

HUMBOLDT COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2014 AND 2013

HUMBOLDT COUNTY MEMORIAL HOSPITAL

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Officials
 June 30, 2014

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Rod Harklau, Chairperson	Humboldt, Iowa	2018
Steve Long, Vice-Chairperson	Humboldt, Iowa	2016
David Boswell, Secretary	Humboldt, Iowa	2016
Scott Curran, Treasurer	Humboldt, Iowa	2018
Marlene Thompson	Humboldt, Iowa	2016
Pam Olson	Humboldt, Iowa	2014
Natalie Wergeland (Appointed July, 2014)	Hardy, Iowa	2014
 <u>Chief Executive Officer:</u>		
Mike Dewerff, Interim (Appointed July, 2014)	Storm Lake, Iowa	
James Atty (Resigned June, 2014)	Humboldt, Iowa	
 <u>Chief Financial Officer:</u>		
Heather Shaull	Humboldt, Iowa	
Arthur Holle (Resigned February, 2014)	Humboldt, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Humboldt County Memorial Hospital
Humboldt, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Humboldt County Memorial Hospital (Hospital) and its discretely presented component unit, Humboldt County Memorial Hospital Foundation (Foundation) as of June 30, 2014 and 2013 and related notes to the financial statements, which collectively comprise the Hospital's 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 of 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 Hospital'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 Hospital's internal control. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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.

To the Board of Trustees
Humboldt County Memorial Hospital

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

Basis for Qualified Opinion - Hospital

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note M).

Qualified Opinion - Hospital

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy, as discussed in the previous section, the financial statements referred to above present fairly in all material respects, the financial position of Humboldt County Memorial Hospital as of June 30, 2014 and 2013 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinion - Foundation

In our opinion the financial statements (Foundation) referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2014 and 2013 and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Effect of Adopting New Accounting Standard

As discussed in Note P to the financial statements, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than a blended component unit as was previously presented in the 2013 financial statements. Accordingly, amounts have been restated in the 2013 financial statements now presented.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3e and on page 28 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 which considers it to be an essential part of the 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 U.S. generally accepted auditing standards, 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees
Humboldt County Memorial Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 15, 2014 on our consideration of Humboldt County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Stonearch, Bell, Hyman & Co. P.C.

Atlantic, Iowa
October 15, 2014



Committed to Serve; Compassion to Care

HUMBOLDT COUNTY MEMORIAL HOSPITAL

1000 N. 15TH STREET

HUMBOLDT, IOWA 50548

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HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis

The financial statements enclosed contain the financial information of Humboldt County Memorial Hospital (the Hospital) and Humboldt County Memorial Hospital Foundation. This discussion and analysis of the Hospital's financial performance provides an overview of their financial activity for the fiscal years ended June 30, 2014, 2013, and 2012. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased by \$472,329 or 2.6 percent from 2013 to 2014 and increased by \$773,774 or 4.4 percent from 2012 to 2013.

The Hospital reported an operating loss of \$378,968 in 2014 and operating income of \$37,886 in 2013. The 2014 results reflect a decrease of \$416,854 as compared to 2013 results. Operating profit increased in 2013 as compared to 2012 by \$139,577.

Net non-operating revenues decreased by \$390,460 or 53.7 percent in 2014 compared to 2013. Net non-operating revenues increased in 2013 by \$447,221 or 159.8 percent as compared to 2012.

USING THIS ANNUAL REPORT

The Hospital'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 Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a of the financial statements. One of the most important questions to ask about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

These two statements report the Hospital's net position and changes in them. You can think of the Hospital's net position - the difference between assets and liabilities and deferred inflows of resources - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in the Hospital's patient base, changes in local medical staff, access to visiting medical specialists as well as local economic factors to assess the overall health of the Hospital.

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 provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

THE HOSPITAL'S NET POSITION

The Hospital's net position are the difference between its assets and liabilities and deferred inflows of resources as reported in the Statement of Net Position on page 4 of the financial statements. The following table, Table 1, presents a summary of the Hospital's Statements of Net Position.

Table 1: Assets, Liabilities, and Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Current assets	\$ 3,766,731	\$ 3,683,293	\$ 3,117,633
Capital assets, net	11,407,731	10,757,905	11,687,887
Other non-current assets	<u>5,950,112</u>	<u>7,496,810</u>	<u>7,011,488</u>
Total assets	<u>\$ 21,124,574</u>	<u>\$ 21,938,008</u>	<u>\$ 21,817,008</u>
Liabilities:			
Long-term debt outstanding, net	\$ 1,567,836	\$ 1,856,331	\$ 2,145,622
Other current and noncurrent liabilities	<u>1,277,990</u>	<u>1,340,239</u>	<u>1,655,550</u>
Total liabilities	2,845,826	3,196,570	3,801,172
Deferred Inflows of Resources:			
Deferred revenue	399,832	390,193	438,365
Net Position:			
Invested in capital assets, net of related debt	9,545,524	8,612,283	9,217,001
Restricted expendable	200,048	200,000	200,085
Unrestricted	<u>8,133,344</u>	<u>9,538,962</u>	<u>8,160,385</u>
Total net position	<u>17,878,916</u>	<u>18,351,245</u>	<u>17,577,471</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 21,124,574</u>	<u>\$ 21,938,008</u>	<u>\$ 21,817,008</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Hospital's total assets decreased from \$21,938,008 in 2013 to \$21,124,574 in 2014 (3.7%). Capital assets increased from \$10,757,905 in 2013 to \$11,407,731 in 2014 (6.0%). Designated and restricted assets decreased from \$7,318,076 in 2013 to \$5,805,548 in 2014 (20.7%) as the Hospital used funds to assist with operating expenses and fund the new EHR system. Operating income decreased in 2014 by \$416,854 from 2013.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2014, the Hospital's net position decreased by \$472,329 or 2.6 percent, as shown in Table 2. This decrease is made up of many different components. Total net position at the end of 2014 was \$17,878,916 and \$18,351,245 at year-end 2013.

