

**Decatur County Hospital**  
Leon, Iowa

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

**Together with Independent Auditor's Report**

# Decatur County Hospital

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# Decatur County Hospital

## Officials June 30, 2015

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<b>Board of Trustees</b>	<b>Title</b>	<b>Term Expires</b>
Guy Clark	President	December 2016
Linda Chastain	Treasurer	December 2016
Cayle Buckingham	Secretary	December 2018
Leon Kessel	Trustee	December 2016
Carrie Melcher	Trustee	December 2018
Travis Miller	Trustee	December 2020
Rudy Evertson	Trustee	December 2018

<b>Hospital Officials</b>	<b>Title</b>	<b>Term Expires</b>
Suzanne Cooner	Administrator	Indefinite
Tara Spidle	Chief Financial Officer	Indefinite

## **Independent Auditor's Report**

To the Board of Trustees of  
Decatur County Hospital  
Leon, Iowa:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Decatur 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit 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 change in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of Hospital contributions on pages 4 through 7 and 28 through 31 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) are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 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 25, 2015.

# Decatur County Hospital

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

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### Introduction

This management's discussion and analysis of the financial performance of Decatur County Hospital (the "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 loss in 2015 of \$34,747 and operating loss in 2014 of \$145,704. The Hospital reported an increase in net position in 2015 of \$76,313 and a decrease in net position in 2014 of \$46,533. The improvement in the 2015 performance was related to an increase in patient volumes, third party payor contractual relationships, and the implementation of GASB 68.
- The Hospital's net position decreased \$2,398,713 from June 30, 2014 to July 1, 2014, primarily due to the implementation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of \$2,475,026.

### 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.

# Decatur 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 \$2,398,713 or 30% (which includes GASB 68 changes) in 2015 compared to 2014 and decreased by \$46,533 or .6% in 2014 compared to 2013 as shown in table 1 below:

**Table 1: Statements of Net Position**

	2015	(not restated) 2014	(not restated) 2013	Dollar Change	Percent Change
<b>Assets:</b>					
Current assets	\$ 5,422,210	5,181,205	4,127,626	241,005	5%
Assets limited as to use or restricted	3,285,748	3,252,916	3,759,629	32,832	1%
Capital assets, net	15,201,525	16,022,652	17,250,753	(821,127)	-5%
Total assets	23,909,483	24,456,773	25,138,008	(547,290)	-2%
<b>Deferred Outflows of Resources,</b>					
Pension related deferred outflows	306,286	--	--	306,286	100%
Total assets and deferred outflows	\$ 24,215,769	24,456,773	25,138,008	(241,004)	-1%
<b>Liabilities:</b>					
Long-term debt outstanding	\$ 14,452,284	15,039,413	15,637,956	(587,129)	-4%
Net pension liability	1,763,076	--	--	1,763,076	100%
Other current and noncurrent liabilities	917,499	747,227	769,227	170,272	23%
Total liabilities	17,132,859	15,786,640	16,407,183	1,346,219	9%
<b>Deferred Inflows of Resources:</b>					
Unavailable property tax revenue	688,043	672,707	686,866	15,336	2%
Pension related deferred inflows	796,154	--	--	796,154	100%
Total deferred inflows of resources	1,484,197	672,707	686,866	811,490	121%
<b>Net Position:</b>					
Net investment in capital assets	2,401,995	2,635,993	3,265,551	(233,998)	-9%
Restricted	40,315	40,315	51,961	--	0%
Unrestricted	3,156,403	5,321,118	4,726,447	(2,164,715)	-41%
Total net position	5,598,713	7,997,426	8,043,959	(2,398,713)	-30%
Total liabilities, deferred inflows and net position	\$ 24,215,769	24,456,773	25,138,008	(241,004)	-1%

Year ended June 30, 2015: In 2015 total assets decreased \$547,290 due to capital assets decreasing \$821,127 as a result of a reduction in capital acquisitions during the year and depreciation expense of \$1,481,614. Deferred outflows increased \$306,286 due to the impact of GASB 68 implementation. Long-term debt outstanding at June 30, 2015 decreased \$587,129 despite obtaining a new capital lease during the year.

Year ended June 30, 2014: In 2014 current assets increased \$1,053,579 due to an increase in cash and investments from improved collections in patient accounts receivable and third party payor settlements. Internally designated assets decreased by \$506,713 primarily due to final payments on 2013 construction project. Net capital assets decreased by \$1,228,101 due to a full year of depreciation expense on the 2013 construction project and limited capital asset purchases during the year. Fiscal year 2014 depreciation and amortization was \$1,460,852 compared to \$1,094,306 in fiscal year 2013.

