632	318,966	475,957	(52,334)	-16%
Other non-operating revenue	315,070	443,892	371,005	(128,822)	-29%
Total non-operating revenue, net	<u>1,195,509</u>	<u>1,354,789</u>	<u>1,415,548</u>	<u>(159,280)</u>	-12%
Excess (deficiency) of revenue over expenses	(779,760)	1,553,496	1,479,093	(2,333,256)	-150%
Capital grants and contributions	425,000	372,819	--	--	100%
Change in unrealized gains and losses	<u>25,941</u>	<u>(205,925)</u>	<u>(248,877)</u>	<u>231,866</u>	-113%
Increase (decrease) in net position	<u>(328,819)</u>	<u>1,720,390</u>	<u>1,230,216</u>	<u>(2,049,209)</u>	-119%
Net position, beginning of year, as previously reported	37,906,670	36,375,256	35,145,040	1,531,414	4%
Cumulative effect of accounting change	--	(188,976)	--	188,976	-100%
Net position, beginning of year, as restated	<u>37,906,670</u>	<u>36,186,280</u>	<u>35,145,040</u>	<u>1,720,390</u>	5%
Net position – end of year	<u>\$ 37,577,851</u>	<u>37,906,670</u>	<u>36,375,256</u>	<u>(328,819)</u>	-1%

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.
- Depreciation expense for newly constructed surgery department.

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

**Management's Discussion and Analysis
June 30, 2014 and 2013**

A component of the Health Center's costs is expenses for salaries and benefits. In 2014 salaries and benefit costs totaled \$16,743,148. In 2013 salaries and benefit costs totaled \$16,312,531.

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 \$613,807 in 2014 and \$591,931 in 2013.

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 decrease in 2014 due to an increase in professional/physician contracts and a decrease in the sale of investments.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014, the Health Center had \$28,162,927 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2014, the Health Center purchased new equipment costing \$1,289,110 and capitalized a renovation, construction, and expansion project as seen in Note 6. In 2013, the Health Center purchased new equipment costing \$7,466,075 and had Construction in Progress of over \$5,900,000.

Debt

At fiscal year-end, the Health Center had \$12,894,671 in capital loan notes outstanding. During 2014 the Health Center entered into an interest free note payable in the amount of \$855,000. During 2013, the Health Center retired \$1,420,000 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 2014 and 2013 fiscal years 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 2014 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, 2014 and 2013**

ASSETS	2014	2013 Restated
Current assets:		
Cash and cash equivalents	\$ 2,176,388	3,091,453
Assets limited as to use or restricted, current portion	223,147	222,242
Receivables -		
Patient, net of allowance for doubtful accounts of \$965,000 and \$950,000 in 2014 and 2013, respectively	3,377,618	3,023,792
Other receivables	232,063	122,921
Current portion of notes receivable	--	921
Inventories	654,415	596,717
Prepaid expenses	432,118	340,557
Succeeding year property tax receivable	596,359	605,905
Total current assets	<u>7,692,108</u>	<u>8,004,508</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	15,080,670	17,129,422
Investments	3,724,597	3,654,113
Capital assets, net	28,162,927	26,373,776
Other assets	1,275,846	1,349,539
Total assets	<u>55,936,148</u>	<u>56,511,358</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	308,647	222,242
Accounts payable -		
Trade	966,433	785,123
Construction	691,196	1,555,918
Accrued salaries and vacation	1,898,289	1,802,589
Other accrued expenses	56,349	73,102
Estimated third-party payor settlements	1,255,000	1,456,000
Total current liabilities	<u>5,175,914</u>	<u>5,894,974</u>
Long-term liabilities:		
Long-term debt, net of current portion	12,586,024	12,103,809
Total liabilities	<u>17,761,938</u>	<u>17,998,783</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	596,359	605,905
Commitments and Contingencies:		
NET POSITION		
Net invested in capital assets	15,268,256	14,047,725
Restricted - expendable	1,000,000	1,000,000
Unrestricted	21,309,595	22,858,945
Total net position	<u>\$ 37,577,851</u>	<u>37,906,670</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, 2014 and 2013**