Table 2: Operating Results and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Net patient service revenues	\$ 12,158,676	\$ 11,804,323	\$ 11,467,811
Other operating revenues	<u>1,422,804</u>	<u>1,389,243</u>	<u>1,321,582</u>
Total operating revenues	13,581,480	13,193,566	12,789,393
Operating Expenses:			
Salaries and benefits	7,410,746	6,998,476	6,725,540
Professional fees	1,631,169	1,735,274	1,697,069
Other operating expenses	3,745,014	3,270,726	3,273,857
Depreciation and amortization	<u>1,173,519</u>	<u>1,151,204</u>	<u>1,194,618</u>
Total operating expenses	<u>13,960,448</u>	<u>13,155,680</u>	<u>12,891,084</u>
Operating Income (Loss)	(378,968)	37,886	(101,691)
Non-Operating Revenues and Expenses:			
County taxes	299,723	300,204	300,250
Investment income	28,023	46,581	66,758
Non-capital grants and contributions	86,964	475,856	18,118
Other non-operating revenues and expenses, net	<u>(78,071)</u>	<u>(95,542)</u>	<u>(105,248)</u>
Total non-operating revenues (expenses), net	<u>336,639</u>	<u>727,099</u>	<u>279,878</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Change in Accounting Estimate	(42,329)	764,985	178,187
Capital Grants and Contributions	--	8,789	57,796
Change in Accounting Estimate	<u>(430,000)</u>	<u>--</u>	<u>--</u>
Increase (decrease) in net position	(472,329)	773,774	235,983
Net Position Beginning of Year	<u>18,351,245</u>	<u>17,577,471</u>	<u>17,341,488</u>
Net Position End of Year	<u>\$ 17,878,916</u>	<u>\$ 18,351,245</u>	<u>\$ 17,577,471</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

OPERATING INCOME (LOSS)

The first component of the overall change in the Hospital's net position is its Operating Income or Loss - generally, the difference between Net Patient Service and Other Operating revenues and the expenses incurred to perform those services. In 2014, the Hospital reported an Operating Loss of (\$378,968), while it had an Operating Income of \$37,886 in 2013.

Operating revenues have shown a decrease from 2013 to 2014. This decrease was mainly due to a decrease in surgery and related ancillary services.

Revenue decreases were noted in Surgery (down \$311,605 / 14.1%), Anesthesiology (down \$382,808 / 42.7%), Laboratory and Blood Bank (down \$116,813 / 4.9%), and Radiology (down \$330,139 / 13.3%).

As expected with the decrease in revenue, contractual adjustments also decreased \$793,348 (20.9%). This resulted in a \$354,353 (3.0%) increase in net patient service revenue.

The total cost of labor – wages and benefits – continues to be the largest component of the Hospital's expenses with general supplies being the second highest. Staff was added to accommodate the growth in the Therapy Departments. Unfortunately the growth in those areas was not enough to offset the decrease in surgery and related ancillary services. Employees and their families on the Hospital's self-funded health insurance were healthier bringing employee benefits expense down.

Increase in labor costs of \$436,889 (8.1%)

Decrease in employee benefits of \$24,619 (1.5%)

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. The Hospital continues to grow its technology in the area of clinical care, patient diagnostics and electronic health records. Investments in the facility and technology improve the efficiency of the Hospital and increase its ability to provide quality affordable healthcare locally.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Hospital sometimes provides care for patients who have little or no health insurance or other means of payment. This service to the community is consistent with the goals established for the Hospital when it was established in 1970 when it was agreed that a portion of the Hospital's costs would be subsidized by property tax revenues, making the facility more affordable to the County's lower income residents. This is reflected in the Hospital's accounts written off as uncollectible. In 2014, \$237,482 in accounts was written off as uncollectible. This figure is a decrease from \$303,896 in 2013. This reflects a 21.9% percent decrease. This figure does not include the \$113,805 in approved Financial Assistance applications which has also decreased with the expansion of Medicaid.

NON-OPERATING REVENUES AND EXPENSES

Non-operating revenues consist primarily of property taxes levied by the Hospital and income from investments. The Hospital has maintained its tax asking at approximately \$300,000 over the past three years. Non-capital grants and contributions decreased by \$388,892 or 81.7% when compared to 2013 which was due to a bequest of approximately \$357,000 in 2013. Investment income decreased by \$18,558 or 39.8% as the investments held by the Hospital were cashed in to assist with operating expenses and fund the new EHR system. Hospital interest expense decreased \$10,825 from 2013. Overall, net non-operating revenues decreased from \$727,099 to \$336,639 from 2013 to 2014.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating profits and non-operating revenues and expenses. The net change in the Hospital's cash position was a decrease of \$490,635 in 2014 from 2013.

