

**Iowa Specialty Hospital - Clarion  
Clarion, Iowa**

**FINANCIAL REPORT**

**June 30, 2014**

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Iowa Specialty Hospital - Clarion  
OFFICIALS  
June 30, 2014

**BOARD OF COMMISSIONERS**

**Officers**

Judith Ritter, President  
Scott Whyte, Vice President  
Ken Stoakes, Secretary-Treasurer

**Expiration of term**

June 30, 2017  
June 30, 2016  
June 30, 2017

**Members**

Kimberly Heller  
Katie Stecher  
Sue Martin  
Terry Utech

June 30, 2015  
June 30, 2015  
June 30, 2016  
June 30, 2015

**CHIEF EXECUTIVE OFFICER**

Steve Simonin

**CHIEF FINANCIAL OFFICER**

Greg Polzin



## INDEPENDENT AUDITOR'S REPORT

Board of Commissioners  
Iowa Specialty Hospital - Clarion  
Clarion, Iowa

We have audited the accompanying financial statements of Iowa Specialty Hospital - Clarion, a component unit of the City of Clarion, Iowa, and its component unit, Wright Medical Foundation, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's and Foundation'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 audits 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 financial position of Iowa Specialty Hospital - Clarion and its component unit, Wright Medical Foundation, as of June 30, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matter**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2014 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 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 Hospital's internal control over financial reporting and compliance.

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 19, 2014

## **Iowa Specialty Hospital - Clarion MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Iowa Specialty Hospital - Clarion, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2014 and 2013. Please read it in conjunction with the Hospital's financial statements, which follow this section.

### **Overview of the Financial Statements**

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of the Hospital report information using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Hospital's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Hospital operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Highlights**

- Total assets decreased by \$2,323,608 to \$45,281,295
- Total noncurrent assets whose use is limited increased by \$2,731,971 to \$6,956,374
- Total property and equipment decreased by \$2,043,931 to \$19,629,665
- Total net position increased by \$386,753 to \$20,273,075
- Total long-term debt, including current maturities, decreased by \$1,496,590 to \$19,062,395
- Net patient service revenue decreased by \$129,190 to \$43,233,501
- Operating expenses decreased by \$450,692, or 1%, to \$45,822,037

### **Financial Analysis of the Hospital**

The balance sheets and the statements of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Hospital's balance sheets is presented in Table 1.

**Table 1**  
**Condensed Balance Sheets**

	<b>June 30</b>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$18,695,256	\$21,706,904	\$17,179,523
Assets whose use is limited	6,956,374	4,224,403	6,720,742
Property and equipment	19,629,665	21,673,596	21,573,287
Other asset	<u>—</u>	<u>—</u>	<u>504,000</u>
 Total assets	 <u>\$45,281,295</u>	 <u>\$47,604,903</u>	 <u>\$45,977,552</u>
Current liabilities	\$ 7,444,486	\$ 8,616,522	\$ 6,284,304
Long-term debt, less current maturities	<u>17,563,734</u>	<u>19,102,059</u>	<u>20,558,986</u>
 Total liabilities	 <u>\$25,008,220</u>	 <u>\$27,718,581</u>	 <u>\$26,843,290</u>
Net investment in capital assets	\$ 2,439,703	\$ 2,903,149	\$ 3,430,121
Restricted	375,484	376,662	420,345
Unrestricted	<u>17,457,888</u>	<u>16,606,511</u>	<u>15,283,796</u>
 Total net position	 <u>\$20,273,075</u>	 <u>\$19,886,322</u>	 <u>\$19,134,262</u>

As depicted in Table 1, total assets decreased in fiscal year 2014 to \$45,281,295.

A summary of the Hospital's historical statements of revenues, expenses, and changes in net position is presented in Table 2.

**Table 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	Year ended June 30		
	2014	2013	2012
Net patient service revenue	\$43,233,501	\$43,362,691	\$43,156,556
Other revenue	<u>3,704,632</u>	<u>4,990,391</u>	<u>2,971,628</u>
Total operating revenue	<u>46,938,133</u>	<u>48,353,082</u>	<u>46,128,184</u>
Salaries	18,465,496	18,868,651	17,721,246
Supplies and expenses	24,884,588	25,327,175	26,094,882
Provision for depreciation	<u>2,471,953</u>	<u>2,076,903</u>	<u>1,489,770</u>
Total operating expenses	<u>45,822,037</u>	<u>46,272,729</u>	<u>45,305,898</u>
Operating income	<u>1,116,096</u>	<u>2,080,353</u>	<u>822,286</u>
Investment income	112,742	13,872	41,481
Unrestricted contributions	76,756	117,105	30,247
Interest and amortization expense	<u>(918,841)</u>	<u>(955,270)</u>	<u>(615,666)</u>
Total nonoperating gains (losses)	<u>(729,343)</u>	<u>(824,293)</u>	<u>(543,938)</u>
Change in net position	386,753	1,256,060	278,348
Total net position, beginning	<u>19,886,322</u>	<u>18,630,262</u>	<u>18,855,914</u>
Total net position, ending	<u>\$20,273,075</u>	<u>\$19,886,322</u>	<u>\$19,134,262</u>

### **Operating and Financial Performance**

The following summarizes the Hospital's statements of revenues, expenses and changes in net position between June 30, 2014 and 2013.

**Net Patient Service Revenue:** Net patient service revenue is a product of volume, price increases and payor mix.

**Volume:** Medical, surgical and obstetrical discharges for fiscal year 2014 were 1,071 compared to 1,243 in fiscal year 2013. Average length of stay for medical, surgical and obstetrical increased as patient days decreased to 2,857 from 2,908 in 2013. Swing bed, skilled care discharges for fiscal year 2014 were 99 compared to 88 in fiscal year 2013. Average length of stay for swing bed, skilled care increased as patient days increased to 608 from 449 in fiscal year 2013. Volume on the outpatient side indicated positive growth in 2014. In 2014, gross outpatient charges decreased to \$48,863,923 compared to \$49,225,338 in 2013.

**Price Increase:** The Hospital did review its charge structure in 2014. Overall, gross patient service revenue increased to \$79,584,258 from \$75,928,851 in 2013. Swing bed, operating room, central supply, laboratory and clinics reflected the most significant growth in 2014.