	<u>2014</u>	<u>2013 Restated</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 30,773,287	30,453,885
Provision for bad debt	<u>(1,435,666)</u>	<u>(1,336,434)</u>
Net patient service revenue	29,337,621	29,117,451
Other operating revenue	<u>1,773,124</u>	<u>2,099,885</u>
Total operating revenue	<u>31,110,745</u>	<u>31,217,336</u>
OPERATING EXPENSES:		
Salaries	13,010,137	12,504,667
Employee benefits	3,733,011	3,807,864
Professional fees	3,652,836	2,786,911
Supplies	4,987,138	4,876,017
Other expenses	4,728,373	4,718,571
Depreciation	2,691,546	2,129,354
Interest	<u>282,973</u>	<u>195,245</u>
Total operating expenses	<u>33,086,014</u>	<u>31,018,629</u>
OPERATING INCOME (LOSS)	<u>(1,975,269)</u>	<u>198,707</u>
NONOPERATING REVENUE, NET:		
County tax revenues	613,807	591,931
Investment income, net	266,632	318,966
Noncapital grants and contributions	1,299	2,833
Gain from equity investments	407,191	490,069
Loss from disposal of capital assets	(6,137)	(10,814)
Rental activity, net	<u>(87,283)</u>	<u>(38,196)</u>
Nonoperating revenue, net	<u>1,195,509</u>	<u>1,354,789</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	(779,760)	1,553,496
CAPITAL GRANTS AND CONTRIBUTIONS	425,000	372,819
CHANGE IN UNREALIZED GAINS AND LOSSES ON OTHER THAN TRADING SECURITIES	<u>25,941</u>	<u>(205,925)</u>
INCREASE (DECREASE) IN NET POSITION	<u>(328,819)</u>	<u>1,720,390</u>
NET POSITION, beginning of year, as previously reported	37,906,670	36,375,256
CUMULATIVE EFFECT OF ACCOUNTING CHANGE (NOTE 17)	<u>--</u>	<u>(188,976)</u>
NET POSITION, beginning of year, as restated	<u>37,906,670</u>	<u>36,186,280</u>
NET POSITION, end of year	<u>\$ 37,577,851</u>	<u>37,906,670</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, 2014 and 2013**

	<u>2014</u>	<u>2013 Restated</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third party payors	\$ 28,782,795	29,300,797
Cash paid for employee salaries and benefits	(16,647,448)	(16,405,929)
Cash paid to suppliers and contractors	(13,447,849)	(12,312,105)
Other receipts and payments, net	1,773,124	2,099,885
Net cash provided by operating activities	<u>460,622</u>	<u>2,682,648</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County tax receipts	613,807	591,931
Noncapital grants and contributions	1,299	2,833
Net cash provided by noncapital financing activities	<u>615,106</u>	<u>594,764</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of long term debt	855,000	10,406,928
Payments on long-term debt	(286,380)	(2,252,948)
Interest payments	(282,973)	(203,660)
Purchase of capital assets, net	(5,202,177)	(8,649,689)
Net cash used in capital and related financing activities	<u>(4,916,530)</u>	<u>(699,369)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	273,116	338,496
Deposits to investments	(852,104)	(3,029,952)
Proceeds from sale of investments	760,799	2,755,424
Deposits to assets limited as to use or restricted	(5,686,733)	(12,167,927)
Proceeds from sale of assets limited as to use or restricted	7,771,321	9,671,816
Proceeds from equity investments	471,000	374,837
Proceeds from rental activities, net	188,338	228,849
Net cash provided by (used in) investing activities	<u>2,925,737</u>	<u>(1,828,457)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(915,065)	749,586
CASH AND CASH EQUIVALENTS - beginning of year	<u>3,091,453</u>	<u>2,341,867</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 2,176,388</u>	<u>3,091,453</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, 2014 and 2013**

	<u>2014</u>	<u>2013 Restated</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,975,269)	198,707
Adjustments to reconcile operating income (loss) to net cash provided by operating activities -		
Depreciation	2,691,546	2,129,354
Interest expense included in operating expenses	282,973	195,245
Forgiveness of notes and physician receivables	921	5,526
(Increase) decrease in current assets -		
Receivables -		
Patients	(353,826)	(11,254)
Other	(109,142)	1,222
Current portion of notes receivable	921	5,527
Inventories	(57,698)	(18,539)
Prepaid expenses	(91,561)	26,646
Increase (decrease) in current liabilities -		
Accounts payable - trade	181,310	66,500
Accrued salaries and vacation	95,700	(93,398)
Other accrued expenses	(4,253)	(17,488)
Estimated third-party payor settlements	(201,000)	194,600
Net cash provided by operating activities	\$ <u>460,622</u>	<u>2,682,648</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, 2014 and 2013

(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.