BUDGETARY HIGHLIGHTS

Actual expenses were lower than the amended budget by \$355,461. Actual revenues were lower than budgeted by \$1,123,235.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2014, the Hospital had approximately \$11.4 million invested in capital assets, net of accumulated depreciation, as detailed in Note G to the financial statements. In 2014, the Hospital purchased new property and moveable equipment costing \$1,796,202. Of this, none was acquired through capital leases.

Debt:

At year-end 2014, the Hospital had a \$1,844,332 revenue note (bond) outstanding. The Hospital also has outstanding debt of \$12,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. This non-interest bearing loan was used for the assisted living project.

OTHER ECONOMIC FACTORS

Physician recruitment and retention continues to be a goal for the Hospital.

The Hospital continues to deal with the rising cost of health insurance for the general population. This impacts the Hospital through higher deductibles, more coverage limitations and contracted discount requirements by insurance companies and an increasing number of uninsured individuals. The Hospital has begun to see the impact of Medicaid expansion and the Accountable Care Act and will continue to see such in the future.

Employee retention is an important factor in the success of the Hospital. The need to provide competitive wages and benefits is important in retaining good employees and contributing to the growth of the Hospital.

The Hospital strives to provide state of the art technology and services. Electronic health records (EHR) will require more people time and costs to keep up with governmental requirements and patient needs. In 2014 a new EHR system was purchased to keep up with the increased demands. The Hospital also continues to invest in the current facility by completing many updates to its general appearance.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer, at Humboldt County Memorial Hospital, 1000 North 15th Street, Humboldt, Iowa 50548.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS

	<u>2014</u>	<u>2013</u> <u>As Restated</u>
Current Assets:		
Cash	\$ 707,278	\$ 1,231,817
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$578,000 in 2014, \$602,000 in 2013)	1,993,559	1,399,315
Other receivables	32,800	70,591
Inventory	155,469	175,087
Prepaid expense	178,405	86,495
Succeeding year property tax receivable	292,000	291,000
Internally designated assets	407,220	428,988
Total current assets	3,766,731	3,683,293
Designated and Restricted Assets:		
Internally designated assets	6,012,720	7,547,064
Restricted assets	200,048	200,000
	6,212,768	7,747,064
Less amounts required to meet current liabilities	407,220	428,988
	5,805,548	7,318,076
Capital Assets:		
Depreciable capital assets, net	11,359,237	10,548,071
Non-depreciable capital assets	48,494	209,834
	11,407,731	10,757,905
Other Assets:		
Note receivable	21,081	28,108
Other	123,483	150,626
	144,564	178,734
Total assets	\$ 21,124,574	\$ 21,938,008

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2014	2013 As Restated
Current Liabilities:		
Current maturities of long-term debt	\$ 288,496	\$ 289,291
Accounts payable	251,134	290,952
Accrued employee compensation	448,917	390,908
Payroll taxes withheld and accrued	98,139	80,687
Accrued interest payable	12,849	14,697
Senior housing deposits	82,455	80,704
Estimated third-party payor settlements	96,000	193,000
Total current liabilities	1,277,990	1,340,239
Long-Term Debt:		
Note payable, less current maturities	--	12,000
Revenue note, less current maturities	1,567,836	1,844,331
Total long-term debt	1,567,836	1,856,331
Total liabilities	2,845,826	3,196,570
Deferred Inflows of Resources:		
Deferred revenue	399,832	390,193
Net Position:		
Invested in capital assets, net of related debt	9,545,524	8,612,283
Restricted - expendable	200,048	200,000
Unrestricted	8,133,344	9,538,962
Total net position	17,878,916	18,351,245
Total liabilities, deferred inflows of resources, and net position	\$ 21,124,574	\$ 21,938,008

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Statements of Revenues, Expenses and Changes in Net Position
 Year ended June 30,

	2014	2013 As Restated
Revenue:		
Net patient service revenue	\$ 12,158,676	\$ 11,804,323
Other revenue	1,422,804	1,389,243
Total revenue	13,581,480	13,193,566
Expenses:		
Nursing service	2,687,855	2,524,091
Other professional service	4,784,156	4,723,055
Senior housing	480,870	462,420
General service	1,506,050	1,446,611
Fiscal and administrative service	3,327,998	2,848,299
Provision for depreciation	1,146,376	1,125,366
Amortization	27,143	25,838
Total expenses	13,960,448	13,155,680
Operating Income (Loss)	(378,968)	37,886
Non-Operating Revenues (Expenses):		
County taxes	299,723	300,204
Noncapital grants and contributions	86,964	475,856
Investment income	28,023	46,581
Gain (loss) on disposal of equipment	6,020	(626)
Interest expense	(84,091)	(94,916)
Non-operating revenues, net	336,639	727,099
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Change in Accounting Estimate	(42,329)	764,985
Capital Grants and Contributions	--	8,789
Change in Accounting Estimate (Note O)	(430,000)	--
Increase (Decrease) in Net Position	(472,329)	773,774
Net Position Beginning of Year	18,351,245	17,577,471
Net Position End of Year	\$ 17,878,916	\$ 18,351,245

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Statements of Cash Flows
 Year ended June 30,