# Decatur 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 \$2,475,026 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

**Table 2: Operating Results and Changes in Net Position**

	2015	(not restated) 2014	(not restated) 2013	Dollar Change	Percent Change
Operating revenue:					
Net patient service revenue	\$ 11,764,192	10,587,607	9,690,241	1,176,585	11%
Provision for bad debt	(482,823)	(552,268)	(464,257)	69,445	13%
Other operating revenues	343,586	368,226	371,463	(24,640)	-7%
Total operating revenue	<u>11,624,955</u>	<u>10,403,565</u>	<u>9,597,447</u>	<u>1,221,390</u>	<u>12%</u>
Operating expenses:					
Salaries, wages, and employee benefits	4,918,800	4,963,394	4,847,018	(44,594)	-1%
Purchased services and other	5,259,288	4,125,023	4,280,975	1,134,265	27%
Depreciation and amortization	1,481,614	1,460,852	1,094,306	20,762	1%
Total operating expenses	<u>11,659,702</u>	<u>10,549,269</u>	<u>10,222,299</u>	<u>1,110,433</u>	<u>11%</u>
Operating loss	<u>(34,747)</u>	<u>(145,704)</u>	<u>(624,852)</u>	<u>110,957</u>	<u>76%</u>
Nonoperating revenue (expense)					
Interest expense	(647,953)	(674,788)	(339,784)	26,835	4%
Property taxes	701,333	710,317	688,434	(8,984)	-1%
Investment income	30,960	30,307	36,426	653	2%
Non-capital grants and contributions	7,420	24,638	9,377	(17,218)	-70%
Total nonoperating revenue, net	<u>91,760</u>	<u>90,474</u>	<u>394,453</u>	<u>1,286</u>	<u>1%</u>
Excess (deficiency) revenue under expenses before capital grants and contributions	57,013	(55,230)	(230,399)	112,243	203%
Capital grants and contributions	<u>19,300</u>	<u>8,697</u>	<u>84,600</u>	<u>10,603</u>	<u>122%</u>
Increase (decrease) in net position	76,313	(46,533)	(145,799)	122,846	264%
Net position, beginning of year, as restated	<u>5,522,400</u>	<u>8,043,959</u>	<u>8,189,758</u>	<u>(2,521,559)</u>	<u>-31%</u>
Net position end of year	<u>\$ 5,598,713</u>	<u>7,997,426</u>	<u>8,043,959</u>	<u>(2,398,713)</u>	<u>-30%</u>

### Operating Loss

The first component of the overall change in the Hospital's net position is operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2015, 2014, and 2013, the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area and the results of operations often reflect losses from operations. As a result of the operating losses, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

# Decatur County Hospital

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

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The primary components impacting operating loss are as follows:

- Fiscal year 2015 saw the addition of a general / vascular surgeon to the Hospital which, in addition to increased patient volumes, was part of the \$2,419,206 increase in outpatient gross revenue from 2014 to 2015. Operating expenses increased \$1,110,433 due to increased purchased services and professional fees as a result of the new general / vascular surgeon as well as an increase in contract labor within the laboratory and anesthesia departments.
- Fiscal year 2014 saw gross patient service revenue increase \$319,468 as compared to 2013; however, contractual adjustments decreased \$595,986 from 2013 primarily due to an increase in Medicare reimbursement rates. Professional fees and other expenses decrease \$155,952 in 2014 due to the lack of utility expenses incurred in 2013 during the construction project. Depreciation and amortization expense increased in 2014 by \$366,546 due to the replacement facility being completed in 2013 and receiving a full year of depreciation in 2014. Interest expense increased in 2014 by \$335,004 due to the replacement facility being placed in service and interest payments no longer being capitalized as part of the cost of the project.

### Nonoperating Revenue and Expenses

Nonoperating revenue and expenses consist primarily of interest expense, property taxes levied by the Hospital, interest income and grants and contributions.

In fiscal year 2015, property taxes decreased \$8,984 from 2014 while interest expense decreased \$26,805. Investment income was consistent between years while grants and contributions decreased \$17,218. Despite these changes, net nonoperating revenue was consistent between years and only increased \$1,286 in 2015.

In fiscal year 2014, net nonoperating revenue decreased from \$394,453 in 2013 to \$90,474. Interest expense in 2013 was \$339,784 but increased to \$674,788 in 2014 as approximately \$3,965,000 of Series 2001B bond and capital lease obligations were received obtained in 2013. Fiscal year 2014 was the first full year of interest payments on the new obligations.

### The Hospital's Cash Flows

The Hospital's cash flows were (\$227,164) in 2015 and \$976,299 in 2014 which is a \$1,503,463 decrease between years. The decrease was due to a \$560,426 increase in net patient accounts receivable as well as a \$148,605 increase in inventory as a result of new general / vascular surgeon procedures.