**Payor Mix:** The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts increased to \$36,350,757 in 2014 from \$32,566,160 in 2013, representing 46% and 43% of gross patient charges for the years ended June 30, 2014 and 2013, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

**Table 3**  
**Payor Mix by Percentage**

	<u>Year ended June 30</u>		
	<u>2014</u>	<u>2013</u>	<u>2012</u>
Medicare	40%	42%	42%
Medicaid	12	9	10
Commercial insurance	44	44	43
Patients	<u>4</u>	<u>5</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue decreased to \$3,704,632 in 2014 compared to \$4,990,391 in 2013, primarily due to a decrease in electronic health records meaningful use incentive revenue.

**Expenses**

Approximately 40% of Hospital's expenses are for salaries. Total salaries decreased by 2% to \$18,465,496 in 2014 from \$18,868,651 in 2013. The Hospital departments experiencing the most significant increase in 2014 were operating room and clinics.

Approximately 55% of Hospital's expenses are for supplies and expenses. Total supplies and expenses decreased by 2% to \$24,884,588 in 2014 from \$25,327,175 in 2013. The most significant increases in 2014 related to nursing administration and emergency service.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$2,471,953 in 2014 from \$2,076,903 in 2013.

**Nonoperating Gains (Losses)**

Nonoperating gains (losses) increased in 2014 to \$(757,343) from \$(852,293) in 2013, primarily due to an increase in investment income.

**Property and Equipment**

At the end of 2014, the Hospital had \$19,629,665 invested in property and equipment, net of accumulated depreciation. The notes to financial statements provide more detail of changes in property and equipment. In 2014, \$428,022 was spent to acquire property and equipment.

A summary of the Hospital's property and equipment is presented in Table 4.

**Table 4**  
**Property and Equipment**

	<b>June 30</b>		
	<u><b>2014</b></u>	<u><b>2013</b></u>	<u><b>2012</b></u>
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	588,897	588,897	588,897
Buildings	16,490,312	16,495,638	15,700,139
Fixed equipment	11,394,900	11,646,269	10,983,744
Major movable equipment	8,769,380	10,092,828	8,207,616
Construction in progress	<u>—</u>	<u>—</u>	<u>1,188,004</u>
Subtotal	37,366,595	38,946,738	36,791,506
Less accumulated depreciation	<u>17,736,930</u>	<u>17,273,142</u>	<u>15,218,219</u>
Property and equipment	<u>\$19,629,665</u>	<u>\$21,673,596</u>	<u>\$21,573,287</u>

**Debt Administration**

At year end, the Hospital had \$19,062,395 in current and long-term debt related to Revenue Notes and notes payable, equipment, a decrease of \$1,496,590 from 2013. More detailed information about the Hospital's outstanding debt is presented in the notes to financial statements. Note that the total long-term debt represents approximately 75% of the Hospital's total liabilities as of year end.

**Contacting Hospital's Management**

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Iowa Specialty Hospital - Clarion at (515) 532-2811 or write care of: Chief Financial Officer, Iowa Specialty Hospital - Clarion, 1316 South Main Street, Clarion, Iowa 50525.

**Iowa Specialty Hospital - Clarion**  
**BALANCE SHEETS**  
**June 30, 2014 and 2013**

<b>ASSETS</b>	<b>Iowa Specialty Hospital - Clarion</b>		<b>Wright Medical Foundation</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ 3,373,008	\$ 5,200,492	\$ 93,580	\$ 113,177
Investments	-	-	687,812	597,038
Patient receivables, less allowances for contractual adjustments and bad debts	12,108,667	12,809,591	-	-
Other receivables	663,217	302,163	-	4,104
Estimated third-party payor settlements	520,000	1,360,000	-	-
Inventories	1,603,909	1,545,293	-	-
Prepaid expenses	426,455	489,365	-	-
Total current assets	<u>18,695,256</u>	<u>21,706,904</u>	<u>781,392</u>	<u>714,319</u>
<b>ASSETS WHOSE USE IS LIMITED</b>				
Designated by board for plant replacement and expansion				
Cash	4,708,457	2,059,203	-	-
Restricted for payment of long-term debt and interest				
Cash	529,192	453,513	-	-
Municipal bonds	1,718,725	1,711,687	-	-
Total assets whose use is limited	<u>6,956,374</u>	<u>4,224,403</u>	<u>-</u>	<u>-</u>
<b>PROPERTY AND EQUIPMENT</b>				
Property and equipment	37,366,595	38,946,738	2,917,184	2,899,974
Less accumulated depreciation	17,736,930	17,273,142	580,582	498,288
Total property and equipment	<u>19,629,665</u>	<u>21,673,596</u>	<u>2,336,602</u>	<u>2,401,686</u>
<b>OTHER ASSET</b>				
Reserve and depreciation funds	-	-	175,565	155,140
Totals	<u>\$45,281,295</u>	<u>\$47,604,903</u>	<u>\$3,293,559</u>	<u>\$3,271,145</u>

See Notes to Financial Statements.

LIABILITIES AND NET POSITION	Iowa Specialty Hospital - Clarion		Wright Medical Foundation	
	2014	2013	2014	2013
<b>CURRENT LIABILITIES</b>				
Current maturities of long-term debt	\$ 1,498,661	\$ 1,456,926	\$ 28,998	\$ 27,739
Accounts payable	2,311,803	5,159,033	82,355	81,978
Accrued employee compensation	1,519,421	1,277,416	—	—
Payroll taxes and amounts withheld from employees	784,601	650,147	—	—
Accrued interest	70,000	73,000	—	—
Estimated third-party payor settlement	1,260,000	—	—	—
Total current liabilities	<u>7,444,486</u>	<u>8,616,522</u>	<u>111,353</u>	<u>109,717</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>17,563,734</u>	<u>19,102,059</u>	<u>1,759,893</u>	<u>1,788,946</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,439,703	3,379,149	—	—
Restricted	375,484	376,662	—	—
Unrestricted	<u>17,457,888</u>	<u>16,606,511</u>	<u>1,422,313</u>	<u>1,372,482</u>
Total net position	<u>20,273,075</u>	<u>20,362,322</u>	<u>1,422,313</u>	<u>1,372,482</u>
Totals	<u>\$45,281,295</u>	<u>\$48,080,903</u>	<u>\$3,293,559</u>	<u>\$3,271,145</u>

See Notes to Financial Statements.

