

Adair County Memorial Hospital
Greenfield, Iowa

**Financial Statements and
Supplementary Information
June 30, 2015 and 2014**

Together with Independent Auditor's Report

Adair County Memorial Hospital

Table of Contents

	<u>Page</u>
Officials – June 30, 2015	1
Independent Auditor's Report	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis	4 – 7
Basic Financial Statements:	
Statements of Net Position June 30, 2015 and 2014	8
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014	9
Statements of Cash Flows For the Years Ended June 30, 2015 and 2014	10 – 11
Notes to Financial Statements June 30, 2015 and 2014	12 – 29
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis)	30
Schedule of the Hospital's Proportionate Share of the Net Pension Liability	31
Schedule of Hospital Contributions	32
Notes to Required Supplementary Information – Pension Liability	33
Supplementary Information:	
Exhibit 1 - Net Patient Service Revenue For the Years Ended June 30, 2015 and 2014	34
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2015 and 2014	35
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2015 and 2014	36
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts June 30, 2015 and 2014	37
Exhibit 5 - Inventories/Prepaid Expenses June 30, 2015 and 2014	38
Exhibit 6 - Financial and Statistical Highlights For the Years Ended June 30, 2015 and 2014	39
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	40 – 41
Schedule of Findings and Responses	42 – 43
Summary Schedule of Prior Year Audit Findings	44
Audit Staff	45

Adair County Memorial Hospital

Officials
June 30, 2015

Board of Trustees	Title	Term Expires
Willard Olesen	Chairperson	January 2021
Tad Day	Vice Chairperson	January 2019
Paul Nelson	Treasurer	January 2017
Dolch Clark	Member	January 2021
Rochelle Gilman	Member	January 2019
Marilyn Dolan	Member	January 2017
Lois Houghtaling	Member	January 2021

Hospital Officials	Title	Term Expires
Angela Mortoza	Chief Executive Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Adair County Memorial Hospital
Greenfield, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Adair County Memorial Hospital (Hospital) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital'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 of America. 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 the Hospital as of June 30, 2015 and 2014, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions on pages 4 through 7 and pages 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Seim Johnson, LLP

Omaha, Nebraska,
October 26, 2015.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital's operating loss increased from \$15,616 in fiscal year 2014 to \$998,136 in fiscal year 2015 primarily due to operating revenue remaining flat; \$705,000 of EMR incentive payments received in fiscal year 2014 vs. none received in fiscal year 2015; and an increase in operating expenses due to increased depreciation expense, contract services, software maintenance fees and 340B administration costs.
- Net patient service revenue increased by 5%, or \$517,008, from fiscal year 2014 to fiscal year 2015, primarily due to increased outpatient volumes.
- Operating expenses increased by 9%, or \$972,915, from fiscal year 2014 to fiscal year 2015 due to increased depreciation expense, contract services, software maintenance fees and 340B administration costs.
- The Hospital's net position decreased \$2,656,247, from June 30, 2014 to June 30, 2015, primarily due the implementation of GASB 68 and the restatement of the 2015 beginning net position balance for net pension liability of \$2,923,667.

Using This Annual Report

The Hospital's financial statements consist of three statements: a statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any 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 revenue, 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, deferred inflows and outflows, and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$2,656,247 in 2015 compared to 2014 and increased by \$1,192,425 in 2014 compared to 2013 as shown in Table 1.

Table 1 - Condensed Statements of Net Position

	2015	(not restated) 2014	(not restated) 2013	Dollar Change	Percent Change
Assets:					
Patient accounts receivable, net	\$ 1,557,527	1,160,077	1,285,082	397,450	34%
Other current assets	8,774,247	7,383,588	7,623,144	1,390,659	19%
Capital assets, net	7,908,046	8,695,161	7,479,350	(787,115)	-9%
Other noncurrent assets	2,241,337	2,234,008	2,159,783	7,329	0%
Total assets	20,481,157	19,472,834	18,547,359	1,008,323	5%
Deferred Outflows of Resources					
	587,731	--	--	587,731	100%
Total assets and deferred outflows	\$ 21,068,888	19,472,834	18,547,359	1,596,054	8%
Liabilities:					
Current liabilities	\$ 2,292,803	1,147,160	1,241,769	1,145,643	100%
Long-term debt	7,959,127	8,268,896	8,475,476	(309,769)	-4%
Net pension liability	2,343,057	--	--	2,343,057	100%
Total liabilities	12,594,987	9,416,056	9,717,245	3,178,931	34%
Deferred Inflows of Resources:					
Unavailable property tax revenue	1,612,000	1,520,217	1,485,978	91,783	6%
Pension related deferred inflows	981,587	--	--	981,587	100%
Total deferred inflows	2,593,587	1,520,217	1,485,978	1,073,370	71%
Net Position:					
Net investment in capital assets	230,644	692,367	(694,302)	(461,723)	-67%
Restricted	8,299	6,521	--	1,778	27%
Unrestricted	5,641,371	7,837,673	8,038,438	(2,196,302)	-28%
Total net position	5,880,314	8,536,561	7,344,136	(2,656,247)	-31%
Total liabilities, deferred inflows, and net position	\$ 21,068,888	19,472,834	18,547,359	1,596,054	8%

Year ended June 30, 2015 - In fiscal year 2015 the total assets and deferred outflows increased by \$1,596,054, or 8%. This was primarily caused by the recording of pension related deferred outflows, an increase in cash and cash equivalents of \$2,620,997 due to collection of prior year EHR incentive receivable of \$1,325,000 and an increase of net patient receivables of \$397,450. In fiscal year 2015 the total liabilities increased by \$3,178,931, or 34%, mainly due to the recording of the Hospital's net pension liability and an increase in the estimated third-party payor settlements.

