

Davis County Hospital
Bloomfield, Iowa

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

Together with Independent Auditor's Report

Davis County Hospital

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Davis County Hospital

Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
County Board of Supervisors:		
Dale Taylor	Chairperson	December 2016
Ron Bride	Member	December 2018
Matt Greiner	Member	December 2018
Hospital Board of Trustees:		
Tom Prosapio	Chairperson	December 2016
Kevin Cook	Vice-Chairperson	December 2018
Russell Jarvis	Secretary/Treasurer	December 2016
Sylvia Schlarbaum	Member	December 2016
Dan Thompson	Member	December 2018
Jo Altheide	Member	December 2020
Becky Martin	Member	December 2020
Hospital Officials:		
Kirby Johnson	Chief Executive Officer	Indefinite
Kendra Warning	Chief Financial Officer	Indefinite
Susan Pankey	Chief Nursing Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Davis County Hospital
Bloomfield, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Davis County 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital as of June 30, 2015 and 2014, and the respective changes in financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 16 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, the schedule of Hospital contributions, and the schedule funding progress for the retiree health plan on pages 4 through 7 and 31 through 35 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 other 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 other supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,
September 18, 2015.

Davis County Hospital

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

Introduction

This management's discussion and analysis of the financial performance of Davis County 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 reported an operating income of \$347,439 in 2015 and an operating loss of \$1,736,056 in 2014. Fiscal year 2015 marked the first full year of operations after the closing of the long term care unit in 2014, which reduced 2015 operating expenses and impacted third party payor contractual relationships.
- Cash and cash equivalents increased between 2015 and 2014 by \$464,252 as a result of improved 2015 operations.
- The Hospital's net position decreased \$4,422,011 from June 30, 2014 to June 30, 2015, primarily due to the implantation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of \$5,485,812.

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.

Davis County 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 \$4,422,011 or 50% in 2015 compared to 2014 and decreased by \$1,024,616 or 10% in 2014 compared to 2013 and decreased by \$1,243,330 or 11% in 2013 compared to 2012 as shown in Table 1.

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Assets:					
Patient accounts receivable, net	\$ 3,205,096	2,674,320	2,564,639	530,776	20%
Other current assets	8,040,910	7,619,865	7,860,471	421,045	6%
Capital assets, net	10,585,176	11,846,550	12,905,197	(1,261,374)	-11%
Other noncurrent assets	772,689	1,271,980	2,163,248	(499,291)	-39%
Total assets	<u>22,603,871</u>	<u>23,412,715</u>	<u>25,493,555</u>	<u>(808,844)</u>	<u>-3%</u>
Deferred Outflows of Resources					
Pension related deferred outflows	558,329	--	--	558,329	100%
Unamortized deferred loss	92,211	110,684	129,949	(18,473)	-17%
Total deferred outflows	<u>650,540</u>	<u>110,684</u>	<u>129,949</u>	<u>539,856</u>	<u>488%</u>
Total assets and deferred outflows	<u>\$ 23,254,411</u>	<u>23,523,399</u>	<u>25,623,504</u>	<u>(268,988)</u>	<u>-1%</u>
Liabilities:					
Current liabilities	\$ 2,587,653	2,973,001	2,892,555	(385,348)	-13%
Other postemployment benefits	217,119	338,834	278,095	(121,715)	-36%
Long-term debt	9,208,266	10,253,184	11,483,822	(1,044,918)	-10%
Net pension liability	4,039,660	--	--	4,039,660	100%
Total liabilities	<u>16,052,698</u>	<u>13,565,019</u>	<u>14,654,472</u>	<u>2,487,679</u>	<u>18%</u>
Deferred Inflows of Resources,					
Unavailable property tax revenue	1,142,192	1,129,729	1,115,765	12,463	1%
Pension related deferred inflows	1,652,881	--	--	1,652,881	100%
Total deferred inflows	<u>2,795,073</u>	<u>1,129,729</u>	<u>1,115,765</u>	<u>1,665,344</u>	<u>147%</u>
Net Position:					
Net investment in capital assets	616,910	460,534	293,852	156,376	34%
Restricted	1,529,740	2,006,650	2,198,411	(476,910)	-24%
Unrestricted	2,259,990	6,361,467	7,361,004	(4,101,477)	-64%
Total net position	<u>4,406,640</u>	<u>8,828,651</u>	<u>9,853,267</u>	<u>(4,422,011)</u>	<u>-50%</u>
Total liabilities, deferred inflows, and net position	<u>\$ 23,254,411</u>	<u>23,523,399</u>	<u>25,623,504</u>	<u>(268,988)</u>	<u>-1%</u>

Year ended June 30, 2015: In fiscal year 2015, the total assets and deferred outflows decreased by \$268,988 or 1%. This was primarily caused by the recording of pension related deferred outflows and an increase in accumulated depreciation due to depreciation on capital assets of \$1,951,908. In fiscal year 2015, the total liabilities increased by \$2,487,679 or 18% mainly due to the recording of the Hospital's net pension liability.

Year ended June 30, 2014: In fiscal year 2014, the total assets and deferred outflows decreased by \$2,100,105 or 8%. This was primarily caused by an increase in accumulated depreciation due to depreciation on capital assets of \$2,495,881. In fiscal year 2014, the total liabilities decreased by \$1,089,453 or 7% mainly due to payments made on long-term debt.

Davis County 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 \$5,485,812 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.