### Capital Asset and Debt Administration

#### Capital Assets

At the end of 2015 and 2014, the Hospital had \$15,201,525 and \$16,022,652, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements.

#### Debt

At June 30, 2015 and 2014, the Hospital had \$14,452,284 and \$15,039,413, respectively, in loans and capital lease obligations outstanding. The majority of this debt is related to debt issued in 2012 for 2011A and 2011B Series bonds relating to the construction project as detailed in *Note 7* to the financial statements.

### 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 641.446.4871.

# Decatur County Hospital

## Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,734,559	1,961,723
Short-term investments	748,895	742,121
Receivables -		
Patients, net of estimated uncollectible accounts of \$343,000 in 2015 and \$205,000 in 2014	1,720,202	1,159,776
Succeeding year property taxes receivable	688,043	672,707
Other	53,466	54,634
Inventories	383,214	234,609
Prepaid expenses	93,831	76,300
Estimated third-party payor settlements	--	279,335
Total current assets	<u>5,422,210</u>	<u>5,181,205</u>
Assets limited as to use or restricted	3,285,748	3,252,916
Capital assets, net	<u>15,201,525</u>	<u>16,022,652</u>
Total assets	23,909,483	24,456,773
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	<u>306,286</u>	--
Total assets and deferred outflows of resources	<u>\$ 24,215,769</u>	<u>24,456,773</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 777,174	723,191
Accounts payable	311,499	266,194
Accrued salaries, wages and vacation payable	502,862	481,033
Estimated third-party payor settlements	103,138	--
Total current liabilities	<u>1,694,673</u>	<u>1,470,418</u>
Long-term liabilities:		
Long-term debt, net of current portion	13,675,110	14,316,222
Net pension liability	<u>1,763,076</u>	--
Total liabilities	<u>17,132,859</u>	<u>15,786,640</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	688,043	672,707
Pension related deferred inflows	<u>796,154</u>	--
Total deferred inflows of resources	<u>1,484,197</u>	<u>672,707</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	2,401,995	2,635,993
Restricted - expendable	40,315	40,315
Unrestricted	<u>3,156,403</u>	<u>5,321,118</u>
Total net position	<u>5,598,713</u>	<u>7,997,426</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,215,769</u>	<u>24,456,773</u>

See notes to financial statements

# Decatur 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	\$ 11,764,192	10,587,607
Provision for bad debt	(482,823)	(552,268)
Net patient service revenue	11,281,369	10,035,339
Other operating revenue	345,365	375,364
Loss on disposal of capital assets	(1,779)	(7,138)
Total operating revenue	<u>11,624,955</u>	<u>10,403,565</u>
OPERATING EXPENSES:		
Salaries and wages	3,785,483	3,608,850
Employee benefits	1,133,317	1,354,544
Purchased services and professional fees	2,441,999	1,906,748
Supplies and other	2,817,289	2,218,275
Depreciation and amortization	1,481,614	1,460,852
Total operating expenses	<u>11,659,702</u>	<u>10,549,269</u>
OPERATING LOSS	<u>(34,747)</u>	<u>(145,704)</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	(647,953)	(674,788)
Property taxes	701,333	710,317
Investment income	30,960	30,307
Noncapital grants and contributions	7,420	24,638
Nonoperating revenue, net	<u>91,760</u>	<u>90,474</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	57,013	(55,230)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>19,300</u>	<u>8,697</u>
INCREASE (DECREASE) IN NET POSITION	76,313	(46,533)
NET POSITION, beginning of year, as restated	<u>5,522,400</u>	<u>8,043,959</u>
NET POSITION, end of year	<u>\$ 5,598,713</u>	<u>7,997,426</u>

*See notes to financial statements*

# Decatur County Hospital

## Statements of Cash Flows

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third-party payors	\$ 11,103,416	10,333,557
Cash paid for employee salaries and benefits	(5,119,053)	(4,941,363)
Cash paid to suppliers and contractors	(5,380,119)	(3,981,313)
Other receipts and payments, net	346,533	369,899
Net cash provided by operating activities	<u>950,777</u>	<u>1,780,780</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Noncapital grants and contributions	7,420	24,638
County tax receipts	701,333	710,317
Net cash provided by noncapital financing activities	<u>708,753</u>	<u>734,955</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets	(499,138)	(321,659)
Principal payments on long-term debt	(750,257)	(598,543)
Interest payments	(647,953)	(674,788)
Capital grants and contributions	19,300	20,343
Net cash used in capital and related financing activities	<u>(1,878,048)</u>	<u>(1,574,647)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments and assets limited as to use or restricted	(2,621,318)	(2,607,267)
Withdrawals from investments and assets limited as to use or restricted	2,581,712	2,612,171
Investment income	30,960	30,307
Net cash provided by (used in) investing activities	<u>(8,646)</u>	<u>35,211</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(227,164)</b>	<b>976,299</b>
<b>CASH AND CASH EQUIVALENTS, Beginning of year</b>	<b><u>1,961,723</u></b>	<b><u>985,424</u></b>
<b>CASH AND CASH EQUIVALENTS, End of year</b>	<b>\$ <u><u>1,734,559</u></u></b>	<b><u><u>1,961,723</u></u></b>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Capital assets acquired under capital lease obligations	\$ <u><u>163,128</u></u>	<u><u>--</u></u>
Interest payments (expensed and capitalized)	\$ <u><u>647,953</u></u>	<u><u>674,788</u></u>