Year ended June 30, 2014 - There was a significant decrease in cash and cash equivalents and a corresponding increase in capital assets due to the purchase of the electronic medical records system. An EHR incentive receivable of \$1,325,000 and deferral of \$600,000 was recorded in estimated third-party settlements as a result of the electronic medical records system purchase. The net effect of this transaction was the primary reason for the increase in total assets of approximately \$925,000.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Operating Results and Changes in the Hospital's Net Position

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$2,923,667 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Position

	2015	(not restated) 2014	(not restated) 2013	Dollar Change	Percent Change
Operating Revenue:					
Net patient service revenue	\$ 10,350,083	9,833,075	9,245,397	517,008	5%
Other operating revenues	801,685	1,328,298	519,387	(526,613)	-40%
Total operating revenue	<u>11,151,768</u>	<u>11,161,373</u>	<u>9,764,784</u>	<u>(9,605)</u>	<u>0%</u>
Operating Expenses:					
Salaries, wages and employee benefits	5,836,768	5,827,649	5,486,082	9,119	0%
Contract labor	2,631,318	2,221,354	1,769,074	409,964	18%
Depreciation and amortization	1,151,173	900,869	980,392	250,304	28%
Other operating	2,530,645	2,227,117	2,273,774	303,528	14%
Total operating expenses	<u>12,149,904</u>	<u>11,176,989</u>	<u>10,509,322</u>	<u>972,915</u>	<u>9%</u>
Operating Loss	<u>(998,136)</u>	<u>(15,616)</u>	<u>(744,538)</u>	<u>(982,520)</u>	<u>6292%</u>
Nonoperating Revenue (Expense), Net:					
Interest expense	(367,609)	(381,104)	(387,885)	13,495	-4%
Property taxes	1,532,397	1,485,978	1,398,009	46,419	3%
Investment income	22,435	36,482	41,716	(14,047)	-39%
Noncapital gains and contributions	72,254	61,960	48,252	10,294	17%
Total nonoperating revenue, net	<u>1,259,477</u>	<u>1,203,316</u>	<u>1,100,092</u>	<u>56,161</u>	<u>5%</u>
Excess of revenue over expenses before capital grants and contributions	261,341	1,187,700	355,554	(926,359)	-78%
Capital grants and contributions	<u>6,079</u>	<u>4,725</u>	<u>--</u>	<u>1,354</u>	<u>29%</u>
Increase in net position	267,420	1,192,425	355,554	(925,005)	-78%
Net position, beginning of year, as restated (Note 14)	<u>5,612,894</u>	<u>7,344,136</u>	<u>6,988,582</u>	<u>(1,731,242)</u>	<u>-24%</u>
Net position, end of year	<u>\$ 5,880,314</u>	<u>8,536,561</u>	<u>7,344,136</u>	<u>(2,656,247)</u>	<u>-31%</u>

Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2015 the Hospital reported an operating loss of \$1,038,136 and in 2014 and 2013 the Hospital reported operating losses of \$15,616 and \$744,538, respectively. The increase in the operating loss for 2015 is primarily as a result of the recognition of \$705,000 of EHR incentive revenue recorded as other operating revenue in 2014 and none in 2015.

Adair County Memorial Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

The primary components impacting operating loss are as follows:

- In fiscal year 2015 net patient service revenues grew by \$517,008, due to increased outpatient volumes. Other operating revenue decreased by \$526,613 year-over-year, while overall operating expenses increased by \$972,915, principally due to increased depreciation expense and drug costs.
- In fiscal year 2014 net patient service revenues increased by \$587,678 due to lower third-party payor deductions from gross patient service revenue. Other operating revenue grew by \$808,911, primarily as a result of recognition of \$705,000 of EHR incentive revenue. Operating expenses increased by \$667,667 year-over-year, primarily due to increased salary, wages and employee benefit costs from added approximately 11 full-time equivalent employees during the year.

Nonoperating Revenue (Expense), Net

Nonoperating revenue includes county tax subsidies, investment income and noncapital grants and contributions. Nonoperating expense includes interest expense. Hospital investments earned approximately \$22,000 and \$36,000 during fiscal year 2015 and 2014, respectively. The Hospital also received approximately \$1,532,000 in county tax subsidy, and approximately \$72,000 in noncapital grants and contributions in fiscal year 2015. In fiscal year 2014, the Hospital received approximately \$1,486,000 in county tax subsidy and approximately \$62,000 in noncapital grants and contributions. Interest expense was consistent between 2015 and 2014.

The Hospital's Cash Flows

Year ended June 30, 2015: The Hospital's cash and cash equivalents increased by \$2,620,997 in 2015 as compared to 2014. The primary reason for the increase is the collection of prior year EHR incentive receivable of \$1,325,000 and changes in the estimated third-party payor settlements.

Year ended June 30, 2014: The Hospital's cash decreased by \$1,763,744 in 2014 as compared to 2013. The primary reason for the decrease is the decrease in cash used in operating activities and purchase of capital assets.

Capital Assets

June 30, 2015: At the end of fiscal year 2015, the hospital had \$7,908,046 invested in capital assets, net of accumulated depreciation. In fiscal year 2015, the hospital had \$1,151,173 in depreciation expense and purchased \$381,655 in new fixed assets.

June 30, 2014: At the end of fiscal year 2014, the hospital had \$8,695,161 invested in capital assets, net of accumulated depreciation. In fiscal year 2014, the hospital had \$900,869 in depreciation expense and purchased \$1,974,009 in new fixed assets (primarily related to EHR assets to obtain meaningful use).

Long-Term Debt (including Capital Leases)

June 30, 2015: At June 30, 2015, the Hospital had \$8,268,869 in short-term and long-term debt. Total debt outstanding represents approximately 40% of the Hospital's total assets at June 30, 2015.

June 30, 2014: At June 30, 2014, the Hospital had \$8,594,261 in short-term and long-term debt. During 2014 the Hospital entered into a \$125,000 capital lease for the purchase of a chemistry analyzer. Total debt outstanding represents approximately 44% of the Hospital's total assets at June 30, 2015.