**Iowa Specialty Hospital - Clarion**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**Years ended June 30, 2014 and 2013**

	<u>Iowa Specialty Hospital - Clarion</u>		<u>Wright Medical Foundation</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2014 \$2,008,344; 2013 \$1,532,378	\$43,233,501	\$43,362,691	\$ -	\$ -
<b>OTHER REVENUE</b>	<u>3,704,632</u>	<u>4,990,391</u>	<u>549,663</u>	<u>572,774</u>
Total revenue	<u>46,938,133</u>	<u>48,353,082</u>	<u>549,663</u>	<u>572,774</u>
<b>EXPENSES</b>				
Nursing service	18,327,773	17,935,990	-	-
Other professional service	13,406,666	14,343,837	-	-
General service	2,406,196	2,360,568	-	-
Fiscal and administrative service and unassigned expenses	9,209,449	9,555,431	504,548	607,583
Provision for depreciation	<u>2,471,953</u>	<u>2,076,903</u>	<u>82,294</u>	<u>72,362</u>
Total expenses	<u>45,822,037</u>	<u>46,272,729</u>	<u>586,842</u>	<u>679,945</u>
Operating income (loss)	<u>1,116,096</u>	<u>2,080,353</u>	<u>(37,179)</u>	<u>(107,171)</u>
<b>NONOPERATING GAINS (LOSSES)</b>				
Investment income	112,742	13,872	97,821	59,810
Unrestricted contributions	76,756	117,105	63,635	124,269
Interest and amortization expense	<u>(918,841)</u>	<u>(983,270)</u>	<u>(74,446)</u>	<u>(75,567)</u>
Total nonoperating gains (losses)	<u>(729,343)</u>	<u>(852,293)</u>	<u>87,010</u>	<u>108,512</u>
Change in net position	386,753	1,228,060	49,831	1,341
<b>TOTAL NET POSITION</b>				
Beginning, as restated	<u>19,886,322</u>	<u>19,134,262</u>	<u>1,372,482</u>	<u>1,371,141</u>
Ending	<u>\$20,273,075</u>	<u>\$20,362,322</u>	<u>\$1,422,313</u>	<u>\$1,372,482</u>

See Notes to Financial Statements.

**Iowa Specialty Hospital - Clarion**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2014 and 2013**

	<b>Iowa Specialty Hospital - Clarion</b>		<b>Wright Medical Foundation</b>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from patients and third-party payors	\$46,034,425	\$39,111,940	\$ -	\$ -
Cash paid to suppliers for goods and services	(27,954,124)	(22,341,753)	(347,859)	(513,210)
Cash paid to employees for services	(18,223,491)	(19,032,005)	(156,312)	(181,421)
Other operating revenue received	<u>3,704,632</u>	<u>4,990,391</u>	<u>553,767</u>	<u>571,692</u>
Net cash and cash equivalents provided by (used in) operating activities	<u>3,561,442</u>	<u>2,728,573</u>	<u>49,596</u>	<u>(122,939)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Contributions received	<u>76,756</u>	<u>117,105</u>	<u>63,635</u>	<u>124,269</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of property and equipment	(428,022)	(2,397,726)	(17,210)	(117,028)
Proceeds from issuance of long-term debt	-	-	-	-
Principal payments on long-term debt	(1,496,590)	(1,287,466)	(27,794)	(26,673)
Interest paid on long-term debt	<u>(921,841)</u>	<u>(953,770)</u>	<u>(74,446)</u>	<u>(75,567)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(2,846,453)</u>	<u>(4,638,962)</u>	<u>(119,450)</u>	<u>(219,268)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	112,742	13,872	17,689	14,730
Proceeds from maturities of investments	-	88,753	-	52,145
Purchases of investments	<u>(7,038)</u>	<u>-</u>	<u>(31,067)</u>	<u>(30,570)</u>
Net cash and cash equivalents (used in) investing activities	<u>105,704</u>	<u>102,625</u>	<u>(13,378)</u>	<u>36,305</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	897,449	(1,690,659)	(19,597)	(181,633)
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning	<u>7,713,208</u>	<u>9,403,867</u>	<u>113,177</u>	<u>294,810</u>
Ending	<u>\$ 8,610,657</u>	<u>\$ 7,713,208</u>	<u>\$ 93,580</u>	<u>\$ 113,177</u>

See Notes to Financial Statements.

**Iowa Specialty Hospital - Clarion**  
**STATEMENTS OF CASH FLOWS (continued)**  
**Years ended June 30, 2014 and 2013**

	<b>Iowa Specialty Hospital - Clarion</b>		<b>Wright Medical Foundation</b>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 1,116,096	\$ 2,080,353	\$ (37,179)	\$ (107,171)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by (used in) operating activities				
Depreciation	2,471,953	2,076,903	82,294	72,362
Changes in assets and liabilities				
(Increase) decrease in patient receivables	700,924	(2,790,751)	-	-
(Increase) decrease in other receivables	(361,054)	234,096	4,104	(1,082)
(Increase) decrease in estimated third-party payor settlements	2,100,000	(1,460,000)	-	-
(Increase) in inventories	(58,616)	(202,061)	-	-
Decrease in prepaid expenses	62,910	128,262	-	-
Increase (decrease) in accounts payable	(2,847,230)	2,527,963	377	(87,048)
Increase (decrease) in accrued employee compensation	242,005	(163,354)	-	-
Increase in payroll taxes and amounts withheld from employees	<u>134,454</u>	<u>297,162</u>	<u>-</u>	<u>-</u>
Net cash and cash equivalents provided by (used in) operating activities	<u>\$ 3,561,442</u>	<u>\$ 2,728,573</u>	<u>\$ 49,596</u>	<u>\$ (122,939)</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>				
Per balance sheet				
Current assets, cash and cash equivalents	\$ 3,373,008	\$ 5,200,492	\$ 93,580	\$ 113,177
Assets whose use is limited				
Designated by board for replacement and expansion, cash	4,708,457	2,059,203	-	-
Restricted for payment of long-term debt and interest, cash	<u>529,192</u>	<u>453,513</u>	<u>-</u>	<u>-</u>
Total per statement of cash flows	<u>\$ 8,610,657</u>	<u>\$ 7,713,208</u>	<u>\$ 93,580</u>	<u>\$ 113,177</u>

See Notes to Financial Statements.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Hospital is a memorial municipal Hospital of the City of Clarion, Iowa, organized under Chapter 37, Code of Iowa, and as such is not subject to taxes on income or property. The Hospital is governed by a six member Board of Commissioners.