The following shows the changes in net position of the Hospital:

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenue:					
Net patient service revenue	\$ 18,967,053	18,281,273	18,426,101	685,780	4%
Electronic health record incentive payment	114,843	419,761	--	(304,918)	-73%
Other operating revenues	1,548,662	1,117,817	418,439	430,845	39%
Total operating revenue	20,630,558	19,818,851	18,844,540	811,707	4%
Operating Expenses:					
Salaries, wages and employee benefits	8,852,994	9,790,146	9,863,571	(937,152)	-10%
Purchased services and professional fees	4,954,726	4,868,339	4,245,253	86,387	2%
Depreciation and amortization	1,982,962	2,528,026	2,468,739	(545,064)	-22%
Other operating	4,492,437	4,368,396	3,900,989	124,041	3%
Total operating expenses	20,283,119	21,554,907	20,478,552	(1,271,788)	-6%
Operating Income (Loss)	347,439	(1,736,056)	(1,634,012)	2,083,495	-120%
Nonoperating Revenue (Expense):					
Interest	(506,806)	(544,232)	(587,715)	37,426	-7%
Property taxes	1,143,269	1,121,614	1,078,684	21,655	2%
Investment income	34,559	45,503	47,120	(10,944)	-24%
Total nonoperating revenue, net	671,022	622,885	538,089	48,137	8%
Excess (deficiency) of revenue over expenses before capital grants and contributions	1,018,461	(1,113,171)	(1,095,923)	2,131,632	-191%
Capital grants and contributions	45,340	88,555	19,719	(43,215)	-49%
Increase (decrease) in net position	1,063,801	(1,024,616)	(1,076,204)	2,088,417	-204%
Net position, beginning of year, as restated	3,342,839	9,853,267	10,929,471	(6,510,428)	-66%
Net position, end of year	\$ 4,406,640	8,828,651	9,853,267	(4,422,011)	-50%

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income (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 operating income of \$347,349 and in 2014 and 2013 the Hospital reported operating losses of \$1,736,056 and \$1,634,012, respectively. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

Davis County Hospital

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

The primary components impacting operating income (loss) are as follows:

- Fiscal year 2015 marked the first full year of operations after the closing of the long term care unit in 2014 which reduced 2015 operating expenses and impacted third party payor contractual relationships. Hospital outpatient revenue increased \$3,085,098 or 15% as a result of increased patient volume and the Davis County Medical Associates clinic obtained rural health clinic status effective May 27, 2015. The 340B drug pricing program volume continued to expand as \$1,223,580 was reported in other operating revenue and \$756,534 was reported in other operating expense.
- In fiscal year 2014, there was \$689,450 in other operating revenue and \$480,663 in other operating expenses associated with the 340B drug pricing program. Additional assets were claimed as Electronic Health Record assets resulting in an incentive of \$419,761 being reported in operating revenue. The positive results from the Medicare incentive and the 340B drug pricing program were offset by increases in purchased services and professional fees of \$623,086 primarily due to added specialty clinic providers, increased emergency room coverage rates, and the accrual of a severance package.

Nonoperating Revenue

Nonoperating revenue consists primarily of property taxes levied by the Hospital and interest income. Nonoperating revenue in 2015 increased by \$48,137, or 8%, as compared to 2014 due to an increase in property tax receipts and a decrease in interest expense. Nonoperating revenue for 2014 increased by \$84,796 or 16% compared to 2013. The increase in 2015 and 2014 is primarily due to an increase in property tax receipts and a decrease in interest expense.

The Hospital's Cash Flows

Year ended June 30, 2015: The Hospital's cash increased by \$464,252 in 2015 as compared to 2014. The primary reason for the increase is the operating income generated in 2015 and the reduction in the amount of capital assets purchased in 2015 compared to 2014. The Hospital saw an increase in principal payments on long-term debt as it elected to pay off all capital lease obligations early during 2015.

Year ended June 30, 2014: The Hospital's cash decreased by \$845,719 in 2014 as compared to 2013. The primary reason for the decrease is the cash basis purchase of capital assets of \$1,438,023 in 2014 compared to \$153,846 in 2013. 2014 capital asset purchases included Electronic Health Record assets, an ambulance, and an adjacent property.

Capital Assets

June 30, 2015: At the end of fiscal year 2015, the hospital had \$10,585,176 invested in capital assets, net of accumulated depreciation. In fiscal year 2015, the hospital had \$1,951,908 in depreciation expense and purchased \$876,848 in new fixed assets.

June 30, 2014: At the end of fiscal year 2014, the hospital had \$11,846,550 invested in capital assets, net of accumulated depreciation. In fiscal year 2014, the hospital had \$2,495,881 in depreciation expense and purchased \$1,438,023 in new fixed assets. The fixed asset purchases mainly consisted of Electronic Health Record assets, an ambulance, and an adjacent property as noted above.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.664.2145.

Davis County Hospital

Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,473,141	4,008,889
Short-term investments	715,716	706,899
Assets limited as to use or restricted, current portion	784,217	760,239
Receivables -		
Patients, net of allowance for doubtful accounts of \$304,000 in 2015 and \$220,000 in 2014	3,205,096	2,674,320
Succeeding year property taxes receivable	1,142,192	1,129,729
Other	118,901	165,929
Inventories	501,651	496,874
Prepaid expenses	278,166	229,420
Estimated third-party payor settlements	26,926	121,886
Total current assets	<u>11,246,006</u>	<u>10,294,185</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	772,689	1,271,980
Capital assets, net	10,585,176	11,846,550
Total assets	<u>22,603,871</u>	<u>23,412,715</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	558,329	--
Unamortized deferred loss	92,211	110,684
Total deferred outflows of resources	<u>650,540</u>	<u>110,684</u>
Total assets and deferred outflows of resources	<u>\$ 23,254,411</u>	<u>23,523,399</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 760,000	1,243,516
Accounts payable	622,555	517,501
Accrued salaries, vacation and benefits payable	1,028,786	1,035,256
Accrued interest payable	154,286	159,979
Other accrued expenses	22,026	16,749
Total current liabilities	<u>2,587,653</u>	<u>2,973,001</u>
Long-term liabilities:		
Other postemployment benefits	217,119	338,834
Long-term debt, net of current portion	9,208,266	10,253,184
Net pension liability	4,039,660	--
Total liabilities	<u>16,052,698</u>	<u>13,565,019</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	1,142,192	1,129,729
Pension related deferred inflows	1,652,881	--
Total deferred inflows of resources	<u>2,795,073</u>	<u>1,129,729</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	616,910	460,534
Restricted -		
Expendable for debt service	1,516,023	1,488,792
Expendable for specific operating activities	13,717	517,858
Unrestricted	2,259,990	6,361,467
Total net position	<u>4,406,640</u>	<u>8,828,651</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 23,254,411</u>	<u>23,523,399</u>