Contacting Hospital's Chief Executive Officer

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Angela Mortoza, CEO
Adair County Memorial Hospital
641-743-7234

Adair County Memorial Hospital

Statements of Net Position June 30, 2015 and 2014

ASSETS	2015	(not restated) 2014
Current assets:		
Cash and cash equivalents	\$ 4,853,180	2,232,183
Short-term investments	1,425,030	1,367,347
Assets limited as to use or restricted, current portion	333,230	248,487
Receivables -		
Patients, net of estimated allowance for doubtful accounts of \$238,000 in 2015 and \$304,936 in 2014	1,557,527	1,160,077
Succeeding year property taxes receivable	1,612,000	1,520,217
Other	113,718	103,949
Inventories	248,240	227,756
Prepaid expenses	188,849	213,840
Estimated third-party payor settlements	--	1,469,809
Total current assets	<u>10,331,774</u>	<u>8,543,665</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	2,241,337	2,234,008
Capital assets, net	<u>7,908,046</u>	<u>8,695,161</u>
Total assets	<u>20,481,157</u>	<u>19,472,834</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>587,731</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 21,068,888</u>	<u>19,472,834</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 309,742	325,365
Accounts payable -		
Trade	324,275	255,967
Capital assets	--	17,600
Accrued salaries, vacation and benefits payable	533,621	522,539
Accrued interest payable	23,488	25,689
Estimated third-party payor settlements	<u>1,101,677</u>	<u>--</u>
Total current liabilities	<u>2,292,803</u>	<u>1,147,160</u>
Long-term liabilities:		
Long-term debt, net of current portion	7,959,127	8,268,896
Net pension liability	<u>2,343,057</u>	<u>--</u>
Total liabilities	<u>12,594,987</u>	<u>9,416,056</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	1,612,000	1,520,217
Pension related deferred inflows	<u>981,587</u>	<u>--</u>
Total deferred inflows of resources	<u>2,593,587</u>	<u>1,520,217</u>
NET POSITION		
Net investment in capital assets	230,644	692,367
Restricted - expendable for specific operating activities	8,299	6,521
Unrestricted	<u>5,641,371</u>	<u>7,837,673</u>
Total net position	<u>5,880,314</u>	<u>8,536,561</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 21,068,888</u>	<u>19,472,834</u>

See notes to financial statements

Adair County Memorial Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 10,751,060	10,158,145
Provision for bad debt	<u>(400,977)</u>	<u>(325,070)</u>
Net patient service revenue	10,350,083	9,833,075
Other operating revenue	<u>801,685</u>	<u>1,328,298</u>
Total operating revenue	<u>11,151,768</u>	<u>11,161,373</u>
OPERATING EXPENSES:		
Salaries and wages	4,483,368	4,292,585
Employee benefits	1,353,400	1,535,064
Contract labor	2,631,318	2,221,354
Supplies	830,928	999,019
Facility costs	224,981	273,867
Repairs and maintenance	645,615	416,104
Insurance	67,958	67,222
Depreciation and amortization	1,151,173	900,869
Other	<u>761,163</u>	<u>470,905</u>
Total operating expenses	<u>12,149,904</u>	<u>11,176,989</u>
OPERATING LOSS	<u>(998,136)</u>	<u>(15,616)</u>
NONOPERATING REVENUE (EXPENSE), NET:		
Interest expense	(367,609)	(381,104)
County tax revenue	1,532,397	1,485,978
Investment income	22,435	36,482
Noncapital grants and contributions	<u>72,254</u>	<u>61,960</u>
Total nonoperating revenue, net	<u>1,259,477</u>	<u>1,203,316</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	261,341	1,187,700
CAPITAL GRANTS AND CONTRIBUTIONS	<u>6,079</u>	<u>4,725</u>
INCREASE IN NET POSITION	267,420	1,192,425
NET POSITION, beginning of year, as restated (see Note 14)	<u>5,612,894</u>	<u>7,344,136</u>
NET POSITION, end of year	<u>\$ 5,880,314</u>	<u>8,536,561</u>

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 12,524,119	8,264,806
Cash paid for employee salaries and benefits	(6,012,440)	(5,770,927)
Cash paid to suppliers and contractors	(5,098,917)	(4,448,171)
Other receipts and payments, net	801,685	1,328,227
Net cash provided by (used in) operating activities	<u>2,214,447</u>	<u>(626,065)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	72,254	75,966
County tax receipts	1,532,397	1,485,978
Net cash provided by noncapital financing activities	<u>1,604,651</u>	<u>1,561,944</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(381,658)	(1,974,009)
Capital grants and contributions	6,079	4,725
Principal payments on long-term debt	(325,392)	(295,858)
Interest paid on long-term debt	(369,810)	(379,169)
Net cash used in capital and related financing activities	<u>(1,070,781)</u>	<u>(2,644,311)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to short-term investments and assets limited as to use or restricted	(149,755)	(91,794)
Investment income	22,435	36,482
Net cash used in investing activities	<u>(127,320)</u>	<u>(55,312)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,620,997	(1,763,744)
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,232,183</u>	<u>3,995,927</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,853,180</u>	<u>2,232,183</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Equipment acquired under capital lease obligation	<u>\$ --</u>	<u>125,000</u>

See notes to financial statements

Adair County Memorial Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (998,136)	(15,616)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,151,173	900,869
Gain on disposal of capital assets	--	(71)
Decrease in net pension liability	(959,843)	--
Increase in deferred outflows of resources	(208,498)	--
Increase in deferred inflows of resources	981,587	--
(Increase) decrease in current assets -		
Receivables -		
Patients	(397,450)	125,005
Other	(9,769)	47,011
Inventories	(20,484)	(47,153)
Prepaid expenses	24,991	(16,435)
Estimated third-party payor settlements	1,469,809	(1,469,809)
Increase (decrease) in current liabilities -		
Accounts payable - trade	68,308	16,877
Accrued salaries, vacation and benefits payable	11,082	56,722
Estimated third-party payor settlements	<u>1,101,677</u>	<u>(223,465)</u>
Net cash provided by (used in) operating activities	<u>\$ 2,214,447</u>	<u>(626,065)</u>

See notes to financial statements

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

The following is a description of the reporting entity and a summary of significant accounting policies of Adair County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital (CAH), operating with 25 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in the Adair County area.

A. *Reporting Entity*

For financial reporting purposes, Adair County Memorial Hospital has included all funds of the Hospital and all funds of Adair County Health Foundation (Foundation) as a blended component unit. The Hospital has considered all potential component entities 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 (GASB) 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. Management has determined the Foundation is the only component unit.

The Foundation is a legally separate not-for-profit corporation that was formed to "protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services." The Adair County Memorial Hospital and the Adair County Health Foundation are collectively referred to as the "Hospital" throughout this report.

B. *Industry Environment*

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

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

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

C. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred inflows and outflows, and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

When both restricted and unrestricted resources are available for use, generally it is the Hospital's policy to use restricted resources first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recognized when incurred.