	2014	2013 As Restated
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 11,085,613	\$ 11,331,116
Cash paid to suppliers	(7,077,698)	(6,693,342)
Cash paid to employees	(5,749,685)	(5,338,671)
Other revenue	1,422,804	1,389,243
Net cash provided by (used in) operating activities	(318,966)	688,346
Cash flows from non-capital financing activities:		
County tax revenue	299,723	300,204
Noncapital grants and contributions	86,964	475,856
Net cash provided by non-capital financing activities	386,687	776,060
Cash flows from capital and related financing activities:		
Capital grants and contributions	--	8,789
Principal paid on long-term debt	(289,290)	(278,540)
Capital expenditures	(1,780,589)	(196,596)
Construction in progress expenditures	(4,781)	(33,428)
Proceeds from disposal of equipment	6,020	202
Interest paid	(85,939)	(96,689)
Net cash used in capital and related financing activities	(2,154,579)	(596,262)
Cash flows from investing activities:		
Investment income	28,023	46,581
Change in note receivable	--	(30,000)
Change in designated assets	1,568,200	(112,776)
Net cash provided by (used in) investing activities	1,596,223	(96,195)
Net increase (decrease) in cash and cash equivalents	(490,635)	771,949
Cash and cash equivalents beginning of year	2,083,476	1,311,527
Cash and cash equivalents end of year	\$ 1,592,841	\$ 2,083,476
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 707,278	\$ 1,231,817
Cash and cash equivalents in designated and restricted assets	885,563	851,659
	\$ 1,592,841	\$ 2,083,476

(continued next page)

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Statements of Cash Flows - continued
 Year ended June 30,

	2014	2013 As Restated
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$(378,968)	\$ 37,886
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	1,146,376	1,125,366
Amortization	34,170	27,730
Salaries and wages capitalized	(4,957)	(12,912)
Change in accounting estimate	(430,000)	--
Change in assets and liabilities		
Accounts receivable	(556,453)	(162,538)
Inventory	19,618	1,315
Prepaid expense	(91,910)	(2,764)
Accounts payable, trade	(45,693)	(117,033)
Accrued employee compensation	58,009	40,089
Payroll taxes withheld and accrued	17,452	61,876
Senior housing deposits	1,751	1,503
Estimated third-party payor settlements	(97,000)	(264,000)
Deferred EHR incentive	8,639	(48,172)
Total adjustments	60,002	650,460
Net cash provided by (used in) operating activities	\$(318,966)	\$ 688,346

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
 Statements of Financial Position
 June 30,

ASSETS

	<u>2014</u>	<u>2013</u> As Restated
Assets:		
Cash	\$ 162,496	\$ 111,980
Investments	2,972,332	2,584,766
Accrued interest receivable	<u>96</u>	<u>126</u>
Total assets	<u>\$ 3,134,924</u>	<u>\$ 2,696,872</u>

NET ASSETS

Net Assets:		
Restricted	\$ 29,255	\$ 33,669
Unrestricted	<u>3,105,669</u>	<u>2,663,203</u>
Total liabilities and net position	<u>\$ 3,134,924</u>	<u>\$ 2,696,872</u>

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
 Statements of Activities and Changes in Net Assets
 Year ended June 30,

	2014	2013 As Restated
Revenues and Other Support:		
Unrestricted contributions	\$ 75,848	\$ 725
Restricted contributions	4,688	7,227
Fundraising events (net of \$16,588 and \$12,875 direct expenses for 2014 and 2013 respectively)	6,650	11,257
Investment income	388,353	231,426
Total revenues and other support	475,539	250,635
Expenses:		
Operating assistance to the Hospital	35,787	35,482
Professional fees	1,700	1,625
Other expense	--	2,548
Total expenses	37,487	39,655
Operating Income and Change in Net Assets	438,052	210,980
Net Assets Beginning of Year	2,696,872	2,485,892
Net Assets End of Year	\$ 3,134,924	\$ 2,696,872

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL FOUNDATION
 Statements of Cash Flows
 Year ended June 30,

	2014	2013 As Restated
Cash flows from operating activities:		
Cash received through contributions and fundraising	\$ 87,186	\$ 19,209
Cash paid to suppliers and Hospital	(37,487)	(39,655)
Investment income	83,246	52,267
Net cash provided by operating activities	132,945	31,821
Cash flows from investing activities:		
Change in investments	(82,429)	64,329
Net increase in cash and cash equivalents	50,516	96,150
Cash and cash equivalents beginning of year	111,980	15,830
Cash and cash equivalents end of year	\$ 162,496	\$ 111,980
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 438,052	\$ 210,980
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Change in accrued interest receivable	30	531
Unrealized gains on investments	(305,137)	(179,690)
	(305,107)	(179,159)
Net cash provided by operating activities	\$ 132,945	\$ 31,821

The accompanying notes are an integral part of these statements.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Humboldt County Memorial Hospital (the Hospital) is a critical access county hospital with related healthcare ancillary, outpatient, long-term care, and senior housing services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Humboldt County Memorial Hospital Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. Substantially all of the economic resources of the Foundation are designated for the direct benefit of the Hospital.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

3. 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less, including designated and restricted assets.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue (operating revenue for the Foundation) when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to forty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest costs in 2014 or 2013.

9. Compensated Absences

Hospital employees earn paid time off hours at varying rates depending on years of service. Paid time off accumulates to a maximum of 360 hours for management level employees and 240 hours for all other staff. Any excess over those limits accumulated by the employee's anniversary date is lost. The computed amount of paid time off earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

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

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

12. Property Tax Levy

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 that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

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

14. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees or the Foundation Board based on the facts regarding each specific situation.