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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.

H. Inventories

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

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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 2011 and 2012 Notes. These funds are used for the payment of principal and interest on the Series 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 (deficiency) 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 2014 and 2013, 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, 2014, the Health Center has a 25% interest in Southeastern Renal Dialysis, L.C. and is a member of Health Enterprises.

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.

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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. 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, 2014 and 2013 was \$1,028,357 and \$980,554, 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.

O. Self-Insured Employee Health Benefits

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

P. 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.

Q. Excess (Deficiency) of Revenue Over Expenses

The statements of revenue, expenses and changes in net position include excess (deficiency) 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).

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R. 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.

S. 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.

T. 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.

U. 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.

V. Change in Accounting Principle

During 2014, the Health Center adopted the provisions of GASB Statement No, 65, which requires reclassification of certain items previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources on the statement of net position. GASB 65 also requires recognition of certain items previously reported as assets and liabilities as outflows of resources or inflows of resources on the statement of revenue, expenses and changes in net position. The requirements of this statement improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The cumulative effect of the accounting change in connection with the implementation of GASB 65 was a reduction of \$188,976 in net position as of the beginning of 2013 (see Note 17).

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W. *Subsequent Events*

The Health Center considered events occurring through September 8, 2014 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, 2014 and 2013 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; 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 16 months as of June 30, 2014.

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.

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The composition of investments and assets limited as to use or restricted as of June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Investments:		
Operating reserves:		
Money market funds	\$ 408,284	38,302
U.S. treasury and government agency securities	2,413,437	2,685,099
Corporate bonds	638,367	664,982
Mutual fund – Ultra short bond fund	249,262	249,260
Accrued interest	15,247	16,470
Total Investments	<u>\$ 3,724,597</u>	<u>3,654,113</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Money market funds	\$ 774,595	2,759,092
U.S. treasury and government agency securities	8,730,588	10,562,657
Corporate bonds	3,957,209	2,563,059
Mutual fund – International equities	785,991	393,819
Accrued interest	55,434	64,234
	<u>14,303,817</u>	<u>16,342,861</u>
Bond retirement and sinking fund accounts:		
Money market funds	<u>--</u>	<u>8,803</u>
By bond agreements:		
Reserve account:		
Certificates of deposit	<u>1,000,000</u>	<u>1,000,000</u>
Total assets limited as to use or restricted	15,303,817	17,351,664
Less amounts required to meet current obligations	<u>223,147</u>	<u>222,242</u>
Long-term portion	<u>\$ 15,080,670</u>	<u>17,129,422</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 318,845	351,061
Realized losses, net	<u>(52,213)</u>	<u>(32,095)</u>
Change in unrealized gain (loss), net	266,632	318,966
	<u>25,941</u>	<u>(205,925)</u>
Total investment return	<u>\$ 292,573</u>	<u>113,041</u>

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(3) 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. 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.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, will incur a two percent reduction in Medicare payment.

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.

Commercial. 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.

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

	<u>2014</u>	<u>2013</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 7,684,032	6,764,953
Outpatient	39,885,975	39,938,761
Long-term care	2,861,076	2,598,596
Clinic	333,252	365,218
	<u>50,764,335</u>	<u>49,667,528</u>
Deductions from patient service revenue:		
Medicare	10,611,526	11,031,365
Medicaid	2,807,061	2,168,676
Other payors	6,372,913	5,874,748
Charity care	199,548	138,854
	<u>19,991,048</u>	<u>19,213,643</u>
Net patient service revenue before provision for bad debt	<u>\$ 30,773,287</u>	<u>30,453,885</u>