E. Use of Estimates

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

F. Cash and Cash Equivalents

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

G. Short-Term Investments

Short-term investments are assets available for operations without donor imposed restrictions. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at fair value.

H. Patient Receivables, Net

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debt in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

I. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes 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 fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

J. Inventories

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

K. Assets Limited as to Use or Restricted

Assets limited as to use or restricted include the following:

By Indenture Agreements – These funds are reserve funds as specified under indenture agreements.

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

L. Investment Income

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses before capital grants and contributions unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2015 and 2014, there were no investment declines that were determined to be other than temporary.

M. Capital Assets, Net

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings, improvements, and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

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

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

N. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

O. Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits and earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Accrued compensated absences payable at June 30, 2015 and 2014 was \$270,691 and \$264,356, respectively.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Q. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

R. *Income Taxes*

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

S. *Fair Value of Financial Instruments*

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

T. *Statements of Revenue, Expenses, and Changes in Net Position*

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenues and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as nonoperating revenues and expenses.

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

V. *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 adjustments to patient service revenue at the time of the charity determination. Charges excluded from revenue under the Hospital's charity care policy were \$29,119 and \$48,851 for 2015 and 2014, respectively.

W. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

Y. *Reclassifications*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

Z. *Subsequent Events*

The Hospital considered events occurring through October 26, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Cash, Short-Term Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2015 and 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 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 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 Hospital had only certificates of deposit investments at June 30, 2015 and 2014.

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

The composition of short-term investments and assets limited as to use or restricted as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Short-term investments:		
Operating reserves -		
Certificates of deposit	\$ 1,421,455	1,363,792
Accrued interest	<u>3,575</u>	<u>3,555</u>
Total short-term investments	<u>\$ 1,425,030</u>	<u>1,367,347</u>
Assets limited as to use or restricted:		
By indenture agreements -		
Cash and cash equivalent	\$ 331,115	221,188
Certificates of deposit	<u>636,302</u>	<u>659,222</u>
	967,417	880,410
By Board of Trustees for capital improvement,		
Certificates of deposit	<u>1,607,150</u>	<u>1,602,085</u>
Total assets limited as to use or restricted	2,574,567	2,482,495
Less amounts required to meet current obligations	<u>333,230</u>	<u>248,487</u>
Assets limited as to use or restricted, net of current portion	<u>\$ 2,241,337</u>	<u>2,234,008</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(3) 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 is as follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a CAH are paid based on Medicare defined costs of providing the services. Outpatient services and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2013.

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

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

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

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 1,030,897	839,027
Outpatient	10,338,634	9,654,948
Clinics	<u>2,101,135</u>	<u>2,106,056</u>
Total gross patient service revenue	<u>13,470,666</u>	<u>12,600,031</u>
Deductions from gross patient service revenue:		
Medicare	392,365	552,121
Medicaid	412,257	246,171
Other payors	1,885,865	1,594,743
Charity care	<u>29,119</u>	<u>48,851</u>
Total deductions from gross patient service revenue	<u>2,719,606</u>	<u>2,441,886</u>
Net patient service revenue before provision for bad debt	<u>\$ 10,751,060</u>	<u>10,158,145</u>

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

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Revenue from the Medicare and Medicaid programs accounts for approximately 52% and 14%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 51% and 12%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2014. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2015 and 2014 net patient service revenue increased approximately \$40,000 and \$-0-, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

(4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
CMS electronic health record incentive payments	\$ --	705,000
Pharmacy revenue – 340B program	478,349	380,364
Grants	197,580	114,806
Meals sold	38,368	45,204
Lifeline	22,808	22,600
Gain on sale of capital assets	--	71
Other	64,580	60,253
	<u>\$ 801,685</u>	<u>1,328,298</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During 2015 and 2014, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. An incentive receivable of approximately \$-0- and \$1,325,000 has been recognized in the statements of net position as of June 30, 2015 and 2014, and is included in estimated third-party payor settlements. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. As of June 30, 2015 and 2014 the Hospital has elected to record \$-0- and \$705,000, respectively, of the incentive payment as other operating revenue in the period earned, and defer the remaining amounts of approximately \$482,000 and \$600,000, respectively, related to future Medicare reimbursement. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

(5) Composition of Patient Receivables

Patient receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient receivables	\$ 2,010,027	1,873,040
Less estimated third-party contractual adjustments	(214,500)	(408,027)
Less allowance for uncollectible accounts	(238,000)	(304,936)
	<u>\$ 1,557,527</u>	<u>1,160,077</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

The Hospital is located in Greenfield, Iowa. 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 was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	33%	29%
Medicaid	9	8
Other third-party payors	37	37
Patients	<u>21</u>	<u>26</u>
	<u>100%</u>	<u>100%</u>

(6) Capital Assets, Net

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated:				
Land	\$ 50,806	--	--	50,806
Construction in progress	148,418	23,665	--	172,083
Total capital assets, not being depreciated	<u>199,224</u>	<u>23,665</u>	<u>--</u>	<u>222,889</u>
Capital assets, being depreciated:				
Land improvements	371,843	--	--	371,843
Building and leasehold improvements	9,391,659	55,565	24,392	9,471,616
Fixed equipment	1,014,002	27,242	(24,392)	1,016,852
Major movable equipment	5,075,369	252,504	5,082	5,332,955
Total capital assets, being depreciated	<u>15,852,873</u>	<u>335,311</u>	<u>5,082</u>	<u>16,193,266</u>
Less accumulated depreciation:				
Land improvements	236,088	16,103	--	252,191
Building and leasehold improvements	3,650,058	479,754	--	4,129,812
Fixed equipment	708,773	46,002	--	754,775
Major movable equipment	2,762,017	609,314	--	3,371,331
Total accumulated depreciation	<u>7,356,936</u>	<u>1,151,173</u>	<u>--</u>	<u>8,508,109</u>
Total capital assets, being depreciated, net	<u>8,495,937</u>	<u>(815,862)</u>	<u>5,082</u>	<u>7,685,157</u>
Total capital assets, net	<u>\$ 8,695,161</u>	<u>(792,197)</u>	<u>5,082</u>	<u>7,908,046</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 50,806	--	--	50,806
Construction in progress	55,565	1,711,645	(1,618,792)	148,418
Total capital assets, not being depreciated	<u>106,371</u>	<u>1,711,645</u>	<u>(1,618,792)</u>	<u>199,224</u>
Capital assets, being depreciated:				
Land improvements	361,547	5,200	5,096	371,843
Building and leasehold improvements	9,368,663	11,650	11,346	9,391,659
Fixed equipment	947,939	66,063	--	1,014,002
Major movable equipment	3,150,897	322,122	1,602,350	5,075,369
Total capital assets, being depreciated	<u>13,829,046</u>	<u>405,035</u>	<u>1,618,792</u>	<u>15,852,873</u>
Less accumulated depreciation:				
Land improvements	218,918	17,170	--	236,088
Building and leasehold improvements	3,168,531	481,527	--	3,650,058
Fixed equipment	634,685	74,088	--	708,773
Major movable equipment	2,433,933	328,084	--	2,762,017
Total accumulated depreciation	<u>6,456,067</u>	<u>900,869</u>	<u>--</u>	<u>7,356,936</u>
Total capital assets, being depreciated, net	<u>7,372,979</u>	<u>(495,834)</u>	<u>1,618,792</u>	<u>8,495,937</u>
Total capital assets, net	<u>\$ 7,479,350</u>	<u>1,215,811</u>	<u>--</u>	<u>8,695,161</u>