See notes to financial statements

# Decatur County Hospital

## Statements of Cash Flows (Continued)

For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (34,747)	(145,704)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	1,481,614	1,460,852
Loss on disposal of capital assets	1,779	7,138
Decrease in deferred outflows of resources	1,301	--
Decrease in net pension liability	(1,019,537)	--
Increase in deferred inflows of resources	796,154	--
(Increase) decrease in current assets -		
Receivables -		
Patients	(560,426)	156,553
Other	1,168	(5,465)
Inventories	(148,605)	7,492
Prepaid expenses	(17,531)	98,479
Estimated third-party payor settlements	279,335	141,665
Increase in current liabilities -		
Accounts payable - trade	45,305	37,739
Accrued salaries, wages and vacation payable	21,829	22,031
Estimated third-party payor settlements	103,138	--
Net cash provided by operating activities	\$ <u>950,777</u>	<u>1,780,780</u>

*See notes to financial statements*

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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

The following is a description of the reporting entity and a summary of significant accounting policies of Decatur County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital, operating with 25 acute-care beds. The Hospital also has related health care ancillary and outpatient services.

#### A. *Reporting Entity*

For financial reporting purposes, Decatur County Hospital has included all the funds of the Hospital, specifically all assets, deferred outflows, liabilities, deferred inflows, 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. Decatur County Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for the Hospital. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis. The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective July 1, 2002.

#### B. *Industry Environment*

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

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

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

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### C. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred outflows, liabilities, and deferred inflows with the differences 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, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position - Expendable* – This component of net position results when constraints placed on net positions through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

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

When the Hospital has both restricted and unrestricted resources available to finance a particular activity or program, it is the Hospital's policy to use restricted resources before unrestricted resources.

### D. *Measurement Focus and Basis of Accounting*

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

The 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.

### 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 outflows, liabilities, and deferred inflows 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 highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees, donor or debt agreement.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### G. *Patient Receivables, Net*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for uncollectable accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectable accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectable accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for uncollectable accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectable accounts.

### H. *Inventories*

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

### I. *Property Tax Receivable*

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

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

### J. *Assets Limited as to Use or Restricted*

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

Under Debt Agreements - These funds are used for the payment of principal and interest on the Series 2011A and 2011B bonds.

### K. *Short-Term Investments*

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

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### L. *Capital Assets, net*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is computed using the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements.

Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings and building improvements (Note 6)	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

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

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

### 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 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 employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount of 280 hours. PTO expense is accrued as an expense and a liability as it is earned. Accrued PTO payable at June 30, 2015 and 2014 was \$227,367 and \$215,549 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.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating revenue and expenses.

*R. 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. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

*S. Grants and Contributions*

From time to time, the Hospital receives 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 are reported as nonoperating revenue. Amounts restricted to capital acquisitions or that are restricted to a specific operating purpose are reported after nonoperating revenue and expenses.

*T. Income Taxes*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Decatur, 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.

*U. Excess of Revenue Over (Under) Expenses Before Capital Grants and Contributions*

The statements of revenue, expenses and changes in net position include excess of revenue over (under) expenses before capital grants and contributions as a performance indicator. Changes in unrestricted net position that are excluded from excess of revenue over (under) expenses before capital grants and contributions, consistent with industry practice, include gifts, grants and bequests for purchase of capital assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

*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 in the statements of revenue, expenses and changes in net position.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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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. *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.

X. *Reclassifications*

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

Y. *Subsequent Events*

The Hospital considered events occurring through September 25, 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, Investments and Assets Limited as to Use or Restricted**

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.