See notes to financial statements

Davis County 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	\$ 19,469,289	19,123,970
Provision for bad debt	<u>(502,236)</u>	<u>(842,697)</u>
Net patient service revenue	18,967,053	18,281,273
Other operating revenues	<u>1,663,505</u>	<u>1,537,578</u>
Total operating revenue	<u>20,630,558</u>	<u>19,818,851</u>
OPERATING EXPENSES:		
Salaries and wages	7,129,983	7,537,722
Employee benefits	1,723,011	2,252,424
Purchased services and professional fees	4,954,726	4,868,339
Supplies and other	4,390,447	4,268,518
Depreciation and amortization	1,982,962	2,528,026
Insurance	<u>101,990</u>	<u>99,878</u>
Total operating expenses	<u>20,283,119</u>	<u>21,554,907</u>
OPERATING INCOME (LOSS)	<u>347,439</u>	<u>(1,736,056)</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	(506,806)	(544,232)
Property taxes	1,143,269	1,121,614
Investment income	<u>34,559</u>	<u>45,503</u>
Total nonoperating revenue, net	<u>671,022</u>	<u>622,885</u>
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,018,461	(1,113,171)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>45,340</u>	<u>88,555</u>
INCREASE (DECREASE) IN NET POSITION	1,063,801	(1,024,616)
NET POSITION, beginning of year, as restated (see note 16)	<u>3,342,839</u>	<u>9,853,267</u>
NET POSITION, end of year	<u>\$ 4,406,640</u>	<u>8,828,651</u>

See notes to financial statements

Davis County 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	\$ 18,531,237	18,399,706
Cash paid for employee salaries and benefits	(9,332,779)	(9,711,426)
Cash paid to suppliers and contractors	(9,343,327)	(9,258,293)
Other receipts and payments, net	<u>1,658,812</u>	<u>1,538,367</u>
Net cash provided by operating activities	<u>1,513,943</u>	<u>968,354</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
Property taxes received	<u>1,143,269</u>	<u>1,121,614</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(875,243)	(1,438,023)
Proceeds on sale of capital assets	189,402	--
Capital grants and contributions	45,340	88,555
Principal payments on long-term debt	(1,541,015)	(1,257,474)
Interest paid on long-term debt	<u>(512,499)</u>	<u>(549,066)</u>
Net cash used in capital and related financing activities	<u>(2,694,015)</u>	<u>(3,156,008)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from investments and assets limited as to use or restricted, net	466,496	174,818
Investment income	<u>34,559</u>	<u>45,503</u>
Net cash provided by investing activities	<u>501,055</u>	<u>220,321</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	464,252	(845,719)
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,008,889</u>	<u>4,854,608</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,473,141</u>	<u>4,008,889</u>

See notes to financial statements

Davis County 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 INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 347,439	(1,736,056)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,982,962	2,528,026
(Gain) loss on disposal of capital assets	(4,693)	789
Decrease in net pension liability	(2,084,732)	--
Decrease in deferred outflows of resources	80,251	--
Increase in deferred inflows of resources	1,652,881	--
(Increase) decrease in current assets -		
Receivables -		
Patients	(530,776)	(109,681)
Other	47,028	(1,503)
Inventories	(4,777)	(28,250)
Prepaid expenses	(48,746)	(73,060)
Estimated third-party payor settlements	94,960	228,114
Increase (decrease) in liabilities -		
Accounts payable	105,054	75,611
Accrued salaries, vacation and benefits payable	(6,470)	17,981
Other accrued expenses	5,277	5,644
Other postemployment benefits	(121,715)	60,739
Net cash provided by operating activities	<u>\$ 1,513,943</u>	<u>968,354</u>

See notes to financial statements

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

Davis County Hospital (Hospital) is a Critical Access Hospital, organized under Chapter 347 of the Code of Iowa, governed by a 7 member Board of Trustees, which is elected by the voters of Davis County. The Hospital is a Critical Access Hospital with 25 acute-care beds. The Hospital also has related healthcare ancillary and outpatient services. During 2014, the Hospital discontinued the long-term care program. Prior to this, the Hospital was operating 32 long-term care beds.

The following is a description of the reporting entity and a summary of significant accounting policies of the Hospital. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, Davis County Hospital has included all the funds of the Hospital, specifically all assets, deferred inflows and outflows of resources, liabilities, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. Davis County Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

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 is 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. *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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

The Hospital's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when incurred.

D. *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:

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

Restricted – 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 positions often have 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.

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 and under note agreements.

G. *Patient Receivables, Net*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for doubtful self-pay and miscellaneous commercial insurance accounts based on the allowance method. Patients are not required to provide collateral for services rendered. The allowance is estimated based on past experience and on analysis of current accounts receivable collectability. Accounts are considered delinquent based on passage of a specified period of time and consideration of payment history. Accounts deemed uncollectible are written off and charged to the allowance in the year they are deemed uncollectible. The Hospital also maintains a charity care policy as described in Note 1(V).

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

H. *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.

I. *Inventories*

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

J. *Assets Limited as to Use or Restricted*

Assets limited as to use or restricted primarily include assets held by trustees under general obligation bond agreements; funds the Hospital's Board of Trustees has set aside for self-funded insurance, memorials, and scholarships; as required under Series 2009 and 2012 Hospital Revenue Bonds; and contributions restricted by donors. Amounts required to meet current liabilities of the Hospital have been included in current assets in the statements of net position at June 30, 2015 and 2014.

K. *Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess (deficiency) 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 (deficiency) 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.