15. Net Position

Net position of the Hospital is reported in the following three categories. *Invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* consists of noncapital assets that must be used for a particular purpose or permanent endowments, as specified by creditors, grantors, or contributors external to the Hospital. *Unrestricted net position* consists of the remaining net position that does not meet the definition of *invested in capital assets net of related debt or restricted*.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

16. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

17. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68 "*Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27.*" This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the Hospital's proportionate share of the Iowa Public Employees Retirement System pension plan.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediary through June 30, 2012. The Hospital's Medicaid cost reports have been finalized by the fiscal intermediary through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediaries within three years after the date of finalization (See Note P). Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE C - RESTRICTED NET POSITION

Restricted expendable assets are available for the following purposes:

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
Long-term debt	\$ <u>200,048</u>	\$ <u>200,000</u>
 <u>Foundation</u>		
Hospice	\$ 891	\$ 891
Assisted Living	641	917
Long Term Care	1,423	1,423
Ambulance	382	382
Emergency Room	12,432	12,432
Radiology	2,429	1,916
Public Health	150	150
Wellness	151	151
Defibrillator	548	548
Genevieve's Place	150	1,900
Rehab	4,390	11,161
Employee Fundraisers	999	(284)
REACH Program	2,066	1,479
Cardiac Rehab	603	603
Surgery	<u>2,000</u>	<u>--</u>
	<u>\$ 29,255</u>	<u>\$ 33,669</u>

The Hospital and Foundation have no restricted nonexpendable assets or endowments at June 30, 2014 or 2013.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
Payment of long-term debt	\$ --	\$ 85
Purchase of property and equipment	<u>--</u>	<u>8,789</u>
	<u>\$ --</u>	<u>\$ 8,874</u>
 <u>Foundation</u>		
Hospice	\$ --	\$ 798
Assisted Living	276	10,000
Genevieve's Place	1,750	--
Rehab	10,476	--
Ambulance	--	2,025
Employee fundraisers	1,150	--
Reach	<u>2,100</u>	<u>500</u>
	<u>\$ 15,752</u>	<u>\$ 13,323</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE D - DESIGNATED ASSETS

Of the \$8,133,344 (\$9,538,962 as of June 30, 2013) of unrestricted net position as of June 30, 2014, \$6,012,720 (\$7,547,064 for 2013) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule. These assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes.

	2014	2013
Capital acquisitions	\$ 5,127,157	\$ 6,695,405
Employee health insurance	885,563	851,659
	\$ 6,012,720	\$ 7,547,064

Of the \$3,105,669 (\$2,663,203 as of June 30, 2013) of unrestricted net assets as of June 30, 2014, \$2,887,768 (\$2,501,896 for 2013) has been designated by the Foundation's Board to establish an endowment fund to generate income to further the Foundation's mission. These funds remain under the control of the Foundation Board, which may, at its discretion, later use the funds for other purposes. These funds are summarized as follows:

	2014	2013
Cash	\$ 33,830	\$ 33,556
Certificates of deposit	99,690	99,690
Equity securities	2,754,248	2,368,650
	\$ 2,887,768	\$ 2,501,896

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2014 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 ensure there will be no loss of public funds. See Note O regarding the Foundation's deposits. Investments are stated as indicated in Note A.

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Foundation is not limited to state investment regulations, and is therefore able to invest in equity securities.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of investments and designated and restricted assets is as follows:

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
<u>Internally Designated Assets:</u>		
Cash	\$ 885,563	\$ 851,659
Certificates of deposit	5,124,472	6,689,418
Interest receivable	<u>2,685</u>	<u>5,987</u>
	<u>\$ 6,012,720</u>	<u>\$ 7,547,064</u>
<u>Restricted Assets:</u>		
Certificates of deposit	\$ 200,000	\$ 200,000
Interest receivable	<u>48</u>	<u>--</u>
	<u>\$ 200,048</u>	<u>\$ 200,000</u>
 <u>Foundation</u>		
<u>Investments:</u>		
Certificates of deposit	\$ 204,188	\$ 204,188
Equity securities	<u>2,768,144</u>	<u>2,380,578</u>
	<u>\$ 2,972,332</u>	<u>\$ 2,584,766</u>
<u>Restricted Assets:</u>		
Cash	<u>\$ 29,255</u>	<u>\$ 33,669</u>

Investment income for designated and restricted assets, cash equivalents, and other investments is comprised of the following for the year ended June 30:

<u>Hospital</u>	<u>2014</u>	<u>2013</u>
Interest income	<u>\$ 28,023</u>	<u>\$ 46,581</u>
 <u>Foundation</u>		
Interest income	\$ 662	\$ 1,403
Dividend income	82,554	50,333
Unrealized gains on investments	<u>305,137</u>	<u>179,690</u>
	<u>\$ 388,353</u>	<u>\$ 231,426</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE F - FAIR VALUE MEASUREMENTS

The Hospital's and Foundation's investments are reported at fair value in the accompanying balance sheets. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, and Level 3 inputs are unobservable and have the lowest priority. The Hospital and Foundation use appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Hospital and Foundation measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 1 inputs were available for all investments at June 30, 2014 and 2013.

Level 1 Fair Value Measurements

The fair value of equity securities is based on quoted net asset values of the shares held by the Foundation at year-end. Level 1 fair values for equity securities using quoted prices on active markets for identical assets were \$2,768,144 at June 30, 2014 (\$2,380,578 at June 30, 2012).