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

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The 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 composition of investments and assets limited as to use or restricted as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for capital improvements -		
Cash and cash equivalents	\$ 185,847	169,434
Certificates of deposit and accrued interest	<u>1,855,448</u>	<u>1,843,070</u>
	2,041,295	2,012,504
By debt agreements:		
Reserve fund - Certificates of deposit and accrued interest	<u>1,244,453</u>	<u>1,240,412</u>
Total assets limited as to use or restricted	<u>\$ 3,285,748</u>	<u>3,252,916</u>

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Investments:		
Short-term investments - Certificates of deposit	\$ <u>748,895</u>	<u>742,121</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	\$ <u>30,960</u>	<u>30,307</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 nonacute services and certain outpatient 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'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. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

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

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

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	\$ 1,862,001	1,739,176
Outpatient	14,475,190	12,055,984
Swingbed	<u>588,376</u>	<u>827,597</u>
Total gross patient service revenue	<u>16,925,567</u>	<u>14,622,757</u>
Deductions from gross patient service revenue:		
Medicare	(2,147,567)	(1,865,544)
Medicaid	(1,341,450)	(541,882)
Other	(1,611,365)	(1,558,952)
Charity care services	<u>(60,993)</u>	<u>(68,772)</u>
Total deductions from patient service revenue	<u>(5,161,375)</u>	<u>(4,035,150)</u>
Net patient service revenue before provision for bad debt	\$ <u>11,764,192</u>	<u>10,587,607</u>

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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The Hospital reports net patient services 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 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 47% and 17%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2015, and 55% and 12%, 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 \$50,000 and \$140,000, respectively, due to removal of allowances previously estimated that are no longer necessary and as a result of final settlement of years that are no longer subject to audits, reviews, and investigations.

### (4) Other Operating Revenue

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

	<u>2015</u>	<u>2014</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$ 98,238	208,242
Iowa Department of Health and Human Services	62,900	--
Guest and employee meals	54,513	55,445
Laundry	1,079	2,720
Medical records transcriptions	1,234	2,340
Rent	26,473	31,350
Other	100,928	75,267
	<u>\$ 345,365</u>	<u>375,364</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 2013, 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 2015. Amounts due from Medicare for EHR qualifying assets at June 30, 2015 and 2014 were approximately \$-0- and \$43,593, 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 \$98,238 and \$208,242 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 (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2015. Medicaid incentive revenue of \$62,900 and \$-0- was earned in 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.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

### (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 accounts	\$ 2,735,203	1,847,777
Less estimated third-party contractual adjustments	(672,001)	(483,001)
Less allowance for uncollectable accounts	<u>(343,000)</u>	<u>(205,000)</u>
	<u>\$ 1,720,202</u>	<u>1,159,776</u>

The Hospital grants credits without collateral to its patients, most of whom 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	23%	32%
Medicaid	20	15
Blue Cross	13	11
Other third party payor	25	19
Private pay	<u>19</u>	<u>23</u>
	<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	\$ 59,272	--	--	59,272
Construction in progress	26,219	152,463	(173,182)	5,500
Total capital assets, not being depreciated	<u>85,491</u>	<u>152,463</u>	<u>(173,182)</u>	<u>64,772</u>
Capital assets, being depreciated:				
Land improvements	937,568	--	14,708	952,276
Hospital buildings	13,659,143	--	--	13,659,143
Major moveable equipment	5,435,111	509,803	33,854	5,978,768
Total capital assets, being depreciated	<u>20,031,822</u>	<u>509,803</u>	<u>48,562</u>	<u>20,590,187</u>
Less accumulated depreciation:				
Land improvements	86,149	64,949	--	151,098
Hospital buildings	1,154,872	756,887	--	1,911,759
Major moveable equipment	2,853,640	659,778	(122,841)	3,390,577
Total accumulated depreciation	<u>4,094,661</u>	<u>1,481,614</u>	<u>(122,841)</u>	<u>5,453,434</u>
Total capital assets, being depreciated, net	<u>15,937,161</u>	<u>(971,811)</u>	<u>171,403</u>	<u>15,136,753</u>
Total capital assets, net	<u>\$ 16,022,652</u>	<u>(819,348)</u>	<u>(1,779)</u>	<u>15,201,525</u>

# Decatur 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	\$ 59,272	--	--	59,272
Construction in progress	2,999	44,720	(21,500)	26,219
Total capital assets, not being depreciated	<u>62,271</u>	<u>44,720</u>	<u>(21,500)</u>	<u>85,491</u>
Capital assets, being depreciated:				
Land improvements	931,166	6,402	--	937,568
Hospital buildings	13,649,627	9,516	--	13,659,143
Major moveable equipment	5,244,460	179,700	10,951	5,435,111
Total capital assets, being depreciated	<u>19,825,253</u>	<u>195,618</u>	<u>10,951</u>	<u>20,031,822</u>
Less accumulated depreciation:				
Land improvements	19,702	66,447	--	86,149
Hospital buildings	398,303	756,569	--	1,154,872
Major moveable equipment	2,218,766	637,836	(2,962)	2,853,640
Total accumulated depreciation	<u>2,636,771</u>	<u>1,460,852</u>	<u>(2,962)</u>	<u>4,094,661</u>
Total capital assets, being depreciated, net	<u>17,188,482</u>	<u>(1,265,234)</u>	<u>13,913</u>	<u>15,937,161</u>
Total capital assets, net	<u>\$ 17,250,753</u>	<u>(1,220,514)</u>	<u>(7,587)</u>	<u>16,022,652</u>