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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 38% and 13%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2014 compared to 42% for Medicare and 10% for Medicaid in 2013. 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 2014 and 2013 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, 2014 and 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Public health grants	\$ 589,577	471,624
Miscellaneous	333,731	387,009
Dietary	199,823	187,778
Management services, physician billings	172,891	175,358
Professional services to others	171,838	173,890
Electronic health record incentive payments	150,800	538,975
Ideal protein	78,277	93,664
Rental income	66,247	60,967
Reference lab	9,940	10,620
	<u>9,940</u>	<u>10,620</u>
Total other revenue	\$ <u>1,773,124</u>	<u>2,099,885</u>

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.

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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>2014</u>	<u>2013</u>
Medicare Electronic health record incentive payments	\$ --	237,375
Medicaid Electronic health record incentive payments	<u>150,800</u>	<u>301,600</u>
Total electronic health record incentive payments	<u>\$ 150,800</u>	<u>538,975</u>
Deferred Medicare reimbursement	<u>\$ 137,054</u>	<u>391,043</u>

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Patient receivables	\$ 6,032,618	5,582,792
Less estimated third-party contractual adjustments	(1,690,000)	(1,609,000)
Less allowance for doubtful accounts	<u>(965,000)</u>	<u>(950,000)</u>
	<u>\$ 3,377,618</u>	<u>3,023,792</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>2014</u>	<u>2013</u>
Medicare	24%	25%
Medicaid	8	9
Blue Cross	20	18
Other third-party payors	14	14
Private pay	<u>34</u>	<u>34</u>
	<u>100%</u>	<u>100%</u>

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(6) Capital Assets

Capital assets activity for the years ended June 30, 2014 and 2013 were as follows:

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 911,061	--	--	911,061
Construction in progress	5,906,489	3,916,481	(9,813,555)	9,415
Total capital assets, not being depreciated	<u>6,817,550</u>	<u>3,916,481</u>	<u>(9,813,555)</u>	<u>920,476</u>
Capital assets, being depreciated:				
Land improvements	1,642,846	67,322	(34,822)	1,675,346
Buildings	26,489,187	4,250,717	(793,647)	29,946,257
Fixed equipment	11,260,614	4,520,671	(663,919)	15,117,366
Major moveable equipment	11,941,636	1,967,043	(686,711)	13,221,968
Total capital assets, being depreciated	<u>51,334,283</u>	<u>10,805,753</u>	<u>(2,179,099)</u>	<u>59,960,937</u>
Less accumulated depreciation:				
Land improvements	(1,373,794)	(34,822)	16,170	(1,392,446)
Buildings	(16,199,924)	(1,149,742)	769,817	(16,579,849)
Fixed equipment	(5,766,549)	(686,725)	657,358	(5,795,916)
Major moveable equipment	(8,437,790)	(1,095,878)	583,393	(8,950,275)
Total accumulated depreciation	<u>(31,778,057)</u>	<u>(2,967,167)</u>	<u>2,026,738</u>	<u>(32,718,486)</u>
Total capital assets, being depreciated, net	<u>19,556,226</u>	<u>7,838,586</u>	<u>(152,361)</u>	<u>27,242,451</u>
Total capital assets, net	<u>\$ 26,373,776</u>	<u>11,755,067</u>	<u>(9,965,916)</u>	<u>28,162,927</u>
	<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>

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The Health Center has completed its multiple phase construction and renovation projects which consisted of a central plant for cooling towers, high-efficiency modular boilers, and gas-fired water heaters, which were capitalized in 2012, as well as the construction of a surgery center, which was capitalized in 2014. Funding for the projects were 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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Investments in joint ventures and cooperative arrangements with other health care entities	\$ 1,275,846	1,337,039
Physician receivables	--	13,421
	<u>1,275,846</u>	<u>1,350,460</u>
Less current portion of notes receivable	--	921
	<u>\$ 1,275,846</u>	<u>1,349,539</u>

(8) Long-Term Debt

Long-term debt activity of the Health Center as of June 30, 2014 and 2013 consisted of the following:

	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Notes Payable (A)	\$ --	855,000	(64,139)	790,861	85,500
Series 2012 (B)	2,465,020	--	(44,448)	2,420,572	44,629
Series 2011 (B)	9,861,031	--	(177,793)	9,683,238	178,518
	<u>\$ 12,326,051</u>	<u>855,000</u>	<u>(286,380)</u>	<u>12,894,671</u>	<u>308,647</u>
	<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>

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

**Notes to Financial Statements
June 30, 2014 and 2013**

- (A) During 2014, the Health Center entered into two promissory notes with Access Energy Cooperative. The promissory notes bear no interest and require combined monthly principal payments of \$7,125 through September 2023.
- (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, 2014 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 308,647	345,101	653,748
2016	330,937	339,311	670,248
2017	629,376	327,432	956,808
2018	1,126,320	305,292	1,431,612
2019	1,156,641	274,971	1,431,612
2020 – 2024	6,204,712	922,238	7,126,950
2025 – 2027	3,138,038	3,239,295	6,377,333
	<u>\$ 12,894,671</u>	<u>5,753,640</u>	<u>18,648,311</u>

The Health Center's policy is to capitalize interest cost on the construction in progress. For the year ended June 30, 2014 and 2013, the Health Center capitalized \$70,642 and \$247,398, 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, 2014 and 2013**

(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, 2014, 2013, and 2012 were \$1,125,792, \$1,061,791, and \$991,390, 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 \$1,116,964 and \$1,290,284 as of June 30, 2014 and 2013, 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, 2014 are as follows:

<u>Year</u>	<u>Payments</u>
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 \$2,514,194 and \$2,491,383 as of June 30, 2014 and 2013, respectively.

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

**Notes to Financial Statements
June 30, 2014 and 2013**

(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, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Emergency room contract services	\$ 893,020	1,204,432
Physical and speech therapy contract services	556,501	560,582
Administration and general	298,375	280,058
Laundry	67,963	70,554
Critical access hospital	20,000	20,000
	<u>\$ 1,835,859</u>	<u>2,135,626</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.

(17) Change in Accounting Principle

In accordance with GASB Statement No. 65, which was adopted effective July 1, 2012, the Health Center restated the ending net position at June 30, 2012 and depreciation expense for the year ended June 30, 2013, in connection with unamortized bond issuance costs. According to GASB 65, debt issuance costs are recognized as expenses in the period incurred, rather than as deferred costs and subsequently amortized.

	<u>As Previously Reported</u>	<u>Adjustments</u>	<u>Restated Balance</u>
Deferred financing costs	\$ 175,868	(175,868)	--
Depreciation expense	2,142,462	(13,108)	2,129,354
Increase in net position	1,707,282	13,108	1,720,390
Net position, June 30, 2012	36,375,256	(188,976)	36,186,280

**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, 2014**

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, 2014, the Health Center's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 613,807	605,905	7,902
Estimated other revenues / receipts	32,143,388	48,526,928	(16,383,540)
Expenses / Disbursements	<u>33,086,014</u>	<u>46,876,321</u>	<u>13,790,307</u>
Net	(328,819)	2,256,512	<u>(2,585,331)</u>
Balance beginning of year	<u>37,906,670</u>	<u>18,715,387</u>	
Balance end of year	<u>\$ 37,577,851</u>	<u>20,971,899</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, 2014 and 2013