NOTE G - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital 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 at June 30, 2014 and 2013, was as follows:

	<u>2014</u>	<u>2013</u>
Receivable from:		
Patients	\$ 569,811	\$ 263,512
Medicare	1,035,553	962,998
Medicaid	160,006	82,914
Wellmark	312,046	275,733
Other commercial insurance carriers	486,031	409,651
Others	<u>8,112</u>	<u>6,507</u>
	2,571,559	2,001,315
Less allowances for doubtful accounts and contractual adjustments	<u>578,000</u>	<u>602,000</u>
	<u>\$ 1,993,559</u>	<u>\$ 1,399,315</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 226,757	\$ 20,534	\$ --	\$ 247,291
Buildings and Fixed Equipment	12,067,715	56,078	--	12,123,793
Major Movable Equipment	4,217,431	1,880,930	--	6,098,361
Senior Housing Assets	5,145,883	--	--	5,145,883
	<u>21,657,786</u>	<u>1,957,542</u>	<u>--</u>	<u>23,615,328</u>
<u>Depreciation</u>				
Land Improvements	119,088	11,534	--	130,622
Buildings and Fixed Equipment	5,274,944	470,747	--	5,745,691
Major Movable Equipment	3,172,964	419,453	--	3,592,417
Senior Housing Assets	2,542,719	244,642	--	2,787,361
Total Depreciation	<u>11,109,715</u>	<u>1,146,376</u>	<u>--</u>	<u>12,256,091</u>
Total Depreciable Capital Assets, Net	<u>\$ 10,548,071</u>	<u>\$ 811,166</u>	<u>\$ --</u>	<u>\$ 11,359,237</u>
Construction in Progress	\$ 161,340	\$ 9,738	\$ 171,078	\$ --
Land	48,494	--	--	48,494
Total Non-Depreciable Capital Assets	<u>\$ 209,834</u>	<u>\$ 9,738</u>	<u>\$ 171,078</u>	<u>\$ 48,494</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE H - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2012</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2013</u>
Land Improvements	\$ 233,159	\$ --	\$ 6,402	\$ 226,757
Buildings and Fixed Equipment	12,599,620	111,279	643,184	12,067,715
Major Movable Equipment	7,041,711	51,500	2,875,780	4,217,431
Senior Housing Assets	5,136,584	16,328	7,029	5,145,883
	<u>25,011,074</u>	<u>179,107</u>	<u>3,532,395</u>	<u>21,657,786</u>
<u>Depreciation</u>				
Land Improvements	114,868	10,622	6,402	119,088
Buildings and Fixed Equipment	5,435,660	482,414	643,130	5,274,944
Major Movable Equipment	5,660,004	387,966	2,875,006	3,172,964
Senior Housing Assets	2,305,384	244,364	7,029	2,542,719
Total Depreciation	<u>13,515,916</u>	<u>1,125,366</u>	<u>3,531,567</u>	<u>11,109,715</u>
Total Depreciable Capital Assets, Net	<u>\$ 11,495,158</u>	<u>\$ (946,259)</u>	<u>\$ 828</u>	<u>\$ 10,548,071</u>
Construction in Progress	\$ 144,235	\$ 46,340	\$ 29,235	\$ 161,340
Land	48,494	--	--	48,494
Total Non-Depreciable Capital Assets	<u>\$ 192,729</u>	<u>\$ 46,340</u>	<u>\$ 29,235</u>	<u>\$ 209,834</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2014 and 2013 follows:

	Balance 2013	Additions	Reductions	Balance 2014	Current Portion
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 36,000	\$ --	\$ 24,000	\$ 12,000	\$ 12,000
Series 2008 Revenue					
Note	<u>2,109,622</u>	<u>--</u>	<u>265,290</u>	<u>1,844,332</u>	<u>276,496</u>
 Total Non-Current					
Liabilities	<u>\$2,145,622</u>	<u>\$ --</u>	<u>\$ 289,290</u>	<u>\$1,856,332</u>	<u>\$ 288,496</u>
	Balance 2012	Additions	Reductions	Balance 2013	Current Portion
Long-Term Debt:					
Rural Economic					
Development Loan	\$ 60,000	\$ --	\$ 24,000	\$ 36,000	\$ 24,000
Series 2008 Revenue					
Note	<u>2,364,162</u>	<u>--</u>	<u>254,540</u>	<u>2,109,622</u>	<u>265,291</u>
 Total Non-Current					
Liabilities	<u>\$2,424,162</u>	<u>\$ --</u>	<u>\$ 278,540</u>	<u>\$2,145,622</u>	<u>\$ 289,291</u>

In December, 2004, the Hospital borrowed \$240,000 through the Humboldt County Rural Electric Cooperative under the Rural Economic Development Loan and Grant Program. The loan is non-interest bearing and is payable in forty equal quarterly installments which began April 1, 2005. The loan is collateralized by the Hospital's net revenues generated by the senior housing assisted living facility.

The Series 2008 Hospital Revenue Note was issued in May, 2008 and is collateralized by the Hospital's net revenues. The note was issued for the purpose of refunding the Series 2000 and Series 2001 revenue bonds. The note matures in semi-annual payments of \$175,365, including interest at 4.18% per annum, through May, 2020.

The combined annual debt service on the loan and note is expected to require less than 35% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$375,000 and \$1,215,000 respectively.