Total depreciation and amortization expense for the year ended June 30, 2015 and 2014, including depreciation on rental property owned by the Hospital, was \$1,481,614 and \$1,460,852 respectively.

### (7) Long-Term Debt

Long-term debt activity of the Hospital for the years ended June 30, 2015 and 2014 is as follows:

	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Capital lease obligations (A)	\$ 406,636	163,128	(164,141)	405,623	166,720
Series 2011A Bonds (B)	9,652,207	--	(386,602)	9,265,605	402,659
Series 2011B Bonds (C)	4,980,570	--	(199,514)	4,781,056	207,795
	<u>\$ 15,039,413</u>	<u>163,128</u>	<u>(750,257)</u>	<u>14,452,284</u>	<u>777,174</u>
	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Capital lease obligations (A)	\$ 534,956	--	(128,320)	406,636	137,480
Series 2011A Bonds (B)	9,962,000	--	(309,793)	9,652,207	386,339
Series 2011B Bonds (C)	5,141,000	--	(160,430)	4,980,570	199,372
	<u>\$ 15,637,956</u>	<u>--</u>	<u>(598,543)</u>	<u>15,039,413</u>	<u>723,191</u>

(A) Capital lease obligations at varying rates of imputed interest from 0% to 5% maturing through 2020 and collateralized by leased equipment.

(B) The Hospital issued \$9,962,000 of Hospital Revenue Bonds Series 2011A. The proceeds of these bonds are to be used to construct a replacement hospital facility. The Series 2011A bonds bear interest at rate of 4.3%, maturing in September 14, 2031. The interest rate on the bonds will be adjusted in September 2021 and shall be the greater of 4.3% or the interest rate on a 10 year U.S. Treasury note plus 4% multiplied by .64. Annual principal payments are due in amounts ranging from approximately \$165,000 to \$770,000 through September 2031.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

- (C) The City of Leon, Iowa issued \$5,141,000 of Hospital Revenue Bonds Series 2011B. Proceeds from the issuance were loaned to the Hospital under a loan agreement between the Hospital and the City of Leon, Iowa. Proceeds from the Series 2011B bonds were provided to the Hospital in varying draw amounts through May 2013. The interest rate on the bonds will be adjusted in September 2021 and shall be the greater of 4.3% or the interest rate on a 10 year U.S. Treasury note plus 4% multiplied by .64. Annual principal payments are due in amounts ranging from approximately \$86,000 to \$399,000 through September 2031.

The Series 2011 bonds grant a security interest in all revenue either accrued or received in connection with operations of the Hospital. The terms of the trust indenture require the Hospital to comply with certain covenants. The covenants provide for restrictions as to financial reporting, restrictions on the sale of the healthcare facilities and require the Hospital to maintain various reserve accounts.

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2015</u>	<u>2014</u>
Cost	\$ 683,395	574,310
Less: Accumulated amortization	<u>(287,617)</u>	<u>(223,715)</u>
Net book value	<u>\$ 395,778</u>	<u>350,595</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 777,174	617,147	1,394,321
2017	769,792	582,660	1,352,452
2018	733,902	549,329	1,283,231
2019	727,346	520,973	1,248,319
2020	730,635	485,145	1,215,780
2021 – 2025	4,140,852	1,920,915	6,061,767
2026 – 2030	5,149,376	912,392	6,061,768
2031 – 2032	<u>1,423,207</u>	<u>92,235</u>	<u>1,515,442</u>
	<u>\$ 14,452,284</u>	<u>5,680,796</u>	<u>20,133,080</u>

### (8) Net Position Balances

Restricted net positions are restricted for the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
By donors for capital assets	\$ <u>40,315</u>	<u>40,315</u>

### (9) Designated Net Position

Of the \$3,156,403 and \$5,321,118 of unrestricted net position reported in 2015 and 2014, respectively \$2,041,295 and \$2,012,504 has been designated by the Hospital's Board of Trustees for capital acquisitions. Designated funds remain under control of the Board of Trustees, which may as its discretion later use the funds for other purposes.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### (10) Pension and Retirement Benefits