	2014					2013				
	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total	Inpatient and Swing Bed	Outpatient	Clinic	Long-Term Care	Total
DAILY PATIENT SERVICES:										
Long term care	\$ --	--	--	2,861,076	2,861,076	--	--	--	2,598,596	2,598,596
Medical and surgical	1,726,533	--	--	--	1,726,533	1,448,863	--	--	--	1,448,863
Swing bed	364,919	--	--	--	364,919	351,117	--	--	--	351,117
Observation	368,671	--	--	--	368,671	320,535	--	--	--	320,535
Nursery	175,450	--	--	--	175,450	169,016	--	--	--	169,016
Dialysis	43,300	--	--	--	43,300	26,811	--	--	--	26,811
	<u>2,678,873</u>	<u>--</u>	<u>--</u>	<u>2,861,076</u>	<u>5,539,949</u>	<u>2,316,342</u>	<u>--</u>	<u>--</u>	<u>2,598,596</u>	<u>4,914,938</u>
OTHER NURSING SERVICES:										
Operating and recovery room	1,598,953	7,605,503	--	--	9,204,456	886,697	7,733,834	--	--	8,620,531
Emergency services	93,848	4,520,849	--	--	4,614,697	75,311	4,532,086	--	--	4,607,397
Delivery and labor room	361,938	129,427	--	--	491,365	319,536	157,078	--	--	476,614
Aide	--	33,183	--	--	33,183	--	28,645	--	--	28,645
	<u>2,054,739</u>	<u>12,288,962</u>	<u>--</u>	<u>--</u>	<u>14,343,701</u>	<u>1,281,544</u>	<u>12,451,643</u>	<u>--</u>	<u>--</u>	<u>13,733,187</u>
OTHER PROFESSIONAL SERVICES:										
Pharmacy	1,071,156	6,924,090	--	--	7,995,246	1,177,279	7,120,661	--	--	8,297,940
Laboratory	496,226	4,656,764	--	--	5,152,990	484,260	4,451,687	--	--	4,935,947
CT scans	198,014	3,514,395	--	--	3,712,409	224,242	3,118,496	--	--	3,342,738
Physical, occupational and respiratory therapy	608,129	1,539,485	--	--	2,147,614	785,485	1,722,074	--	--	2,507,559
Anesthesiology	299,063	1,839,513	--	--	2,138,576	237,543	2,296,889	--	--	2,534,432
Radiology	45,680	1,773,896	--	--	1,819,576	39,742	1,600,911	--	--	1,640,653
MRI	36,742	1,611,227	--	--	1,647,969	23,140	1,279,119	--	--	1,302,259
Ambulance	21,184	1,736,305	--	--	1,757,489	24,179	1,824,412	--	--	1,848,591
EKG	15,705	1,184,126	--	--	1,199,831	19,839	1,083,754	--	--	1,103,593
Chemotherapy	77,472	1,377,144	--	--	1,454,616	71,741	1,492,664	--	--	1,564,405
Nuclear medicine	46,889	605,399	--	--	652,288	45,820	670,540	--	--	716,360
Ultrasound	34,160	834,669	--	--	868,829	28,157	825,861	--	--	854,018
Central supply	--	--	--	--	--	5,640	50	--	--	5,690
Clinic	--	--	333,252	--	333,252	--	--	365,218	--	365,218
	<u>2,950,420</u>	<u>27,597,013</u>	<u>333,252</u>	<u>--</u>	<u>30,880,685</u>	<u>3,167,067</u>	<u>27,487,118</u>	<u>365,218</u>	<u>--</u>	<u>31,019,403</u>
Gross patient service revenue	\$ <u>7,684,032</u>	<u>39,885,975</u>	<u>333,252</u>	<u>2,861,076</u>	<u>50,764,335</u>	<u>6,764,953</u>	<u>39,938,761</u>	<u>365,218</u>	<u>2,598,596</u>	<u>49,667,528</u>
LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE										
Contractual allowances and other deductions, primarily Medicare and Medicaid					(19,791,500)					(19,074,789)
Charity care services					(199,548)					(138,854)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT					<u>30,773,287</u>					<u>30,453,885</u>
Provision for bad debt					(1,435,666)					(1,336,434)
NET PATIENT SERVICE REVENUE					<u>\$ 29,337,621</u>					<u>\$ 29,117,451</u>

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Public health grants	\$ 589,577	471,624
Miscellaneous	333,731	387,009
Dietary	199,823	187,778
Management services, physician billings	172,891	175,358
Professional services to others	171,838	173,890
Electronic health record incentive payments	150,800	538,975
Ideal protein	78,277	93,664
Rental income	66,247	60,967
Reference lab	<u>9,940</u>	<u>10,620</u>
Total other revenue	<u>\$ 1,773,124</u>	<u>2,099,885</u>