L. *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.

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

Land improvements	10 to 25 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

The Hospital's long-lived 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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess (deficiency) of revenue under expenses before capital grants and contributions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived 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 long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

M. 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 an unamortized deferred loss on the refinancing of debt as well as 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.

N. 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. Paid time off (PTO) vests bi-weekly and may be carried forward by an employee in an amount not to exceed 520 hours for management and 480 for staff. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2015 and 2014 was \$474,214 and \$444,067, respectively.

O. 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.

P. 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.

Q. Self-Insured Employee Dental and Vision Benefits

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

R. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Davis, Iowa. As such, the Hospital is exempt from paying income taxes. However, the Hospital is subject to federal income tax on any unrelated business income tax.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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 or restricted, receivables, and current liabilities approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

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 healthcare services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as non-operating 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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

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

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.

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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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 September 18, 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 and Investments, Including 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 manages the following risks in accordance with their formal investment policy:

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means for meeting short and long-term cash requirements and managing its exposure to fair value losses arising from changes in interest rates. The weighted average duration of securities invested in certificate of deposits was 13 months as of June 30, 2015

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The Hospital's investment policy for custodial credit risk mirrors requirements set forth by the Code of Iowa.

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

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Short-term investments:		
Operating reserves –		
Certificates of deposit	\$ <u>715,716</u>	<u>706,899</u>
Assets limited as to use or restricted:		
By the Board of Trustees for insurance, memorials, and scholarships – cash and cash equivalents	<u>27,166</u>	<u>25,569</u>
Under Hospital revenue bonds, Series 2009 and 2012 –		
Debt service reserve fund:		
Cash and cash equivalents	32,112	22,397
Certificates of deposit	<u>719,500</u>	<u>724,325</u>
	751,612	746,722
Interest fund – cash and cash equivalents	154,368	162,199
Bond sinking fund – cash and cash equivalents	610,043	579,816
Debt service refunding account – cash and cash equivalents	<u>--</u>	<u>55</u>
Total under hospital revenue bonds	<u>1,516,023</u>	<u>1,488,792</u>
By Donor –		
Cash and cash equivalents	<u>13,717</u>	<u>517,858</u>
Total assets limited as to use or restricted	1,556,906	2,032,219
Less amounts required to meet current obligations	<u>784,217</u>	<u>760,239</u>
Long-term portion	\$ <u>772,689</u>	<u>1,271,980</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest income	\$ <u>34,559</u>	<u>45,403</u>

(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 follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient non-acute services and certain outpatient services and rural health clinic services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital is reimbursed on a prospectively determined rate per episode for home care services rendered to Medicare beneficiaries. 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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. Long-term care services are reimbursed at a prospectively determined rate per day of care. These rates vary accordingly to a patient classification system. 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. This 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 services and swing bed	\$ 5,373,516	5,277,247
Outpatient	23,193,460	20,108,362
Long-term care	--	975,715
Clinic	2,503,860	2,226,170
Public and home health	158,833	107,826
Total gross patient service revenue	<u>31,229,669</u>	<u>28,695,320</u>
Deductions from patient service revenue:		
Medicare	5,314,111	4,289,298
Medicaid	1,969,263	1,408,627
Other payors	4,391,142	3,723,821
Charity care	85,864	149,604
Total deductions from patient service revenue	<u>11,760,380</u>	<u>9,571,350</u>
Net patient service revenue before provision for bad debt	<u>\$ 19,469,289</u>	<u>19,123,970</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.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 14%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 and approximately 50% and 13%, respectively 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. In 2015 and 2014, net patient service revenue increased approximately \$130,000 and \$150,000, respectively, due to removal of allowances previously estimated that are no longer necessary and as a result of final settlements of years that are no longer subject to audits, reviews, and investigations.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(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>
Public health grant revenue:		
Davis County	\$ 291	39,308
Other funding	30,391	48,270
340B drug pricing program revenue	1,223,580	689,450
EHR incentive	114,843	419,761
Cafeteria	117,047	112,014
Grant revenue	104,386	90,610
Rent income	51,676	31,957
Ambulance subsidy, Davis County	25,000	25,000
Contracted physician services	--	4,320
Catholic Health Initiative subsidy	--	27,252
Gain (loss) on disposal of capital assets	4,693	(789)
Other operating revenue (expense), net	<u>(8,402)</u>	<u>50,425</u>
	<u>\$ 1,663,505</u>	<u>1,537,578</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, the Hospital qualified for the financial incentive 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 2016. Amounts due from Medicare for EHR qualifying assets at June 30, 2015 and 2014 were approximately \$208,000 and \$630,000, respectively. These have been recognized in the statements of net position and are 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. The Hospital has elected to record \$32,965 and \$301,161 for the years ending June 30, 2015 and 2014, respectively, of the incentive payment as other operating revenue in the period earned, and defer the remaining amount of the receivable related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services provided \$81,878 and \$118,600 for the periods ended June 30, 2015 and 2014, respectively. 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	\$ 4,902,096	3,698,320
Less estimated third-party contractual adjustments	(1,393,000)	(804,000)
Less allowance for doubtful accounts	<u>(304,000)</u>	<u>(220,000)</u>
	<u>\$ 3,205,096</u>	<u>2,674,320</u>

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

The Hospital is located in Bloomfield, 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	39%	39%
Medicaid	13	13
BCBS	18	17
Other third-party payors	15	14
Private payors	15	17
	<u>100%</u>	<u>100%</u>