Depreciation and amortization expense related to capital assets of \$1,151,173 and \$900,869 in 2015 and 2014, respectively, is included in the accompanying statements of revenue, expenses and changes in net position. Construction in progress at June 30, 2015 is related to architecture and other planning fees related to a renovation project. Several construction contracts related to this renovation project were entered into in May 2015. The total cost of the project is estimated to be \$2,800,000 with an expected completion date of January 2016. The project is being funded with internal funds.

(7) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2015 and 2014 consisted of the following:

	<u>June 30, 2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
Hospital revenue bonds					
series 2007 A (A)	\$ 4,085,000	--	(95,000)	3,990,000	100,000
REC loan (B)	120,000	--	(30,000)	90,000	30,000
USDA series A and B (C)	4,139,939	--	(97,798)	4,042,141	101,910
Capital leases (D)	249,322	--	(102,594)	146,728	77,832
	<u>\$ 8,594,261</u>	<u>--</u>	<u>(325,392)</u>	<u>8,268,869</u>	<u>309,742</u>
	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Hospital revenue bonds					
series 2007 A (A)	\$ 4,175,000	--	(90,000)	4,085,000	95,000
REC loan (B)	150,000	--	(30,000)	120,000	30,000
USDA series A and B (C)	4,233,791	--	(93,852)	4,139,939	97,798
Capital leases (D)	206,328	125,000	(82,006)	249,322	102,567
	<u>\$ 8,765,119</u>	<u>125,000</u>	<u>(295,858)</u>	<u>8,594,261</u>	<u>325,365</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

- (A) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially ranging from \$100,000 to \$280,000 through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%, collateralized by the Hospital's net revenues. The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.
- (B) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over ten years; the first payment was made August 2008.
- (C) The USDA 2009 Series A and B bonds; \$4,500,000 maturing May 2039 with interest only payments monthly for the first 24 months, interest at 4.125%. Annual payments including principal and interest are \$266,760 on an aggregate basis.
- (D) Two capital lease obligations, payable in monthly installments of \$2,093 and \$6,664, including interest at 0.19% and 2.43%, with maturity dates of March 2019 and March 2016, collateralized by leased equipment.

A summary of the Hospital's future principal and interest payments as of June 30, 2015 is as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 309,742	359,293	669,035
2017	266,202	349,993	616,195
2018	275,714	340,737	616,451
2019	249,134	331,003	580,137
2020	240,160	320,823	560,983
2021-2025	1,360,969	1,433,825	2,794,794
2026-2030	1,696,681	1,093,006	2,789,687
2031-2035	2,127,999	655,151	2,783,150
2036-2038	1,742,268	140,314	1,882,582
	<u>\$ 8,268,869</u>	<u>5,024,145</u>	<u>13,293,014</u>

In conjunction with the issuance of the Hospital Revenue Bonds Series 2007A, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund and a sinking fund which are included on the statement of net position as assets limited as to use or restricted. In addition, the Hospital is required to meet a debt service coverage ratio of 1.20% or above. At June 30, 2015 and 2014, the Hospital met the debt service coverage ratio.

In conjunction with the issuance of the USDA 2009 Series A and B bonds, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund which is included on the statements of net position as assets limited as to use or restricted.

The following is a summary of capitalized leased assets included in capital assets:

	<u>2015</u>	<u>2014</u>
Major movable equipment	\$ 501,777	501,777
Less: accumulated depreciation	<u>350,904</u>	<u>250,643</u>
	<u>\$ 150,873</u>	<u>251,134</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(8) Professional Liability Insurance

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

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

(9) Pension Plan

Plan Description

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 membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$388,216 and \$379,233 respectively.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Hospital reported a liability of \$2,343,057 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .060318 percent, which was a decrease of .001202 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of 201,462. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,121	5,443
Changes of assumptions	105,828	130
Net difference between projected and actual earnings on pension plan investments	--	976,014
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	67,566	--
Hospital contributions subsequent to the measurement date	<u>388,216</u>	<u>--</u>
Total	<u>\$ 587,731</u>	<u>981,587</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Deferred outflows of resources related to pensions included \$388,216 resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>		
2016	\$	(198,633)
2017		(198,633)
2018		(198,633)
2019		(198,633)
2020		<u>12,460</u>
	\$	<u><u>(782,072)</u></u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation.
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	<u>1</u>	(0.69)
Total	<u><u>100%</u></u>	

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 4,606,213	2,343,057	433,037

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$18,406 for legally required employer contributions and \$12,264 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(10) Designated Net Position

Of the \$5,641,371 and \$7,837,673 of unrestricted net position in 2015 and 2014, respectively, \$1,607,150 and \$1,602,085 has been designated by the Hospital's Board of Trustees for capital improvements. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

(11) Restricted Net Position

At June 30, 2015 and 2014, restricted expendable net position was available for the following purposes:

	<u>2015</u>	<u>2014</u>
Operations	\$ 2,029	4,021
Capital assets	6,270	2,500
	<u>\$ 8,299</u>	<u>6,521</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(12) Management Contract

In November 2012, the Hospital entered into a contractual arrangement with Mercy Health Network, Inc. (MHN), under which MHN provides management and other services to the Hospital. Prior to that date the Hospital had a similar arrangement with Mercy Medical Center – Des Moines (Mercy). These arrangements do not alter the authority or responsibility of the Board of Trustees of the Hospital. The amount paid to MHN and Mercy for services during the years ended June 30, 2015 and 2014 were \$590,534 and \$495,104, respectively.