#### 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](http://www.ipers.org).

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

#### Pension Benefits

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

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

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

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

#### 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.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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 \$337,211 and \$307,587, 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 \$1,763,076 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 .0489228 percent, which was a decrease of .0031943 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$115,129. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,085	7,655
Changes of assumptions	81,559	183
Net difference between projected and actual earnings on pension plan investments	--	788,316
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(132,569)	--
Hospital contributions subsequent to the measurement date	<u>337,211</u>	<u>--</u>
Total	<u>\$ 306,286</u>	<u>796,154</u>

Deferred outflows of resources related to pensions included \$337,211 resulting from the Hospital contributions subsequent to the measurement date that 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	\$ (206,136)
2017	(206,136)
2018	(206,136)
2019	(206,136)
2020	<u>(2,535)</u>
	<u>\$ (827,079)</u>

There were no non-employer contributing entities at IPERS.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### 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.

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.

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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### Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in 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	\$ 3,466,029	1,763,076	325,847

### 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](http://www.ipers.org).

### Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$49,592 for legally required employer contributions and \$9,053 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

#### **(11) Management Contract**

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2015 and 2014 were \$505,878 and \$511,613, respectively.

#### **(12) Professional Liability Insurance**

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$3,000,000 aggregate coverage. These policies provide coverage on a per occurrence basis covering those claims which have occurred during the coverage period.

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

#### **(13) Commitments and Contingencies**

##### Operating Leases

The Hospital leases certain equipment under an operating lease expiring in June 2016. Total rental expense in 2015 and 2014 for this equipment was \$19,278 and \$20,538, respectively. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015, that have initial lease terms in excess of one year:

# Decatur County Hospital

## Notes to Financial Statements June 30, 2015 and 2014

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<u>Year</u>	<u>Amount</u>
2016	\$ 6,292
2017	3,520
2018	3,520
2019	3,520
2020	2,638
Thereafter	391

### (14) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 7,997,426
Net pension liability at June 30, 2014	(2,782,613)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>307,587</u>
Net position July 1, 2014, as restated	<u>\$ 5,522,400</u>

## Decatur County Hospital

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

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

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

For the year ended June 30, 2015, the Hospital's expenditures exceeded amounts budgeted.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated raised by taxation	\$ 701,333	--	701,333	672,707	28,626
Estimated other revenues / receipts	<u>11,034,682</u>	<u>472,947</u>	<u>11,507,629</u>	<u>15,641,812</u>	<u>(4,134,183)</u>
	11,736,015	472,947	12,208,962	16,314,519	(4,105,557)
Expenses / Disbursements	<u>11,659,702</u>	<u>736,818</u>	<u>12,396,520</u>	<u>11,343,057</u>	<u>(1,053,463)</u>
Net	76,313	(263,871)	(187,558)	\$ <u>4,971,462</u>	<u>(5,159,020)</u>
Balance beginning of year	<u>5,522,400</u>	<u>1,240,064</u>	<u>6,762,464</u>		
Balance end of year	\$ <u>5,598,713</u>	<u>976,193</u>	<u>6,574,906</u>		

*See accompanying independent auditor's report*

# Decatur County Hospital

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

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	Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)	<u>2015</u>
Hospital's proportion of net pension liability		0.048923%
Hospital's proportionate share of the net pension liability		\$ 1,763
Hospital's covered-employee payroll		\$ 3,449
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		51.12%
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

**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.

*See accompanying independent auditor's report*

**Decatur 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	\$ 337	308	310	282	243	243	207	180	296	280
Contributions in relation to the statutorily required contribution	<u>(337)</u>	<u>(308)</u>	<u>(310)</u>	<u>(282)</u>	<u>(243)</u>	<u>(243)</u>	<u>(207)</u>	<u>(180)</u>	<u>(296)</u>	<u>(280)</u>
Contribution deficiency (excess)	\$ <u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>	<u>    </u>
Hospital's covered-employee payroll	\$ 3,775	3,449	3,576	3,494	3,496	3,654	3,260	2,975	5,148	4,870
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*

# Decatur County Hospital

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

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### Notes to Required Supplementary Information – Pension Liability