(6) Capital Assets

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	\$ 236,064	--	56,995	293,059
Construction in progress	124,922	500,405	(568,627)	56,700
Total capital assets, not being depreciated	<u>360,986</u>	<u>500,405</u>	<u>(511,632)</u>	<u>349,759</u>
Capital assets, being depreciated:				
Land improvements	1,560,861	--	--	1,560,861
Buildings and fixed equipment	19,968,884	--	3,457	19,972,341
Major moveable equipment	9,223,044	374,838	301,245	9,899,127
Total capital assets, being depreciated	<u>30,752,789</u>	<u>374,838</u>	<u>304,702</u>	<u>31,432,329</u>
Less accumulated depreciation:				
Land improvements	565,706	116,601	--	682,307
Buildings and fixed equipment	11,390,501	982,970	(22,221)	12,351,250
Major moveable equipment	7,311,018	852,337	--	8,163,355
Total accumulated depreciation	<u>19,267,225</u>	<u>1,951,908</u>	<u>(22,221)</u>	<u>21,196,912</u>
Total capital assets, being depreciated, net	<u>11,485,564</u>	<u>(1,577,070)</u>	<u>326,923</u>	<u>10,235,417</u>
Total capital assets, net	<u>\$ 11,846,550</u>	<u>(1,076,665)</u>	<u>(184,709)</u>	<u>10,585,176</u>

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 236,064	--	--	236,064
Construction in progress	154,871	1,053,236	(1,083,185)	124,922
Total capital assets, not being depreciated	<u>390,935</u>	<u>1,053,236</u>	<u>(1,083,185)</u>	<u>360,986</u>
Capital assets, being depreciated:				
Land improvements	1,560,861	--	--	1,560,861
Buildings and fixed equipment	19,608,001	189,690	171,193	19,968,884
Major moveable equipment	8,232,071	195,097	795,876	9,223,044
Total capital assets, being depreciated	<u>29,400,933</u>	<u>384,787</u>	<u>967,069</u>	<u>30,752,789</u>
Less accumulated depreciation:				
Land improvements	449,106	116,600	--	565,706
Buildings and fixed equipment	10,413,127	980,157	(2,783)	11,390,501
Major moveable equipment	6,024,438	1,399,124	(112,544)	7,311,018
Total accumulated depreciation	<u>16,886,671</u>	<u>2,495,881</u>	<u>(115,327)</u>	<u>19,267,225</u>
Total capital assets, being depreciated, net	<u>12,514,262</u>	<u>(2,111,094)</u>	<u>1,082,396</u>	<u>11,485,564</u>
Total capital assets, net	<u>\$ 12,905,197</u>	<u>(1,057,858)</u>	<u>(789)</u>	<u>11,846,550</u>

Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$1,951,908 and \$2,495,881, respectively.

(7) Long-Term Debt

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

	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Hospital revenue bonds, Series 2009 (A)	\$ 6,215,000	--	(280,000)	5,935,000	325,000
Hospital revenue bonds, Series 2012 (B)	4,345,000	--	(420,000)	3,925,000	395,000
Total bonds payable	<u>10,560,000</u>	<u>--</u>	<u>(700,000)</u>	<u>9,860,000</u>	<u>720,000</u>
Note payable, finance company (C)	620,092	--	(620,092)	--	--
Note payable, finance company (D)	240,000	--	(40,000)	200,000	40,000
Total notes payable	<u>860,092</u>	<u>--</u>	<u>(660,092)</u>	<u>200,000</u>	<u>40,000</u>
Capital lease obligations (E)	180,923	--	(180,923)	--	--
	11,601,015	--	(1,541,015)	10,060,000	760,000
Less: Unamortized bond discount	<u>(104,315)</u>	<u>--</u>	<u>12,581</u>	<u>(91,734)</u>	<u>--</u>
	<u>\$ 11,496,700</u>	<u>--</u>	<u>(1,528,434)</u>	<u>9,968,266</u>	<u>760,000</u>

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Hospital revenue bonds, Series 2009 (A)	\$ 6,470,000	--	(255,000)	6,215,000	280,000
Hospital revenue bonds, Series 2012 (B)	4,775,000	--	(430,000)	4,345,000	420,000
Total bonds payable	<u>11,245,000</u>	<u>--</u>	<u>(685,000)</u>	<u>10,560,000</u>	<u>700,000</u>
Note payable, finance company (C)	930,948	--	(310,856)	620,092	329,995
Note payable, finance company (D)	280,000	--	(40,000)	240,000	40,000
Total notes payable	<u>1,210,948</u>	<u>--</u>	<u>(350,856)</u>	<u>860,092</u>	<u>369,995</u>
Capital lease obligations (E)	402,541	--	(221,618)	180,923	173,521
	12,858,489	--	(1,257,474)	11,601,015	1,243,516
Less: Unamortized bond discount	<u>(117,195)</u>	<u>--</u>	<u>12,880</u>	<u>(104,315)</u>	<u>--</u>
	<u>\$ 12,741,294</u>	<u>--</u>	<u>(1,244,594)</u>	<u>11,496,700</u>	<u>1,243,516</u>

- (A) The Hospital issued \$7,195,000 of Hospital Revenue Bonds, Series 2009. The proceeds of these bonds were used to finance Hospital building improvements. The Series 2009 bonds bear interest at rates ranging from 4.80% to 6.50%. Semi-annual principal payments are due in amounts ranging from \$340,000 to \$1,180,000 through September 2025.
- (B) Hospital Revenue Bonds, Series 2012. The proceeds of these bonds were used to refund the Series 1998 bonds (C). The Series 2012 bonds bear interest at rates ranging from 1.90% to 4.00%. Annual principal payments are due in amounts ranging from \$400,000 to \$490,000 through September 2023.
- (C) Promissory note payable, 5.99%, secured by equipment, payable in monthly installments of \$29,848, including interest, through June 2016. During the fiscal year ending June 30, 2015, this note payable was paid off in full.
- (D) Promissory note payable, 0%, to Citizens Mutual Telephone Cooperative, secured by equipment, payable in annual installments of \$40,000, through December 2020.
- (E) Capital lease obligations, at varying rates of imputed interest from 5.568% to 10.065%, collateralized by leased equipment, payable in lease specific monthly or quarterly installments, including interest, maturing at various times from December 2013 through November 2015. During the fiscal year ending June 30, 2015, these lease obligations were paid off in full.