See accompanying independent auditor's report

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

Exhibit 3

Departmental Expenses
For the Years Ended June 30, 2014 and 2013

	2014				2013			
	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL	Salaries and Wages	Professional Fees	Supplies and Other	TOTAL
NURSING SERVICES:								
Operating and recovery room	\$ 2,094,545	122,262	1,896,488	4,113,295	1,808,798	--	1,576,887	3,385,685
Medical and surgical	1,472,843	775,972	681,794	2,930,609	1,474,311	280,758	644,792	2,399,861
Long-term care	1,256,495	243	664,573	1,921,311	1,237,171	392	672,469	1,910,032
Emergency room	582,921	1,559,887	237,308	2,380,116	587,696	1,455,051	227,026	2,269,773
Nursing administration	155,575	--	103,091	258,666	153,699	--	106,503	260,202
	<u>5,562,379</u>	<u>2,458,364</u>	<u>3,583,254</u>	<u>11,603,997</u>	<u>5,261,675</u>	<u>1,736,201</u>	<u>3,227,677</u>	<u>10,225,553</u>
OTHER PROFESSIONAL SERVICES:								
Pharmacy	371,915	100,700	1,936,774	2,409,389	332,533	13,424	2,068,917	2,414,874
Physical, occupational and speech therapy	225,601	561,541	147,685	934,827	223,519	580,582	141,087	945,188
Laboratory	440,801	206,890	595,461	1,243,152	429,047	228,464	583,500	1,241,011
Ambulance	686,799	--	368,880	1,055,679	629,594	--	367,286	996,880
Anesthesiology	638,299	82,447	200,833	921,579	617,406	--	175,538	792,944
Community health	352,223	8,920	228,791	589,934	383,336	10,350	210,340	604,026
Radiology	327,955	--	874,787	1,202,742	306,182	--	856,494	1,162,676
Respiratory therapy	221,955	5,760	149,197	376,912	226,820	9,230	129,276	365,326
EKG	210,708	1,440	66,141	278,289	196,496	2,160	57,119	255,775
Medical and surgical supplies	113,052	--	116,691	229,743	115,645	--	138,534	254,179
CT scans	35,143	--	218,403	253,546	42,186	--	318,085	360,271
Physician offices	133,703	--	41,613	175,316	128,396	--	41,193	169,589
Chemotherapy	199,083	199,563	103,277	501,923	184,996	176,927	103,700	465,623
Nuclear medicine	16,142	--	113,851	129,993	17,939	--	115,576	133,515
Ultrasound	77,076	--	47,029	124,105	75,916	--	25,789	101,705
Clinic	186,111	14,600	112,252	312,963	183,355	18,360	114,221	315,936
	<u>4,236,566</u>	<u>1,181,861</u>	<u>5,321,665</u>	<u>10,740,092</u>	<u>4,093,366</u>	<u>1,039,497</u>	<u>5,446,655</u>	<u>10,579,518</u>
GENERAL SERVICES:								
Plant	378,140	--	1,266,221	1,644,361	373,620	--	1,206,676	1,580,296
Dietary	360,510	--	559,896	920,406	349,558	--	520,566	870,124
Housekeeping	401,806	11,690	256,799	670,295	372,212	5,780	226,800	604,792
Laundry and linen	19,792	--	114,057	133,849	16,629	--	118,286	134,915
	<u>1,160,248</u>	<u>11,690</u>	<u>2,196,973</u>	<u>3,368,911</u>	<u>1,112,019</u>	<u>5,780</u>	<u>2,072,328</u>	<u>3,190,127</u>
ADMINISTRATIVE SERVICES:								
Finance	231,270	--	191,876	423,146	228,104	--	192,735	420,839
Patient accounts	231,686	--	239,520	471,206	233,698	--	253,844	487,542
Registration	253,891	--	115,445	369,336	245,895	--	113,598	359,493
Information technology	265,041	--	775,741	1,040,782	246,387	--	803,208	1,049,595
Administration	337,630	--	775,422	1,113,052	339,802	--	800,444	1,140,246
Human resources	129,380	--	120,199	249,579	166,355	--	115,191	281,546
Medical records	274,081	--	83,529	357,610	266,299	--	80,913	347,212
Other administrative services	327,965	921	44,898	373,784	311,067	5,433	295,859	612,359
	<u>2,050,944</u>	<u>921</u>	<u>2,346,630</u>	<u>4,398,495</u>	<u>2,037,607</u>	<u>5,433</u>	<u>2,655,792</u>	<u>4,698,832</u>
NONDEPARTMENTAL:								
Depreciation and amortization	--	--	2,691,546	2,691,546	--	--	2,129,354	2,129,354
Interest	--	--	282,973	282,973	--	--	195,245	195,245
	<u>--</u>	<u>--</u>	<u>2,974,519</u>	<u>2,974,519</u>	<u>--</u>	<u>--</u>	<u>2,324,599</u>	<u>2,324,599</u>
TOTAL EXPENSES	<u>\$ 13,010,137</u>	<u>3,652,836</u>	<u>16,423,041</u>	<u>33,086,014</u>	<u>12,504,667</u>	<u>2,786,911</u>	<u>15,727,051</u>	<u>31,018,629</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2014 and 2013**