**Reporting Entity**

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Wright Medical Foundation. The Foundation is a legally separate nonprofit corporation. The Hospital does not appoint a voting majority of the Foundation's Board of Trustees or in any way impose its will over the Foundation. However, the Foundation is a component unit due to the nature and significance of its relationship with the Hospital. The accounts and transactions of the Foundation are included by discrete presentation within these financial statements as required by accounting principles generally accepted in the United States of America.

The Hospital is includable as a component unit within the City of Clarion, Iowa reporting entity due to fiscal dependence.

**New Accounting Standard Adopted**

During fiscal year 2014, the Hospital adopted Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. The objective is to either properly classify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognize certain items that were previously reported as assets and liabilities as outflows of resources, expenses, or inflows of resources, revenues. The adoption of this Statement results in a restatement of the Hospital's net position as of July 1, 2012.

**Measurement Focus and Basis of Accounting**

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

The Foundation is a private nonprofit organization that reports under the *FASB Accounting Standards Codification*, including the Not-for-Profit Entities Topic. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

**Iowa Specialty Hospital - Clarion  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Accounting Standards**

The Hospital has elected to apply all applicable *Governmental Accounting Standards Board* pronouncements.

**Cash and Cash Equivalents**

Cash and cash equivalents include all cash and all certificates of deposit.

**Investments and Investment Income**

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities Municipal bonds	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income from investments is reported as nonoperating gains and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

The Foundation carries investments in money market funds and marketable securities with readily determinable fair values and at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net position in the accompanying statements of revenues, expenses, and changes in net position.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is three to forty years.

**Reserve and Depreciation Funds**

For purposes of reporting the statement of cash flows, the Foundation does not consider funds maintained in the reserve and depreciation funds to be cash and cash equivalents.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Net Position**

Net position is presented in the following three components:

**Net investment in capital assets**

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted**

Restricted net position consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments. The Hospital has no restricted net position.

**Unrestricted**

Unrestricted net position has no externally imposed restrictions on use.

**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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Net Patient Service Revenue**

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.

**Revenues, Expenses and Changes in Net Position**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Credit Policy**

The Hospital grants credit to patients, substantially all of whom are residents of the City and surrounding areas.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Income Taxes**

The Foundation is a nonprofit corporation exempt from federal income tax under applicable provisions of the Internal Revenue Code. The Foundation follows the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the FASB Accounting Standards Codification. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

**Subsequent Events**

The Foundation has evaluated subsequent events through September 19, 2014, the date which the financial statements were available to be issued. There were no subsequent events required to be accrued to disclosed.

**Restatement**

Due to the Hospital's adoption of Governmental Accounting Standards Board Statement No. 65, net position was restated at July 1, 2012. With the adoption of this Standard, the Hospital is expensing unamortized financing costs and they are no longer amortized annually. The following is a reconciliation of net position previously reported at July 1, 2012, to the restated net position at July 1, 2012.

Net position at July 1, 2012, as previously reported	\$19,134,262
Adjustment, adoption of Statement No. 65	<u>(504,000)</u>
Net position at July 2012, as restated for Statement No. 65	<u>\$18,630,262</u>

**Reclassifications**

Certain amounts have been reclassified in the 2013 financial statements in order to conform with the 2014 presentation, with no effect on the change in net position.

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by 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 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 Commissioners; 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.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS (continued)**

The Hospital's debt securities, consisting of municipal bonds, at June 30, 2014 are as follows:

<u>Maturity</u>	<u>Fair value</u>
September, 2020	\$ 71,935
February, 2022	181,820
June, 2024	330,216
April, 2025	463,071
December, 2026	130,771
February, 2027	288,089
February, 2028	<u>252,823</u>
Total	<u>\$1,718,725</u>

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds 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.

At June 30, 2014 and 2013, the Foundation's investments consisted of money market funds, corporation and municipal bonds, mutual funds and pooled investments of \$687,812 and \$597,038, respectively.

**NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Foundation measures the fair value of financial instruments in accordance with generally accepted accounting principles, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

The following tables present information about the Foundation's investments measured at fair value as of June 30, 2014 and 2013.

<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 11,888	\$ —	\$ —	\$ 11,888
Corporation and municipal bonds	101,623	—	—	101,623
Mutual funds	527,714	—	—	527,714
Pooled investments	<u>—</u>	<u>—</u>	<u>46,587</u>	<u>46,587</u>
Investments, at fair value	<u>\$ 641,225</u>	<u>\$ —</u>	<u>\$ 46,587</u>	<u>\$ 687,812</u>
<u>June 30, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 14,475	\$ —	\$ —	\$ 14,475
Corporation and municipal bonds	51,848	—	—	51,848
Mutual funds	490,326	—	—	490,326
Pooled investments	<u>—</u>	<u>—</u>	<u>40,389</u>	<u>40,389</u>
Investments, at fair value	<u>\$ 556,649</u>	<u>\$ —</u>	<u>\$ 40,389</u>	<u>\$ 597,038</u>

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

Level 3 investments consist primarily of assets that are not actively traded and significant other observable inputs are not available. The assets held by the Community Foundation of Greater Des Moines consist of pooled funds invested at the Community Foundation. The Foundation holds a share of the pooled funds and not direct ownership of the underlying investments. Although the pooled funds, as noted in the previous table, include equity, fixed income, and other marketable securities, the pool itself is not a publicly traded instrument. The following table presents further information about the Foundation's Level 3 investment activity for the years ended June 30, 2014 and 2013.