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

Year Ending	Principal	Interest
2016	\$ 760,000	451,926
2017	780,000	429,035
2018	810,000	403,463
2019	840,000	374,600
2020	870,000	342,330
2021-2025	4,820,000	1,079,300
2026	<u>1,180,000</u>	<u>38,350</u>
	<u>\$ 10,060,000</u>	<u>3,119,004</u>

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Under the terms of the Series 2009 and Series 2012 Hospital Revenue Bonds trust indentures, the Hospital is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use or restricted in the accompanying financial statements. The terms of the trust indentures contain affirmative and negative covenants, requiring, among other things, certain periodic reporting, compliance items, financial covenants and restrictions on additional borrowings. The trust indenture contains affirmative covenants that require the Hospital to maintain days cash on hand of not less than 60 days and a minimum debt service coverage ratio of not less than 1.25 to 1.00. At June 30, 2015, the Hospital met both requirements. At June 30, 2014, the Hospital did not meet the minimum debt service coverage ratio.

(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 \$2,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-incurred basis covering all claims which have occurred while the coverage is in force regardless of when the claim is reported.

Accounting principles generally accepted in the United States of America require a health care 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.

(10) 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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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.

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 \$601,522 and \$634,329, 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 \$4,039,660 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 .1015683 percent, which was a decrease of .0057172 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$249,922. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 44,741	6,944
Changes of assumptions	181,681	166
Net difference between projected and actual earnings on pension plan investments	--	1,645,771
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(269,615)	--
Hospital contributions subsequent to the measurement date	<u>601,522</u>	<u>--</u>
Total	<u>\$ 558,329</u>	<u>1,652,881</u>

Deferred outflows of resources related to pensions included \$601,522 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	\$ (423,449)
2017	(423,449)
2018	(423,449)
2019	(423,449)
2020	<u>(2,278)</u>
	<u>\$ (1,696,074)</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)	3.0 percent
Salary increases (effective June 30, 2014)	4.0 to 17.0 percent, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.5 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.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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	1	(0.69)
Total	<u>100%</u>	

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	\$ 7,941,563	4,039,660	746,599

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 \$77,059 for legally required employer contributions and \$34,104 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(10) Other Postemployment Benefits (OPEB)

Plan Description – The Hospital sponsors a postretirement medical plan that provides post-termination medical insurance coverage for the participant and the participant’s family through the age of 65. The employees eligible under this policy are all employees who terminate employment at or after age 60 with at least 7 consecutive years of service. Prior to the participants’ age 65, the coverage shall be insured coverage providing a level of benefits reasonably comparable to the standard medical coverage the Hospital provides to all full-time employees. The plan coverage terminates upon the participant reaching Medicare eligibility (age 65).

Funding Policy – The Hospital pays for all or a portion of active employees’ coverage. The amount depends on whether single or family coverage is elected. Upon retirement, the retired participant continuing their coverage pays the premium including any increase in single premium after retirement. The Hospital is currently using a pay-as-you-go method of benefit financing. The Hospital made no contributions to the plan during the years ended June 30, 2015 and 2014.

Annual OPEB Cost and Net OPEB Obligation – The Hospital’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Hospital, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Hospital’s annual OPEB expense for the year, the amount actuarially contributed to the plan, and changes in the Hospital’s annual OPEB obligation:

	<u>2015</u>	<u>2014</u>
Change in beginning OPEB obligation	\$ (170,968)	--
Annual required contribution	52,881	90,018
Adjustment to ARC	(7,825)	(20,328)
Interest on net OPEB obligation	<u>4,197</u>	<u>6,952</u>
Annual OPEB expense	(121,715)	76,642
Implicit contributions	<u>--</u>	<u>(15,903)</u>
Increase (decrease) in net OPEB obligation	(121,715)	60,739
Net OPEB obligation, beginning of year	<u>338,834</u>	<u>278,095</u>
Net OPEB obligation, end of year	<u>\$ 217,119</u>	<u>338,834</u>

The Hospital’s annual OPEB cost, the percentage of annual OPEB contributed to the plan, and the net OPEB obligations for fiscal year 2015 are summarized as follows:

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percent of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2015	\$ (121,715)	--	217,119
2014	60,739	--	338,834
2013	59,520	--	278,095
2012	35,517	--	218,575
2011	62,588	--	183,058
2010	62,588	--	120,470

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Funded Status and Funding Progress - As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2017, the actuarial accrued liability was \$236,689, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$236,689. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,608,942 and the ratio of the UAAL to covered payroll was 3.59%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumption about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the entry age actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Hospital's funding policy. The projected annual health cost trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011.

The UAAL is being amortized in level dollar amounts on an open basis over 30 years.

(11) Self-Funded Insurance

The Hospital has established a self-funded employee dental and vision insurance fund. All employees' payroll withholdings for dental and vision insurance and the Hospital's contributions are deposited into a separate depository account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Hospital incurred dental and vision insurance expenses of \$46,593 and \$36,768 as of June 30, 2015 and 2014, respectively.

(12) Foundation

Davis County Hospital Endowment Foundation (Foundation) was established to raise funds exclusively for the benefit of the Hospital. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Hospital as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Hospital. Therefore the Foundation is not reported as a component unit of the Hospital. A summary of the Foundation's assets, liabilities and net assets as of June 30, 2015 and 2014 follows:

	<u>2015</u>	<u>2014</u>
Assets and net assets (unaudited)	\$ <u>99,628</u>	<u>123,404</u>

The Hospital received \$31,533 and \$13,944 from the Foundation during the years ended June 30, 2015 and 2014, respectively, for purchase of medical equipment and for operating purposes.

Davis County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(13) Management Services and Affiliation Agreement

The Hospital is a provider of healthcare services as a Critical Access Hospital. On November 1, 2012, the Hospital entered into a management services and affiliation agreement with Mercy Health Network, Inc. Administration and support services fees of \$274,446 and \$441,756 were incurred for the years ended June 30, 2015 and 2014, respectively.