Under the terms of the revenue note indentures, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements. The indentures also place limits on the incurrence of additional borrowings and require that the Hospital satisfy certain measures of financial performance as long as the note is outstanding.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE I- NON-CURRENT LIABILITIES - Continued

Scheduled principal and interest repayments on long-term debt are as follows:

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2015	\$ 288,496	\$ 74,234	\$ 362,730
2016	288,174	62,556	350,730
2017	300,345	50,385	350,730
2018	313,031	37,699	350,730
2019	326,253	24,477	350,730
2020	340,033	10,693	350,726
	<u>\$ 1,856,332</u>	<u>\$ 260,044</u>	<u>\$ 2,116,376</u>

NOTE J - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include electronic health records (EHR) incentive payments and deferred succeeding year property tax. The EHR revenue will be recognized over three to five years, as the related equipment is depreciated. The deferred succeeding year property tax represents taxes certified by the County Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year.

	2014	2013
Electronic health records incentive	\$ 107,832	\$ 99,193
Deferred succeeding year property tax	<u>292,000</u>	<u>291,000</u>
	<u>\$ 399,832</u>	<u>\$ 390,193</u>

NOTE K - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.95% of their annual covered salary and the Hospital is required to contribute 8.93% of annual covered payroll. Contribution rates are slightly higher when employees are performing emergency response services. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were approximately \$504,000, \$457,000, and \$393,000, respectively, equal to the required contributions for each year.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE L - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's accounting and personnel departments are responsible for the accounting, reconciliations and record keeping associated with employees' enrollment, payments to the plan through payroll deductions, and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2014 was approximately \$191,000 (\$159,000 at June 30, 2013). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

NOTE M - AFFILIATED ORGANIZATIONS

The Hospital has an operating agreement with Trinity Health Systems (Trinity). Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays a monthly fee to Trinity for management services. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2014 and 2013:

	2014	2013
Fees to Trinity for personnel and services	\$ <u>272,620</u>	\$ <u>208,059</u>

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE M - AFFILIATED ORGANIZATIONS - Continued

Humboldt County Memorial Hospital Foundation (the Foundation)

As indicated in Note A1, the Foundation has been identified as a component unit of the Hospital. The Hospital received \$ - 0 - and \$8,789 from the Foundation during the years ended June 30, 2014 and 2013, respectively, for the purchase of capital items. The Hospital received \$35,787 and \$26,693 from the Foundation during the year ended June 30, 2014 and 2013, respectively, for the purchase of equipment not meeting the Hospital's capitalization threshold. As of June 30, 2014, the Foundation has no material pledges receivable related to Hospital projects.

NOTE N - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 100 active employees and 2 retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE O - COMMITMENTS AND CONTINGENCIES

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Humboldt County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2014, the Hospital has designated funds in excess of actual claims paid of \$885,563 (\$851,659 at June 30, 2013). This amount of funds, shown under internally designated assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2014 is \$100,000 (\$125,000 at June 30, 2013) and is included in accounts payable.

Note Receivable

The note receivable represents funds advanced under an agreement with a healthcare professional practicing in the community. The agreement includes commitments by the healthcare professional to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the note over the term of the commitments.

Off-Balance Sheet Risk

The Foundation maintains its deposits at a local bank. At various times throughout the year and at year end, the deposits in the bank exceeded the FDIC insured deposits limit for one entity (by approximately \$117,000 at year end). Management of the Foundation has received no indication of any potential viability problems with the bank by the date of this report.

The Foundation maintains approximately \$2,768,000 of its investment portfolio in various mutual funds, none of which are covered by any form of insurance against loss.

Subsequent Events

The Hospital has evaluated all subsequent events through October 15, 2014, the date the financial statements were available to be issued.

NOTE P - CHANGE IN ACCOUNTING ESTIMATE

The Medicare fiscal intermediary has reopened home office and other cost reports from 2010 through 2013. The Hospital has revised its estimate of potential liabilities owed to third party payors as a result of these reopenings. The result of this change in estimate (\$430,000) has been reported as a separate item, below the excess of revenues over expenses (expenses over revenues), on the statement of revenues, expenses and changes in net position.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE Q - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD

The Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*, during the year ended June 30, 2014. The adoption of GASB Statement No. 61 resulted in reporting the Foundation as a discretely presented component unit rather than as a blended component unit of the Hospital as was previously recorded in the 2013 financial statements. Accordingly, amounts have been restated in the 2013 financial statements now presented.

The following is a summary of the effects of the restatements on the 2013 financial statements:

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Net Position</u>			
Assets			
Restricted assets	\$ 2,896,872	\$(2,696,872)	\$ 200,000
Total assets	\$ 24,634,880	\$(2,696,872)	\$ 21,938,008
Liabilities, Deferred Inflows of Resources, and Net Position			
Net position			
Restricted	\$ 2,896,872	\$(2,696,872)	\$ 200,000
Total net position	\$ 21,048,117	\$(2,696,872)	\$ 18,351,245
Total liabilities, deferred inflows of resources, and net position	\$ 24,634,880	\$(2,696,872)	\$ 21,938,008
<u>Hospital Statement of Revenues, Expenses, and Changes in Net Position</u>			
Noncapital grants and contributions	\$ 495,065	\$(19,209)	\$ 475,856
Investment income	\$ 278,007	\$(231,426)	\$ 46,581
Foundation expense	\$(39,066)	\$ 39,066	\$ --
Excess of revenues over expenses before capital grants and contributions	\$ 976,554	\$(211,569)	\$ 764,985
Capital grants and contributions	8,200	589	8,789
Increase in net position	\$ 984,754	\$(210,980)	\$ 773,774
Net position end of year	\$ 21,048,117	\$(2,696,872)	\$ 18,351,245