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 40,389	\$ 39,004
Contributions	1,000	1,000
Unrealized gains	6,624	2,122
Interest and dividends	1,352	824
Grants paid	(2,332)	(2,145)
Management fees	<u>(446)</u>	<u>(416)</u>
Ending balance	<u>\$ 46,587</u>	<u>\$ 40,389</u>

The fair value of the pooled investments have been estimated by the Foundation primarily using information from management of the Community Foundation of Greater Des Moines.

**NOTE 4 PATIENT RECEIVABLES**

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Medicare	\$ 4,841,761	\$ 5,685,386
Medicaid	1,497,757	1,499,363
Commercial insurance	5,177,256	5,416,966
Patients	<u>6,371,893</u>	<u>5,147,876</u>
Total patient receivables	17,888,667	17,749,591
Less allowances for contractual adjustments and bad debts	<u>(5,780,000)</u>	<u>(4,940,000)</u>
Net patient receivables	<u>\$12,108,667</u>	<u>\$12,809,591</u>

**NOTE 5 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2014:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
<b>BALANCE</b> , beginning of year	\$ 376,662	\$1,788,538	\$2,165,200
Transfer from current assets, cash	1,717,233	-	1,717,233
Interest earned	-	83,895	83,895
Principal and interest payments	<u>(1,718,411)</u>	<u>-</u>	<u>(1,718,411)</u>
<b>BALANCE</b> , end of year	<u>\$ 375,484</u>	<u>\$1,872,433</u>	<u>\$2,247,917</u>

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PROPERTY AND EQUIPMENT**

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ —	\$ 123,106	\$ —
Land improvements	588,897	375,647	588,897	337,400
Buildings	16,490,312	9,946,946	16,495,638	9,345,345
Fixed equipment	11,394,900	3,029,516	11,646,269	2,643,614
Major movable equipment	<u>8,769,380</u>	<u>4,384,821</u>	<u>10,092,828</u>	<u>4,946,783</u>
Totals	<u>\$37,366,595</u>	<u>\$17,736,930</u>	<u>\$38,946,738</u>	<u>\$17,273,142</u>

Construction in progress at June 30, 2013 consisted primarily of progress billings for construction costs related to the final phase of Hospital's construction project. The overall project included renovation and construction of an addition to the existing facility. During the year ended June 30, 2014, the Hospital completed this final phase of the project and capitalized costs of approximately \$2 million. During the year ended June 30, 2013, the Hospital completed the main portion of the project and capitalized costs of approximately \$11 million. The overall project was funded by issuance of long-term debt.

A summary of changes in property and equipment for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ —	\$ —	\$ 123,106
Land improvements	588,897	—	—	588,897
Buildings	16,495,638	—	5,326	16,490,312
Fixed equipment	11,646,269	32,063	283,432	11,394,900
Major movable equipment	<u>10,092,828</u>	<u>395,959</u>	<u>1,719,407</u>	<u>8,769,380</u>
Totals	<u>38,946,738</u>	<u>428,022</u>	<u>2,008,165</u>	<u>37,366,595</u>
Less accumulated depreciation	<u>(17,273,142)</u>	<u>(2,471,953)</u>	<u>(2,008,165)</u>	<u>(17,736,930)</u>
Net property and equipment	<u>\$21,673,596</u>	<u>\$(2,043,931)</u>	<u>\$ —</u>	<u>\$19,629,665</u>

A summary of changes in property and equipment for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ —	\$ —	\$ —	\$ 123,106
Land improvements	588,897	—	—	—	588,897
Buildings	15,700,139	16,732	778,767	—	16,495,638
Fixed equipment	10,983,744	151,005	511,520	—	11,646,269
Major movable equipment	8,207,616	1,680,541	240,676	36,005	10,092,828
Construction in progress	<u>1,188,004</u>	<u>342,959</u>	<u>(1,530,963)</u>	—	—
Totals	<u>36,791,506</u>	<u>2,191,237</u>	<u>—</u>	<u>36,005</u>	<u>38,946,738</u>
Less accumulated depreciation	<u>(15,218,219)</u>	<u>(2,076,903)</u>	<u>—</u>	<u>(21,980)</u>	<u>(17,273,142)</u>
Net property and equipment	<u>\$21,573,287</u>	<u>\$ 114,334</u>	<u>\$ —</u>	<u>\$ 14,025</u>	<u>\$21,673,596</u>

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PROPERTY AND EQUIPMENT (continued)**

A summary of the Foundation's property and equipment and related accumulated depreciation follows:

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ -	\$ 251,577	\$ -
Land improvements	202,119	44,433	202,119	32,184
Buildings	2,414,311	505,982	2,414,311	438,425
Fixed equipment	<u>49,177</u>	<u>30,167</u>	<u>31,967</u>	<u>27,679</u>
Totals	<u>\$2,917,184</u>	<u>\$ 580,582</u>	<u>\$2,899,974</u>	<u>\$ 498,288</u>

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ -	\$ -	\$ 251,577
Land improvements	202,119	-	-	202,119
Buildings	2,414,311	-	-	2,414,311
Fixed equipment	<u>31,967</u>	<u>17,210</u>	<u>-</u>	<u>49,177</u>
Totals	2,899,974	17,210	-	2,917,184
Less accumulated depreciation	<u>(498,288)</u>	<u>(82,294)</u>	<u>-</u>	<u>(580,582)</u>
Net property and equipment	<u>\$2,401,686</u>	<u>\$ (65,084)</u>	<u>\$ -</u>	<u>\$2,336,602</u>

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ -	\$ -	\$ 251,577
Land improvements	85,091	117,028	-	202,119
Buildings	2,414,311	-	-	2,414,311
Fixed equipment	<u>31,967</u>	<u>-</u>	<u>-</u>	<u>31,967</u>
Totals	2,782,946	117,028	-	2,899,974
Less accumulated depreciation	<u>(425,926)</u>	<u>(72,362)</u>	<u>-</u>	<u>(498,288)</u>
Net property and equipment	<u>\$2,357,020</u>	<u>\$ 44,666</u>	<u>\$ -</u>	<u>\$2,401,686</u>

**Iowa Specialty Hospital - Clarion  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT**

The Hospital's long-term debt at June 30, 2014 and 2013 is summarized as follows:

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 4,665,000	\$ 4,995,000
Hospital Revenue Bonds, Series 2010B	13,120,000	13,700,000
Notes payable, equipment	<u>1,277,395</u>	<u>1,863,985</u>
Total	19,062,395	20,558,985
Less current maturities	<u>1,498,661</u>	<u>1,456,926</u>
Long-term debt, net of current maturities	<u>\$17,563,734</u>	<u>\$19,102,059</u>

**Hospital Refunding Revenue Bonds, Series 2010A**

The Hospital has issued Hospital Refunding Revenue Bonds, Series 2010A in the original amount of \$5,960,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2025, at remaining interest rates ranging from 3.6% to 5.75%. At June 30, 2014, the remaining balance on these Bonds is \$4,665,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$572,733.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2014.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

**Hospital Revenue Bonds, Series 2010B**

The Hospital has issued Hospital Revenue Bonds, Series 2010B in the original amount of \$14,800,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2030, at remaining interest rates ranging from 3.4% to 5.3%, net of anticipated subsidy payments from the federal government. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$1,117,000. At June 30, 2014, the remaining balance on these Bonds is \$13,120,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2014.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

**Notes Payable, Equipment**

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$43,015, including interest at 3.25%, through December, 2016. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2014, the remaining balance on this note is \$1,198,152.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires annual payments of \$79,243, including interest, with the final payment due November, 2014. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2014, the remaining balance on the note is \$79,243.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

As to the above Bonds, Series 2010A and 2010B, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2030. As of June 30, 2014 the remaining principal and interest on the Series 2010A and 2010B Bonds was \$25,086,205. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2014 and 2013:

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Change in net position	\$ 386,753	\$1,228,060
Provision for depreciation	2,471,953	2,076,903
Interest expense on the Bonds	865,344	882,871
 Pledged net revenues	 \$3,724,050	 \$4,187,834
Principal and interest requirements		
Hospital Refunding Revenue Bonds, Series 2010A	\$ 570,023	\$ 568,343
Hospital Revenue Bonds, Series 2010B	1,208,388	1,198,054
 Totals	 \$1,778,411	 \$1,766,397

Maturities required on long-term debt are as follows:

<b>Year ending June 30</b>	<b>Revenue Notes</b>		<b>Notes payable</b>	<b>Total Principal</b>	<b>Interest</b>	<b>Total</b>
	<b>Series 2010A</b>	<b>Series 2010B</b>				
2015	\$ 335,000	\$ 600,000	\$ 563,661	\$ 1,498,661	\$ 836,641	\$ 2,335,302
2016	355,000	620,000	500,396	1,475,396	789,628	2,265,024
2017	365,000	645,000	213,338	1,223,338	738,363	1,961,701
2018	380,000	665,000	-	1,045,000	697,169	1,742,169
2019	395,000	690,000	-	1,085,000	655,381	1,740,381
2020-2024	2,300,000	3,895,000	-	6,195,000	2,524,102	8,719,102
2025-2029	535,000	4,870,000	-	5,405,000	1,053,020	6,458,020
2030	-	1,135,000	-	1,135,000	56,183	1,191,183
Total	4,665,000	13,120,000	1,277,395	19,062,395	7,350,487	26,412,882
Less current maturities	335,000	600,000	563,661	1,498,661	836,641	2,335,302
 Total long-term debt	 \$4,330,000	 \$12,520,000	 \$ 713,734	 \$17,563,734	 \$6,513,846	 \$24,077,580

A summary of changes in the Hospital's long-term debt for the year ended June 30, 2014 follows:

	<b>Beginning balance</b>	<b>Additions</b>	<b>Principal payments</b>	<b>Ending balance</b>	<b>Amounts due within one year</b>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 4,995,000	\$ -	\$ 330,000	\$ 4,665,000	\$ 335,000
Hospital Revenue Bonds, Series 2010B	13,700,000	-	580,000	13,120,000	600,000
Notes payable, equipment	1,863,985	-	586,590	1,277,395	563,661
 Totals	 \$20,558,985	 \$ -	 \$1,496,590	 \$19,062,395	 \$1,498,661

**Iowa Specialty Hospital - Clarion  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

A summary of changes in the Hospital's long-term debt for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 5,315,000	\$ —	\$ 320,000	\$ 4,995,000	\$ 330,000
Hospital Revenue Bonds, Series 2010B	14,265,000	—	565,000	13,700,000	580,000
Notes payable, equipment	<u>2,266,451</u>	<u>—</u>	<u>402,466</u>	<u>1,863,985</u>	<u>546,926</u>
Totals	<u>\$21,846,451</u>	<u>\$—</u>	<u>\$1,287,466</u>	<u>\$20,558,985</u>	<u>\$1,456,926</u>

The Foundation's long-term debt at June 30, 2014 and 2013 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Note payable	\$1,788,891	\$1,816,685
Less current maturities	<u>28,998</u>	<u>27,739</u>
Long-term debt, net of current maturities	<u>\$1,759,893</u>	<u>\$1,788,946</u>

**Note Payable, Building**

The Foundation has issued a note payable in the original amount of \$2,000,000. The note is payable in monthly installments of \$8,520, including interest at 4.13%, through September, 2045. The note is secured by a mortgage and at June 30, 2014 the remaining balance is \$1,788,891.

The Foundation also maintains certain funds as follows:

A Reserve Fund requiring monthly deposits until the balance is equal to \$102,240. At June 30, 2014 the balance of this fund is \$86,976.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2014 the balance of this fund is \$88,589.

The aggregate of these two funds, \$175,565, is reported on the balance sheets as an other asset at June 30, 2014.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

Maturities required on the Foundation's long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 28,998	\$ 73,242	\$ 102,240
2016	30,217	72,023	102,240
2017	31,487	70,753	102,240
2018	32,811	69,429	102,240
2019	34,190	68,050	102,240
2020-2024	193,757	317,443	511,200
2025-2029	238,055	273,145	511,200
2030-2034	292,480	218,720	511,200
2035-2039	359,349	151,851	511,200
2040-2044	441,505	69,695	511,200
2045-2046	<u>106,042</u>	<u>4,718</u>	<u>110,760</u>
Total	<u>1,788,891</u>	<u>1,389,069</u>	<u>3,177,960</u>
Less current maturities	<u>28,998</u>	<u>73,242</u>	<u>102,240</u>
Total long-term debt	<u>\$1,759,893</u>	<u>\$1,315,827</u>	<u>\$3,075,720</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, building	\$1,816,685	\$ —	\$ 27,794	\$1,788,891	\$ 28,998

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, building	\$1,843,358	\$ —	\$ 26,673	\$1,816,685	\$ 27,739

**NOTE 8 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. A summary of the payment arrangements with major third-party payors follows.