(14) Contingencies

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

(15) Risks and Uncertainties

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

(16) 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:

	Net Position
Net position June 30, 2014, as previously reported	\$ 8,828,651
Net pension liability at June 30, 2014	(6,124,392)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>638,580</u>
Net position July 1, 2014, as restated	<u>\$ 3,342,839</u>

Davis County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Accrual Basis) 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.

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

For the year ended June 30, 2015, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Estimated amount raised by taxation	\$ 1,143,269	1,129,729	13,540
Estimated other revenues	<u>20,710,457</u>	<u>21,082,798</u>	<u>(372,341)</u>
	21,853,726	22,212,527	(358,801)
Expenses	<u>20,789,925</u>	<u>21,136,099</u>	<u>346,174</u>
Net	1,063,801	1,076,428	<u>(12,627)</u>
Balance, beginning of year, as restated	<u>3,342,839</u>	<u>9,356,100</u>	
Balance, end of year	<u>\$ 4,406,640</u>	<u>10,432,528</u>	

See accompanying independent auditor's report

Davis County Hospital

**Schedule of the Hospital's Proportionate Share of the Net Position
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	0.1015683%
Hospital's proportionate share of the net pension liability	\$ 4,040
Hospital's covered-employee payroll	\$ 7,156
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.46%
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.

Davis County Hospital

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

Iowa Public Employee's 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	\$ 602	639	636	572	515	458	410	349	307	328
Contributions in relation to the statutorily required contribution	<u>(602)</u>	<u>(639)</u>	<u>(636)</u>	<u>(572)</u>	<u>(515)</u>	<u>(458)</u>	<u>(410)</u>	<u>(349)</u>	<u>(307)</u>	<u>(328)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>								
Hospital's covered-employee payroll	\$ 6,741	7,156	7,336	7,088	7,410	6,887	6,457	5,769	5,339	5,704
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

Davis County 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.

Davis County Hospital

**Schedule of Funding Progress for the Retiree Health Plan
Required Supplementary Information
June 30, 2015**

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b) %	Covered Payroll (c)	UAAL as a % of Covered Payroll [(b-a)/c]
2015	07/01/2014	\$ --	\$ 236,689	\$ 236,689	-- %	\$ 6,608,942	3.58%
2014	07/01/2011	--	450,329	450,329	--	7,067,142	6.37%
2013	07/01/2011	--	450,329	450,329	--	7,067,142	6.37%
2012	07/01/2011	--	470,308	470,308	--	7,026,972	6.69%
2011	07/01/2008	--	696,571	696,571	--	7,115,857	9.79%

See accompanying independent auditor's report

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

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Long term care	\$ --	--	--	975,715	--	975,715
Acute patients	672,517	--	672,517	649,217	--	649,217
Swing-bed	420,869	--	420,869	472,138	--	472,138
Observation	--	200,562	200,562	--	191,669	191,669
Nursery	13,886	--	13,886	55,574	295	55,869
	<u>1,107,272</u>	<u>200,562</u>	<u>1,307,834</u>	<u>2,152,644</u>	<u>191,964</u>	<u>2,344,608</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	1,854,127	4,257,436	6,111,563	1,861,612	3,166,902	5,028,514
Radiology	407,087	5,350,801	5,757,888	252,363	4,953,308	5,205,671
Laboratory	363,680	3,486,103	3,849,783	322,987	3,133,590	3,456,577
Emergency room	77,897	3,606,943	3,684,840	8,932	3,208,565	3,217,497
Drugs	759,691	2,369,570	3,129,261	857,431	2,180,600	3,038,031
Clinics	--	2,503,860	2,503,860	--	2,226,170	2,226,170
Physical therapy	360,790	1,480,543	1,841,333	366,036	1,362,979	1,729,015
Respiratory therapy	268,819	840,824	1,109,643	227,879	617,213	845,092
Ambulance	--	867,993	867,993	--	678,610	678,610
Intravenous therapy	--	342,459	342,459	--	328,042	328,042
Anesthesiology	131,002	353,230	484,232	82,017	213,543	295,560
Public health and home health	--	158,833	158,833	--	107,826	107,826
Medical supplies	23,489	22,135	45,624	37,222	39,083	76,305
Delivery and labor room	16,494	2,586	19,080	79,302	24,526	103,828
Speech therapy	3,168	12,275	15,443	4,537	9,437	13,974
	<u>4,266,244</u>	<u>25,655,591</u>	<u>29,921,835</u>	<u>4,100,318</u>	<u>22,250,394</u>	<u>26,350,712</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>5,373,516</u>	<u>25,856,153</u>	31,229,669	<u>6,252,962</u>	<u>22,442,358</u>	28,695,320
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE:						
Medicare and Medicaid			(7,283,374)			(5,697,925)
Other adjustments			(4,391,142)			(3,723,821)
Charity care			(85,864)			(149,604)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			19,469,289			19,123,970
Provision for bad debt			(502,236)			(842,697)
NET PATIENT SERVICE REVENUE			\$ <u>18,967,053</u>			<u>18,281,273</u>