ANALYSIS OF AGING:

Days Since Discharge	<u>2014</u>		<u>2013</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0-30	\$ 3,834,812	63.57 %	3,257,191	58.34 %
31-60	781,980	12.96	841,658	15.08
61-90	399,837	6.63	433,411	7.76
91-120	241,798	4.01	316,907	5.68
121 and over	<u>774,192</u>	<u>12.83</u>	<u>733,625</u>	<u>13.14</u>
	6,032,618	100.00 %	5,582,792	100.00 %
Less:				
Allowance for doubtful accounts	(965,000)		(950,000)	
Allowance for contractual adjustments	<u>(1,690,000)</u>		<u>(1,609,000)</u>	
	\$ <u>3,377,618</u>		<u>3,023,792</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (950,000)		(920,000)	
Provision of uncollectible accounts	1,435,666		1,336,434	
Recoveries of accounts previously written off	442,522		413,365	
Accounts written off	<u>(1,893,188)</u>		<u>(1,779,799)</u>	
Balance, end of year	\$ <u>(965,000)</u>		<u>(950,000)</u>	

See accompanying independent auditor's report

Inventory/Prepaid Expenses
For the Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
INVENTORY:		
Pharmacy	\$ 315,615	324,858
Central service	69,228	71,923
Surgery	269,572	188,742
Other	<u>-</u>	<u>11,194</u>
	<u>\$ 654,415</u>	<u>596,717</u>
PREPAID EXPENSES:		
Deposits	\$ 74,492	74,097
Service contracts	115,882	93,819
Insurance	126,681	84,171
Other	<u>115,063</u>	<u>88,470</u>
	<u>\$ 432,118</u>	<u>340,557</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Patient days:		
Adult and pediatric -		
Medicare	733	857
All other	653	629
Swing-bed -		
Skilled	474	617
Intermediate	140	106
Newborn	242	263
Long-term care	<u>16,955</u>	<u>16,537</u>
Total	<u><u>19,197</u></u>	<u><u>19,009</u></u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	257	275
All other	<u>252</u>	<u>255</u>
Total	<u><u>509</u></u>	<u><u>530</u></u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	2.85 days	3.12 days
All other	2.59 days	2.47 days
Surgical procedures	1,709	1,966
Emergency room visits	8,663	8,468
Number of employees - full-time equivalents	261.00	264.46

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 year ended June 30, 2014 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 September 8, 2014.

Internal Control Over Financial Reporting

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

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 responses as item II-A-14, 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, 2014 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 responses. 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,
September 8, 2014.

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

Schedule of Findings and Responses
For the Year Ended June 30, 2014

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-14

Instances of Non-Compliance:

No matters were reported.

Significant Deficiencies:

Segregation of Duties: One important aspect of internal control 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 and Corrective Action Planned: 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-14

Certified Budget: Health Center disbursements during the year ended June 30, 2014 did not exceed amounts budgeted.

III-B-14

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.

III-C-14

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

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

**Schedule of Findings and Responses
For the Year Ended June 30, 2014**

III-D-14

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-E-14

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

III-F-14

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-G-14

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, 2014

<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-13	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-14.

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

**Audit Staff
For the Year Ended June 30, 2014**

This audit was performed by:

Brian D. Green, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

J. Alex Morton, CPA, Senior