**Medicare and Medicaid**

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2012.

**Iowa Specialty Hospital - Clarion  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 NET PATIENT SERVICE REVENUE (continued)**

**Other**

The Hospital has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined per diem rates.

**NOTE 9 CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2014 and 2013.

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Charges foregone, based on established rates	<u>\$ 174,243</u>	<u>\$ 138,432</u>
Equivalent percentage of charity care patients to all patients served	<u>.2%</u>	<u>.2%</u>

**NOTE 10 MALPRACTICE CLAIMS**

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. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2014 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**NOTE 11 DEFINED BENEFIT PENSION PLAN**

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.

For the year ended June 30, 2014, regular plan members were required to contribute 5.95% of their annual salary and the Hospital was required to contribute 8.93% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$1,473,722, \$1,457,855 and \$1,279,001, respectively, equal to the required contributions for each year.

**Iowa Specialty Hospital - Clarion**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 OTHER POSTEMPLOYMENT BENEFITS**

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions. An actuarial valuation has been performed and the other post employment benefit has been judged by management to be immaterial to the financial statements.

**NOTE 13 RISK MANAGEMENT**

The Hospital 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. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



## INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Commissioners  
Iowa Specialty Hospital - Clarion  
Clarion, Iowa

We have audited the financial statements of Iowa Specialty Hospital - Clarion and its component unit, Wright Medical Foundation, as of and for the years ended June 30, 2014 and 2013, and have issued our report thereon dated September 19, 2014, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 19, 2014

**Iowa Specialty Hospital - Clarion  
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
0 - 30 days (includes patients in Hospital at end of year)	\$ 7,514,947	\$ 7,546,253	42.01%	42.52%
31 - 60 days	2,522,987	2,623,648	14.10	14.78
61 - 90 days	1,620,162	1,603,493	9.06	9.03
91 - 120 days	693,149	1,010,885	3.88	5.69
121-180 days	910,785	1,589,778	5.09	8.96
Over 180 days	<u>4,626,637</u>	<u>3,375,534</u>	<u>25.86</u>	<u>19.02</u>
Totals	<u>17,888,667</u>	<u>17,749,591</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,880,000	2,400,000		
Medicaid	640,000	680,000		
Other	320,000	320,000		
Bad debts	<u>2,940,000</u>	<u>1,540,000</u>		
Total allowances	<u>5,780,000</u>	<u>4,940,000</u>		
Totals	<u>\$12,108,667</u>	<u>\$12,809,591</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 118,448</u>	<u>\$ 118,802</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>102</u>	<u>108</u>		

**ANALYSIS OF ALLOWANCE FOR BAD DEBTS**

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<b>BALANCE</b> , beginning	\$1,540,000	\$2,400,000		
<b>ADD</b>				
Provision for bad debts	2,008,344	1,532,378	4.65%	3.53%
Recoveries of accounts previously written off	<u>185,904</u>	<u>188,627</u>	.43	.43
	3,734,248	4,121,005		
<b>DEDUCT</b>				
Accounts written off	<u>794,248</u>	<u>2,581,005</u>	1.84	5.95
<b>BALANCE</b> , ending	<u>\$2,940,000</u>	<u>\$1,540,000</u>		

**Iowa Specialty Hospital - Clarion**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2014, with comparative totals for 2013

	<u>2014</u>			<u>2013</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$ 2,657,977	\$ –	\$ 2,657,977	\$ 2,638,050
Swing bed	612,195	–	612,195	485,072
Nursery	455,091	–	455,091	347,141
	<u>3,725,263</u>	<u>–</u>	<u>3,725,263</u>	<u>3,470,263</u>
<b>OTHER NURSING SERVICES</b>				
Observation room	–	712,801	712,801	828,579
Operating room	9,979,834	13,438,163	23,417,997	22,551,923
Recovery room	280,884	840,036	1,120,920	1,106,770
Delivery and labor rooms	1,145,467	294,578	1,440,045	1,075,344
Central supply	7,506,615	1,898,566	9,405,181	7,964,628
Emergency service	–	2,583,870	2,583,870	2,711,639
	<u>18,912,800</u>	<u>19,768,014</u>	<u>38,680,814</u>	<u>36,238,883</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	1,303,143	5,005,661	6,308,804	6,664,343
Radiology	172,916	3,636,618	3,809,534	3,885,723
CT scans	169,602	3,043,471	3,213,073	3,621,389
MRI	27,069	1,752,525	1,779,594	1,806,088
Nuclear scans	8,795	627,475	636,270	643,308
Ultrasound	117,583	1,687,247	1,804,830	1,723,121
Electrocardiology	34,255	188,418	222,673	282,269
Respiratory therapy	1,109,252	335,386	1,444,638	1,591,209
Cardiac rehabilitation	866	436,757	437,623	454,994
Pharmacy	1,674,840	1,652,843	3,327,683	3,228,432
Intravenous therapy	216,476	225,084	441,560	505,081
Anesthesiology	1,947,454	1,969,052	3,916,506	3,681,401
Occupational therapy	214,138	189,882	404,020	374,916
Physical therapy	447,639	1,476,754	1,924,393	1,737,394
Speech therapy	4,712	118,351	123,063	126,549
Clinics	794,419	5,853,696	6,648,115	5,313,126
Sleep center	13,356	896,689	910,045	718,794
	<u>8,256,515</u>	<u>29,095,909</u>	<u>37,352,424</u>	<u>36,358,137</u>
Totals	<u>\$30,894,578</u>	<u>\$48,863,923</u>	79,758,501	76,067,283
Charity care charges forgone, based on established rates			<u>(174,243)</u>	<u>(138,432)</u>
Total gross patient service revenue			79,584,258	75,928,851
Provisions for contractual adjustments and bad debts			<u>(36,350,757)</u>	<u>(32,566,160)</u>
Total net patient service revenue			<u>\$43,233,501</u>	<u>\$43,362,691</u>