(13) Combining Statements of Blended Component Unit

The information below is the combining information of the blended component unit described in Note 1:

Combining Statement of Net Position – June 30, 2015

	Adair County Memorial Hospital	Adair County Health Foundation	Eliminations	Total
Assets:				
Total current assets	\$ 10,290,118	41,656	--	10,331,774
Net capital assets	7,908,046	--	--	7,908,046
Other noncurrent assets	2,241,337	--	--	2,241,337
Total assets	20,439,501	41,656	--	20,481,157
Deferred Outflows of Resources:				
Pension related deferred outflows	587,731	--	--	587,731
Total assets and deferred outflows	\$ 21,027,232	41,656	--	21,068,888
Liabilities:				
Current liabilities	\$ 2,292,803	--	--	2,292,803
Long-term debt	7,959,127	--	--	7,959,127
Net pension liability	2,343,057	--	--	2,343,057
Total liabilities	12,594,987	--	--	12,594,987
Deferred Inflows of Resources:				
Unavailable property tax revenue	1,612,000	--	--	1,612,000
Pension related deferred inflows	981,587	--	--	981,587
Total deferred inflows of resources	2,593,587	--	--	2,593,587
Net Position:				
Net investment in capital assets	230,644	--	--	230,644
Restricted - expendable	--	8,299	--	8,299
Unrestricted	5,608,014	33,357	--	5,641,371
Total net position	5,838,658	41,656	--	5,880,314
Total liabilities, deferred inflows and net position	\$ 21,027,232	41,656	--	21,068,888

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

Combining Statement of Revenue, Expenses and Changes in Net Position – For the year ended June 30, 2015

	Adair County Memorial Hospital	Adair County Health Foundation	Eliminations	Total
Operating revenue:				
Net patient service revenue	\$ 10,350,083	--	--	10,350,083
Other operating revenue	801,685	--	--	801,685
Total operating revenue	<u>11,151,768</u>	<u>--</u>	<u>--</u>	<u>11,151,768</u>
Operating expenses:				
Salaries and employee benefits	5,836,768	--	--	5,836,768
Contract labor	2,631,318	--	--	2,631,318
Supplies and other expenses	2,500,466	33,893	(3,714)	2,530,645
Depreciation	1,151,173	--	--	1,151,173
Total operating expenses	<u>12,119,725</u>	<u>33,893</u>	<u>(3,714)</u>	<u>12,149,904</u>
Operating loss	(967,957)	(33,893)	3,714	(998,136)
Nonoperating revenue, net	1,212,716	46,761	--	1,259,477
Excess of revenue over expenses before capital grants and contributions	244,759	12,868	3,714	261,341
Capital grants and contributions	9,793	--	(3,714)	6,079
Increase in net position	254,552	12,868	--	267,420
Net position, beginning of year, as restated	5,584,106	28,788	--	5,612,894
Net position, end of year	<u>\$ 5,838,658</u>	<u>41,656</u>	<u>--</u>	<u>5,880,314</u>

Combining Statement of Cash Flows – For the year ended June 30, 2015

	Adair County Memorial Hospital	Adair County Health Foundation	Eliminations	Total
Net cash from operating activities	\$ 2,252,054	(33,893)	(3,714)	2,214,447
Net cash from noncapital financing activities	1,604,651	--	--	1,604,651
Net cash from capital and related financing activities	(1,104,400)	33,619	--	(1,070,781)
Net cash from investing activities	(131,034)	--	3,714	(127,320)
CHANGE IN CASH AND CASH EQUIVALENTS	2,621,271	(274)	--	2,620,997
CASH AND CASH EQUIVALENTS, beginning of year	2,203,395	28,788	--	2,232,183
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,824,666</u>	<u>28,514</u>	<u>--</u>	<u>4,853,180</u>

Adair County Memorial Hospital

Notes to Financial Statements June 30, 2015 and 2014

(14) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 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, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

		<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$	8,536,561
Net pension liability at June 30, 2014		(3,302,900)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date		<u>379,233</u>
Net position July 1, 2014, as restated	\$	<u><u>5,612,894</u></u>

Adair County Memorial Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2015, Adair County Memorial Hospital's (excludes the Adair County Health Foundation) expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,532,397	--	1,532,397	1,405,675	126,722
Add: Other revenues / receipts	11,209,489	2,174,036	13,383,525	13,324,938	58,587
Less: Expenses / disbursements	12,487,334	(192,683)	12,294,651	14,115,909	1,821,258
Net	254,552	2,366,719	2,621,271	614,704	2,006,567
Balance, beginning of year, as restated	5,584,106	(3,380,711)	2,203,395		
Balance, end of year	\$ 5,838,658	(1,013,992)	4,824,666		

See accompanying independent auditor's report

Adair County Memorial Hospital

**Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
June 30, 2015**

	<u>2015</u>
Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)	
Hospital's proportion of net pension liability	0.060318%
Hospital's proportionate share of the net pension liability	\$ 2,343
Hospital's covered-employee payroll	\$ 4,247
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.17%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30

See accompanying independent auditor's report

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

Adair County Memorial Hospital

**Schedule of Hospital Contributions
Required Supplementary Information
June 30, 2015**

Iowa Public Employees Retirement System
Last 10 Fiscal Years
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 388	379	351	306	276	251	222	190	170	168
Contributions in relation to the statutorily required contribution	<u>388</u>	<u>379</u>	<u>351</u>	<u>306</u>	<u>276</u>	<u>251</u>	<u>222</u>	<u>190</u>	<u>170</u>	<u>168</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>								
Hospital's covered-employee payroll	\$ 4,347	4,247	4,043	3,794	3,967	3,774	3,496	3,140	2,957	2,922
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying independent auditor's report