See accompanying independent auditor's report

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

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
Public health grant revenue:		
Davis County	\$ 291	39,308
Other funding	30,391	48,270
340B drug pricing program revenue	1,223,580	689,450
EHR incentive	114,843	419,761
Cafeteria	117,047	112,014
Grant revenue	104,386	90,610
Rent income	51,676	31,957
Ambulance subsidy, Davis County	25,000	25,000
Contracted physician services	--	4,320
Catholic Health Initiative subsidy	--	27,252
Gain (loss) on disposal of capital assets	4,693	(789)
Other operating revenue (expense), net	<u>(8,402)</u>	<u>50,425</u>
	<u>\$ 1,663,505</u>	<u>1,537,578</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:						
Acute patients	\$ 863,181	243,746	1,106,927	841,096	230,657	1,071,753
Nursery	1,781	291	2,072	13,819	60	13,879
Long term care	--	--	--	479,826	137,936	617,762
	<u>864,962</u>	<u>244,037</u>	<u>1,108,999</u>	<u>1,334,741</u>	<u>368,653</u>	<u>1,703,394</u>
OTHER PROFESSIONAL SERVICES:						
Operating room	398,397	893,208	1,291,605	402,257	836,195	1,238,452
Delivery and labor room	803	131	934	9,051	1,210	10,261
Anesthesiology	--	220,019	220,019	--	188,479	188,479
Radiology	287,554	668,955	956,509	270,837	649,769	920,606
Laboratory	257,823	583,928	841,751	244,933	502,882	747,815
Respiratory therapy	111,657	134,267	245,924	108,199	106,528	214,727
Physical therapy	7,977	603,208	611,185	7,953	519,163	527,116
Speech therapy	--	6,640	6,640	--	5,425	5,425
Medical supplies	--	78,728	78,728	--	66,368	66,368
Central supply	90,328	22,370	112,698	85,681	21,866	107,547
Drugs	--	1,366,706	1,366,706	--	1,159,449	1,159,449
Pharmacy	182,360	95,841	278,201	187,706	55,149	242,855
Ambulance	103,229	91,248	194,477	112,220	93,179	205,399
Emergency room	566,676	1,412,842	1,979,518	572,068	1,431,771	2,003,839
Public health	151,952	48,136	200,088	135,749	53,820	189,569
Clinic	697,151	388,000	1,085,151	833,625	559,515	1,393,140
RHC	940,260	228,469	1,168,729	682,193	140,469	822,662
	<u>3,796,167</u>	<u>6,842,696</u>	<u>10,638,863</u>	<u>3,652,472</u>	<u>6,391,237</u>	<u>10,043,709</u>
GENERAL SERVICES:						
Plant operations	251,888	559,063	810,951	219,898	549,349	769,247
Dietary	177,726	422,668	600,394	217,872	437,101	654,973
Housekeeping	272,035	119,036	391,071	288,821	122,925	411,746
Laundry	26,706	54,532	81,238	27,266	61,481	88,747
	<u>728,355</u>	<u>1,155,299</u>	<u>1,883,654</u>	<u>753,857</u>	<u>1,170,856</u>	<u>1,924,713</u>
ADMINISTRATIVE SERVICES:						
Administrative	543,506	792,958	1,336,464	653,279	1,441,777	2,095,056
Employee benefits	--	924,554	924,554	--	1,046,642	1,046,642
Information technology	336,896	762,796	1,099,692	279,210	613,194	892,404
Patient financial services	497,965	239,903	737,868	493,801	225,657	719,458
Medical records	279,299	96,654	375,953	284,671	86,776	371,447
Nursing administration	82,833	111,277	194,110	85,691	144,367	230,058
	<u>1,740,499</u>	<u>2,928,142</u>	<u>4,668,641</u>	<u>1,796,652</u>	<u>3,558,413</u>	<u>5,355,065</u>
NONDEPARTMENTAL:						
Depreciation and amortization	--	1,982,962	1,982,962	--	2,528,026	2,528,026
TOTAL EXPENSES	\$ 7,129,983	13,153,136	20,283,119	7,537,722	14,017,185	21,554,907

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	\$ 3,101,425	63.27 %	2,042,604	55.23 %
31-60	623,771	12.72	463,813	12.54
61-90	293,900	6.00	261,854	7.08
91-120	195,544	3.99	264,843	7.16
121 and over	<u>687,456</u>	<u>14.02</u>	<u>665,207</u>	<u>17.99</u>
	4,902,096	100.00 %	3,698,320	100.00 %
Less:				
Allowance for doubtful accounts	(304,000)		(220,000)	
Allowance for contractual adjustments	<u>(1,393,000)</u>		<u>(804,000)</u>	
	<u>\$ 3,205,096</u>		<u>2,674,320</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ (220,000)		(160,000)	
Provision of uncollectible accounts	(502,236)		(842,697)	
Recoveries of accounts previously written off	(298,101)		(250,757)	
Accounts written off	<u>716,337</u>		<u>1,033,454</u>	
Balance, end of year	<u>\$ (304,000)</u>		<u>(220,000)</u>	

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVENTORY:		
Central supply	\$ 235,765	241,595
Pharmacy	221,653	214,021
Laboratory	18,081	14,051
Dietary	15,241	17,616
Fuel oil	8,645	6,561
Office supply	<u>2,266</u>	<u>3,030</u>
	<u>\$ 501,651</u>	<u>496,874</u>
PREPAID EXPENSES:		
Insurance	\$ 49,963	27,574
Service contracts	209,495	169,545
Dues	10,343	10,417
Maintenance and other	<u>8,365</u>	<u>21,884</u>
	<u>\$ 278,166</u>	<u>229,420</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:		
Adult and pediatric -		
Medicare	484	522
All other	293	253
Swing-bed -		
Skilled	472	622
Intermediate	114	54
Newborn	12	41
Long-term care	--	5,143
Total	<u>1,375</u>	<u>6,635</u>
Patient discharges:		
Hospital adult and pediatric -		
Medicare	148	164
All other	<u>100</u>	<u>96</u>
Total	<u>248</u>	<u>260</u>
Average length of stay (based on discharge days):		
Hospital adult and pediatric -		
Medicare	3.3 days	3.2 days
All other	2.9 days	2.6 days
Surgical procedures	560	466
Emergency room visits	3,347	3,140
Number of employees - full-time equivalents	132.42	151.04

See accompanying independent auditor's report

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Davis County Hospital
Bloomfield, IA

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 Davis County 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 September 18, 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 opinions 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 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.

Purpose of this Report

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

Seim Johnson, LLP

Omaha, Nebraska,
September 18, 2015.

Davis County 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 significant deficiencies or material weaknesses in internal control over financial reporting were identified by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Internal control deficiencies:

No matters were reported.

Instances of Non-Compliance:

No matters were reported.

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** Board 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..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Davis County Hospital

Audit Staff
For the Year Ended June 30, 2015

This audit was performed by:

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Senior Manager

Greg R. Fonda, CPA, Staff

Cody J. Powers, Staff