**Iowa Specialty Hospital - Clarion**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Contractual adjustments		
Medicare	\$16,676,634	\$14,997,584
Medicaid	4,037,009	3,531,517
Other adjustments	13,628,770	12,504,681
Provision for bad debts	<u>2,008,344</u>	<u>1,532,378</u>
 Totals	 <u>\$36,350,757</u>	 <u>\$32,566,160</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Electronic health records meaningful use incentive revenue	\$ 470,202	\$1,776,462
Cafeteria	386,121	371,070
Fitness center	109,601	125,539
Residential fees	715,697	676,264
Retail pharmacy	1,791,511	1,592,015
Miscellaneous	<u>231,500</u>	<u>449,041</u>
 Totals	 <u>\$3,704,632</u>	 <u>\$4,990,391</u>

**Iowa Specialty Hospital - Clarion**  
**EXPENSES**  
Year ended June 30, 2014, with comparative totals for 2013

	<u>2014</u>			<u>2013</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 311,120	\$ 102,113	\$ 413,233	\$ 436,042
Medical, surgical and obstetrical	1,620,160	643,459	2,263,619	2,543,262
Nursery, delivery and labor rooms	645,881	138,817	784,698	596,296
Operating room	3,270,764	5,507,777	8,778,541	8,363,126
Emergency service	1,053,008	469,992	1,523,000	1,305,505
Central supply	<u>136,305</u>	<u>4,428,377</u>	<u>4,564,682</u>	<u>4,691,759</u>
Total nursing service	<u>7,037,238</u>	<u>11,290,535</u>	<u>18,327,773</u>	<u>17,935,990</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	468,230	870,894	1,339,124	1,387,340
Radiology	655,896	420,437	1,076,333	1,677,307
CT scans	-	427,074	427,074	435,880
MRI	70,366	452,286	522,652	533,578
Nuclear scans	-	128,103	128,103	129,361
Ultrasound	137,910	153,341	291,251	297,634
Electrocardiology	6,842	922	7,764	7,449
Respiratory therapy	225,813	58,543	284,356	318,434
Cardiac rehabilitation	94,848	16,416	111,264	146,452
Pharmacy	457,723	585,076	1,042,799	1,086,226
Retail pharmacy	215,288	923,643	1,138,931	1,410,157
Anesthesiology	909,063	97,025	1,006,088	1,222,786
Occupational therapy	80,557	167,109	247,666	229,885
Physical therapy	740,839	237,223	978,062	1,015,912
Speech therapy	75,794	5,328	81,122	85,031
Clinics	3,275,009	700,066	3,975,075	3,641,186
Sleep center	94,568	68,031	162,599	122,408
Medical records	<u>357,311</u>	<u>229,092</u>	<u>586,403</u>	<u>596,811</u>
Total other professional service	<u>7,866,057</u>	<u>5,540,609</u>	<u>13,406,666</u>	<u>14,343,837</u>
<b>GENERAL SERVICE</b>				
Dietary	409,203	395,532	804,735	850,594
Plant operation	314,188	655,040	969,228	855,804
Housekeeping	394,490	62,975	457,465	482,126
Laundry	-	<u>174,768</u>	<u>174,768</u>	<u>172,044</u>
Total general service	<u>1,117,881</u>	<u>1,288,315</u>	<u>2,406,196</u>	<u>2,360,568</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b>				
Administrative services	2,276,136	1,752,485	4,028,621	3,950,512
Residential services	140,698	298,271	438,969	381,372
Fitness center	27,486	47,122	74,608	101,017
Group health, life and other benefits	-	1,473,722	1,473,722	1,881,846
FICA	-	1,119,951	1,119,951	1,162,223
IPERS	-	1,473,182	1,473,182	1,457,855
Insurance	<u>-</u>	<u>600,396</u>	<u>600,396</u>	<u>620,606</u>
Total fiscal and administrative service and unassigned expenses	<u>2,444,320</u>	<u>6,765,129</u>	<u>9,209,449</u>	<u>9,555,431</u>
<b>PROVISION FOR DEPRECIATION</b>				
	<u>-</u>	<u>2,471,953</u>	<u>2,471,953</u>	<u>2,076,903</u>
Total expenses	<u>\$18,465,496</u>	<u>\$27,356,541</u>	<u>\$45,822,037</u>	<u>\$46,272,729</u>

**Iowa Specialty Hospital - Clarion  
STATISTICS**

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	2,857	2,908
Swing bed		
Skilled care	608	449
Intermediate care	22	-
Nursery	535	456
Totals	4,022	3,813
<b>DISCHARGES</b>		
Medical, surgical and obstetrical	1,071	1,243
Swing bed		
Skilled care	99	88
Intermediate care	4	-
Nursery	266	219
Totals	1,440	1,550
<b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	2.67	2.34
Swing bed		
Skilled care	6.14	5.10
Intermediate care	5.50	-
Nursery	2.01	2.08

**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**

Board of Commissioners  
Iowa Specialty Hospital - Clarion  
Clarion, 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 Iowa Specialty Hospital - Clarion, and its component unit, Wright Memorial Foundation, as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hospital's and Foundation's internal control over financial reporting, internal control, to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's and Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation'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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's and Foundation'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. 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hospital'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 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

### **Purpose of this Report**

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

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
September 19, 2014

**Iowa Specialty Hospital - Clarion  
SCHEDULE OF FINDINGS  
Year ended June 30, 2014**

**Part I—Findings Related to the Financial Statements**

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance related to the financial statements were reported.

Iowa Specialty Hospital - Clarion  
SCHEDULE OF FINDINGS  
Year ended June 30, 2014

**Part II—Findings Related to Required Statutory Reporting**

**14-II-A QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**14-II-B TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**14-II-C BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and Hospital officials and/or employees.

**14-II-D BOARD MINUTES**

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

**14-II-E DEPOSITS AND INVESTMENTS**

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.