Adair County Memorial Hospital

Notes to Required Supplementary Information – Pension Liability June 30, 2015

Notes to Required Supplementary Information – Pension Liability

Changes of benefit terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

**Net Patient Service Revenue
For the Years Ended June 30, 2015 and 2014**

	2015				2014 (not restated)			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
DAILY PATIENT SERVICES:								
Medical and surgical	\$ 301,736	12,656	--	314,392	254,756	--	--	254,756
Swing-bed	--	--	197,813	197,813	--	--	111,612	111,612
Hospital physicians	330	38,711	--	39,041	--	134,692	--	134,692
	<u>302,066</u>	<u>51,367</u>	<u>197,813</u>	<u>551,246</u>	<u>254,756</u>	<u>134,692</u>	<u>111,612</u>	<u>501,060</u>
NURSING SERVICES:								
Operating and recovery rooms	--	829,892	--	829,892	--	628,319	--	628,319
Emergency room	2,766	701,460	--	704,226	588	806,340	--	806,928
Emergency physicians	--	257,098	--	257,098	--	23,177	--	23,177
	<u>2,766</u>	<u>1,788,450</u>	<u>--</u>	<u>1,791,216</u>	<u>588</u>	<u>1,457,836</u>	<u>--</u>	<u>1,458,424</u>
OTHER PROFESSIONAL SERVICES:								
Laboratory	125,631	2,278,807	26,268	2,430,706	105,296	2,116,676	29,835	2,251,807
Central services and supplies	10,775	97,655	2,264	110,694	14,554	112,997	2,391	129,942
Blood administration	10,379	16,973	2,688	30,040	7,921	67,791	--	75,712
Electrocardiology	3,091	520,148	1,664	524,903	10,251	404,630	204	415,085
Ambulance	30,604	557,498	586	588,688	15,618	456,073	--	471,691
Radiology	14,060	705,430	1,667	721,157	10,434	750,542	1,558	762,534
MRI	3,032	298,631	--	301,663	--	258,068	--	258,068
Mammography	--	146,664	--	146,664	--	117,034	--	117,034
CT	20,842	909,224	--	930,066	14,411	795,454	--	809,865
Nuclear medicine	--	24,327	--	24,327	--	--	--	--
Home health	--	912,379	--	912,379	--	947,006	--	947,006
Pharmacy	115,322	716,353	47,987	879,662	102,934	613,117	54,816	770,867
Intravenous therapy	--	132,615	--	132,615	3,458	165,559	91	169,108
Ultrasound	1,719	159,390	--	161,109	1,333	139,304	457	141,094
Anesthesiology	--	171,994	--	171,994	--	191,292	--	191,292
Respiratory therapy	7,650	2,754	1,386	11,790	35,845	11,296	2,040	49,181
Physical therapy	8,182	720,374	48,576	777,132	5,759	656,423	25,860	688,042
Occupational therapy	2,916	17,760	40,302	60,978	4,528	28,846	19,141	52,515
Speech therapy	--	5,733	661	6,394	1,515	6,581	1,821	9,917
Fontanelle clinic	--	238,747	--	238,747	--	254,010	--	254,010
Stuart clinic	--	605,610	--	605,610	--	605,644	--	605,644
Greenfield clinic	--	1,218,067	--	1,218,067	--	1,111,710	--	1,111,710
Cardiac rehab	--	81,430	--	81,430	--	93,035	--	93,035
Observation rooms	--	61,389	--	61,389	--	265,388	--	265,388
	<u>354,203</u>	<u>10,599,952</u>	<u>174,049</u>	<u>11,128,204</u>	<u>333,857</u>	<u>10,168,476</u>	<u>138,214</u>	<u>10,640,547</u>
GROSS PATIENT SERVICE REVENUE	\$ 659,035	12,439,769	371,862	13,470,666	589,201	11,761,004	249,826	12,600,031
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,690,487)				(2,393,035)
Charity care services and other discounts, based on charges forgone				(29,119)				(48,851)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				10,751,060				10,158,145
PROVISION FOR BAD DEBT				(400,977)				(325,070)
NET PATIENT SERVICE REVENUE				\$ 10,350,083				9,833,075

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2015 and 2014

	2015	(not restated) 2014
	<u>2015</u>	<u>2014</u>
CMS electronic health record incentive payments	\$ --	705,000
Pharmacy revenue - 340B program	478,349	380,364
Grants	197,580	114,806
Meals sold	38,368	45,204
Lifeline	22,808	22,600
Gain on disposal of capital assets	--	71
Other	64,580	60,253
	<u>\$ 801,685</u>	<u>1,328,298</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 607,008	169,243	776,251	735,405	193,674	929,079
Emergency room	388,286	537,729	926,015	305,466	482,498	787,964
Operating and recovery rooms	84,126	53,865	137,991	90,794	47,394	138,188
Hospital physicians	--	10,040	10,040	--	22,740	22,740
	<u>1,079,420</u>	<u>770,877</u>	<u>1,850,297</u>	<u>1,131,665</u>	<u>746,306</u>	<u>1,877,971</u>
OTHER PROFESSIONAL SERVICES:						
Laboratory	186,171	267,717	453,888	185,636	280,746	466,382
Blood administration	--	7,122	7,122	--	24,232	24,232
Electrocardiology	1,102	140,532	141,634	1,707	151,216	152,923
Ambulance	80,289	29,287	109,576	88,985	29,514	118,499
Radiology	165,866	240,432	406,298	159,807	214,979	374,786
MRI	--	48,345	48,345	--	47,795	47,795
Mammography	--	8,296	8,296	--	11,422	11,422
CT	--	113,132	113,132	--	118,439	118,439
Ultrasound	--	14,940	14,940	--	12,180	12,180
Home health	426,371	124,444	550,815	445,453	121,986	567,439
Pharmacy	23,593	745,287	768,880	48,828	423,995	472,823
Intravenous solutions	--	--	--	--	978	978
Anesthesiology	--	100,800	100,800	--	101,850	101,850
Respiratory therapy	--	7,244	7,244	--	4,452	4,452
Physical therapy	--	279,676	279,676	--	223,566	223,566
Occupational therapy	--	20,504	20,504	--	33,748	33,748
Speech therapy	--	1,497	1,497	--	17,103	17,103
Stuart clinic	463,442	169,545	632,987	240,114	135,313	375,427
Fontanelle clinic	174,517	51,303	225,820	181,072	30,872	211,944
Greenfield clinic	716,783	413,228	1,130,011	709,610	332,075	1,041,685
Renal clinic	48,860	89,933	138,793	55,414	79,376	134,790
Medical records	118,682	8,831	127,513	102,391	33,359	135,750
Cardiac rehab	75,806	4,989	80,795	71,001	54,154	125,155
Lifeline	995	12,550	13,545	1,448	12,445	13,893
	<u>2,482,477</u>	<u>2,899,634</u>	<u>5,382,111</u>	<u>2,291,466</u>	<u>2,495,795</u>	<u>4,787,261</u>
GENERAL SERVICES:						
Plant operation and maintenance	32,217	219,321	251,538	47,395	245,777	293,172
Dietary	101,123	40,013	141,136	120,454	37,992	158,446
Laundry	12,989	26,726	39,715	17,331	16,133	33,464
Housekeeping	89,080	5,308	94,388	91,483	7,853	99,336
	<u>235,409</u>	<u>291,368</u>	<u>526,777</u>	<u>276,663</u>	<u>307,755</u>	<u>584,418</u>
ADMINISTRATIVE SERVICES	<u>686,062</u>	<u>1,101,947</u>	<u>1,788,009</u>	<u>592,791</u>	<u>797,155</u>	<u>1,389,946</u>
NONDEPARTMENTAL:						
Employee benefits	--	1,353,400	1,353,400	--	1,535,064	1,535,064
Depreciation and amortization	--	1,151,173	1,151,173	--	900,869	900,869
Insurance	--	67,958	67,958	--	67,222	67,222
Administrative services - Foundation	--	30,179	30,179	--	34,238	34,238
	<u>--</u>	<u>2,602,710</u>	<u>2,602,710</u>	<u>--</u>	<u>2,537,393</u>	<u>2,537,393</u>
TOTAL EXPENSES	<u>\$ 4,483,368</u>	<u>7,666,536</u>	<u>12,149,904</u>	<u>4,292,585</u>	<u>6,884,404</u>	<u>11,176,989</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 967,924	48 %	857,353	46 %
31 - 60	288,543	14	291,005	16
61 - 90	266,770	13	154,694	8
91 - 120	131,912	7	113,003	6
121 and over	354,878	18	456,985	24
	<u>2,010,027</u>	<u>100 %</u>	<u>1,873,040</u>	<u>100 %</u>