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2014 and 2013

NOTE Q - EFFECT OF ADOPTING NEW ACCOUNTING STANDARD - Continued

	<u>Amounts as Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Amounts as Restated</u>
<u>Hospital Statement of Cash Flows</u>			
Net cash provided by operating activities	\$ 688,346	\$ --	\$ 688,346
Net cash provided by non-capital financing activities	795,269	(19,209)	776,060
Net cash used in capital and related financing activities	(635,917)	39,655	(596,262)
Net cash provided by (used in) investing activities	<u>20,401</u>	<u>(116,596)</u>	<u>(96,195)</u>
Net increase in cash and cash equivalents	868,099	(96,150)	771,949
Cash and cash equivalents beginning of year	<u>1,327,357</u>	<u>(15,830)</u>	<u>1,311,527</u>
Cash and cash equivalents end of year	<u>\$ 2,195,456</u>	<u>\$(111,980)</u>	<u>\$ 2,083,476</u>

* * *

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year Ended June 30, 2014

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the accrual basis used to prepare the budget. The adjustments result from accounting for interest, and net position differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 299,723	\$ --	\$ 299,723	
Other revenues	<u>13,188,348</u>	<u>48</u>	<u>13,188,396</u>	
	13,488,071	48	13,488,119	
Expenses	<u>13,960,448</u>	<u>--</u>	<u>13,960,448</u>	
Net	(472,377)	48	(472,329)	
Balance beginning of year	<u>18,151,245</u>	<u>200,000</u>	<u>18,351,245</u>	
Balance end of year	<u>\$ 17,678,868</u>	<u>\$ 200,048</u>	<u>\$ 17,878,916</u>	
	<u>Total Per Financial Statements</u>	<u>Budget Adjustments</u>	<u>Budget Basis</u>	<u>Amended Budget</u>
Amount raised by taxation	\$ 299,723	\$ --	\$ 299,723	\$ 291,636
Other revenues	<u>13,188,396</u>	<u>84,091</u>	<u>13,272,487</u>	<u>14,403,809</u>
	13,488,119	84,091	13,572,210	14,695,445
Expenses	<u>13,960,448</u>	<u>84,091</u>	<u>14,044,539</u>	<u>14,400,000</u>
Net	(472,329)	--	(472,329)	295,445
Balance beginning of year	<u>18,351,245</u>	<u>(63,346)</u>	<u>18,287,899</u>	<u>18,287,899</u>
Balance end of year	<u>\$ 17,878,916</u>	<u>\$ (63,346)</u>	<u>\$ 17,815,570</u>	<u>\$ 18,583,344</u>

See Independent Auditor's Report.

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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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
Humboldt County Memorial Hospital
Humboldt, Iowa

We have audited the financial statements of Humboldt County Memorial Hospital as of and for the year ended June 30, 2014, and have issued our report thereon dated October 15, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt County Memorial Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Humboldt County Memorial Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

To the Board of Trustees
Humboldt County Memorial Hospital

A significant deficiency is a deficiency or combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part I of the accompanying Schedule of Findings as item 14-I-A to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Humboldt County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital'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 Hospital. 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.

Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Hospital's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Acronow, Bell, Hughes + W. P. C.

Atlantic, Iowa
October 15, 2014

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2014

PART I - SIGNIFICANT DEFICIENCIES

14-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the members be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

PART II - REQUIRED STATUTORY REPORTING

14-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2014 did not exceed amounts budgeted therefore.

14-II-B Questionable Expenses: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General's opinion dated April 25, 1979. The expense was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Various Organizations	Employee recognition banquet	\$ 6,303

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Board feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated April 25, 1979.

Conclusion: Response accepted.

14-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
 Schedule of Findings
 Year ended June 30, 2014

PART II - REQUIRED STATUTORY REPORTING - Continued

14-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Porter, Maintenance Director, Owner of C & M Repair	Miscellaneous ambulance repairs	\$ 3,588

The transactions with C & M Repair do not appear to represent conflicts of interest since the purchases are not from an entity in which a trustee has a pecuniary interest and another department director approves the purchases.

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

14-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

14-II-G Economic Development: During the year ended June 30, 2014, the Hospital paid \$1,000 to the Humboldt County Development Association. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

HUMBOLDT COUNTY MEMORIAL HOSPITAL
Schedule of Findings
Year ended June 30, 2014

PART II - REQUIRED STATUTORY REPORTING - Continued

14-II-H Publication of Salaries: Chapter 347.13(11) of the Code of Iowa states, "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 newspapers the schedule of salaries paid by job classification and category...". The Hospital did not timely publish a schedule of salaries paid as required by the Code of Iowa.

Recommendation: The Hospital should publish the schedule of salaries by job classification in accordance with Chapter 347.13(11) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

Response: The schedule of salaries for 2013 was published in October, 2014. In the future, the Hospital will comply with the publishing requirements set forth in Chapter 347.13(11) of the Code of Iowa and the Supreme Court Case dated September 18, 1996.

Conclusion: Response accepted.

* * *