Less:

Allowance for doubtful accounts	(238,000)	(304,936)
Allowance for contractual adjustments	<u>(214,500)</u>	<u>(408,027)</u>
	<u>\$ 1,557,527</u>	<u>1,160,077</u>

	2015	2014
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 304,936	346,430
Provision of doubtful accounts	400,977	325,070
Recoveries of accounts previously written off	155,935	102,135
Accounts written off	<u>(623,848)</u>	<u>(468,699)</u>
Balance, end of year	<u>\$ 238,000</u>	<u>304,936</u>

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVENTORIES:		
General	\$ 144,650	132,923
Pharmacy	92,000	82,698
Clinics and Home Care	<u>11,590</u>	<u>12,135</u>
	<u>\$ 248,240</u>	<u>227,756</u>
	<u>2015</u>	<u>2014</u>
PREPAID EXPENSES:		
Insurance	\$ 26,466	9,913
Maintenance contracts	63,882	107,421
Other	<u>98,501</u>	<u>96,506</u>
	<u>\$ 188,849</u>	<u>213,840</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Patient days (excluding swing-bed):		
Medicare	268	263
Medicaid	3	11
Private and other	<u>58</u>	<u>16</u>
Total	<u>329</u>	<u>295</u>
Medicare and Medicaid percentage	82%	93%
Patient discharges (excluding swing-bed):		
Medicare	85	87
Medicaid	2	3
Private and other	<u>21</u>	<u>9</u>
Total	<u>108</u>	<u>99</u>
Average length of stay (based on discharge days):		
Medicare	3.15 days	3.02 days
Medicaid	1.50 days	3.66 days
Private and other	2.76 days	1.77 days
Number of employees - full-time equivalents	95.38	92.50

**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
Adair County Memorial Hospital
Greenfield, 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 Adair County Memorial Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 26, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-15 that we consider to be a significant deficiency in internal control over financial reporting.

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, 2015 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.

Hospital's Response to Findings

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

Purpose of this Report

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

Seim Johnson, LLP

Omaha, Nebraska,
October 26, 2015.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (d) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were reported.

Significant Deficiency:

II-A-15

Segregation of Duties

Criteria:	One aspect of internal control is the segregation of duties among employees to prevent an employee from handling duties which are incompatible.
Condition:	The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.
Cause:	Due to limited number of administrative personnel, a lack of segregation of duties exists.
Effect:	Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist.
Recommendation:	We recommend the Hospital continue to monitor and improve its segregation of duties.
Views of responsible officials and planned corrective actions:	Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purposes of removing all instances of segregation of duties. The Hospital will continue to maintain and improve segregation of duties when possible.
Conclusion:	Response accepted.

Adair County Memorial Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

Part III: Other Findings Related to Required Statutory Reporting

III-A-15

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2015.

III-B-15

Certified Budget: Hospital disbursements during the year ended June 30, 2015 did not exceed amounts budgeted.

III-C-15

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

III-D-15

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

III-E-15

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

III-F-15

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

III-G-15

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

III-H-15

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed or a schedule of salaries paid as required by the Code of Iowa.

Adair County Memorial Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2015

Item II-A-14

Material Weakness:

Condition: Misstatements were identified in the financial statements related to third-party payor contractual adjustments and settlements, allowance for uncollectible accounts, and depreciation expense during the audit that were not initially identified by the Hospital's internal controls.

Auditee Response: Management is aware of this deficiency and will develop additional procedures to improve the existing estimation process at year end and on an interim basis.

Status: Finding cleared.

Item II-B-14

Significant Deficiency:

Condition: The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Auditee Response: Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purposes of removing all instances of segregation of duties. Management added additional accounting staff during 2014 to reduce the amount of segregation of duty occurrences. The Hospital will continue to maintain and improve segregation of duties when possible.

Status: Finding not cleared. See Finding II-A-15

Adair County Memorial Hospital

**Audit Staff
For the Year Ended June 30, 2015**

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, CHFP, CPA, Senior Manager

Nicole R. McDonald, CPA, Manager

Sarah C. Griger, Staff Auditor