#### Changes of benefit terms

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

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

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

#### Changes of assumptions

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

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

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

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

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

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

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

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

	2015				2014 (not restated)			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>NURSING SERVICES:</b>								
Medical, surgical and obstetrics	\$ 589,664	5,785	--	595,449	702,492	14,266	--	716,758
Skilled nursing	--	--	217,805	217,805	--	--	299,910	299,910
Respite	--	--	5,842	5,842	--	--	774	774
Observation	--	472,868	--	472,868	--	420,574	--	420,574
	<u>589,664</u>	<u>478,653</u>	<u>223,647</u>	<u>1,291,964</u>	<u>702,492</u>	<u>434,840</u>	<u>300,684</u>	<u>1,438,016</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Operating and recovery rooms	239,050	1,940,808	--	2,179,858	38,110	829,759	--	867,869
Laboratory	212,152	2,302,609	31,642	2,546,403	165,358	2,471,239	22,829	2,659,426
Central services and supply	76,460	386,131	2,445	465,036	13,762	93,584	1,753	109,099
Emergency and outpatient service	17,130	1,537,051	--	1,554,181	16,839	1,596,991	--	1,613,830
Ambulance	24,771	901,157	--	925,928	15,838	941,068	--	956,906
Electrocardiology	6,520	113,611	1,141	121,272	6,031	120,083	815	126,929
Radiology	45,922	1,260,415	10,249	1,316,586	58,252	1,259,271	6,000	1,323,523
CT scanner	54,733	1,040,557	--	1,095,290	33,709	874,249	--	907,958
Vascular imaging	17,614	374,209	204	392,027	27,809	321,155	1,519	350,483
Cardiac rehab	--	54,570	340	54,910	--	93,965	1,530	95,495
Pharmacy	321,767	2,407,868	76,896	2,806,531	423,545	1,853,088	234,683	2,511,316
Anesthesiology	56,887	601,792	--	658,679	15,298	324,364	--	339,662
Respiratory therapy	172,829	299,923	82,861	555,613	191,144	234,918	58,494	484,556
Physical therapy	15,314	663,421	87,183	765,918	21,238	510,997	106,857	639,092
Occupational therapy	2,636	73,924	60,552	137,112	5,973	64,384	84,374	154,731
Speech therapy	8,552	20,866	11,216	40,634	3,778	15,412	8,059	27,249
Clinics	--	16,415	--	16,415	--	15,687	--	15,687
Diabetic education	--	1,210	--	1,210	--	930	--	930
	<u>1,272,337</u>	<u>13,996,537</u>	<u>364,729</u>	<u>15,633,603</u>	<u>1,036,684</u>	<u>11,621,144</u>	<u>526,913</u>	<u>13,184,741</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>1,862,001</u></b>	<b><u>14,475,190</u></b>	<b><u>588,376</u></b>	<b><u>16,925,567</u></b>	<b><u>1,739,176</u></b>	<b><u>12,055,984</u></b>	<b><u>827,597</u></b>	<b><u>14,622,757</u></b>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(5,100,382)				(3,966,378)
Charity care services and other discounts, based on charges forgone				(60,993)				(68,772)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<b>11,764,192</b>				<b>10,587,607</b>
<b>PROVISION FOR BAD DEBT</b>				<b>(482,823)</b>				<b>(552,268)</b>
<b>NET PATIENT SERVICE REVENUE</b>				<b>\$ <u>11,281,369</u></b>				<b>\$ <u>10,035,339</u></b>

See accompanying independent auditor's report

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

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	<u>2015</u>	<u>2014</u>
Electronic health record incentive payments -		
Centers for Medicare and Medicaid Services	\$ 98,238	208,242
Iowa Department of Health and Human Services	62,900	--
Guest and employee meals	54,513	55,445
Laundry	1,079	2,720
Medical records transcriptions	1,234	2,340
Rent	26,473	31,350
Other	100,928	75,267
	<u>\$ 345,365</u>	<u>375,364</u>

*See accompanying independent auditor's report*

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

	2015				2014 (not restated)			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and All Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and All Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 93,573	--	1,470	95,043	89,414	--	2,598	92,012
Administration	652,252	2,520	116,726	771,498	739,051	3,758	66,730	809,539
	<u>745,825</u>	<u>2,520</u>	<u>118,196</u>	<u>866,541</u>	<u>828,465</u>	<u>3,758</u>	<u>69,328</u>	<u>901,551</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Operating and recovery room	265,524	383,695	120,231	769,450	180,914	--	52,121	233,035
Central services and supply	--	--	234,640	234,640	--	--	53,224	53,224
Emergency room	521,362	541,491	45,255	1,108,108	407,148	539,363	33,552	980,063
Radiology	166,125	313,106	263,930	743,161	195,673	304,056	203,226	702,955
Ambulance	186,610	--	38,360	224,970	177,895	--	45,330	223,225
Ultrasound	--	--	117	117	--	--	83	83
Cardiac rehab	49,268	150,487	4,048	203,803	70,275	139,995	8,003	218,273
Laboratory	184,495	137,598	334,201	656,294	182,917	18,412	285,278	486,607
Pharmacy	37,052	159,481	652,067	848,600	37,786	158,643	447,212	643,641
Social services	513	--	7,677	8,190	26,057	--	--	26,057
Home health	24,612	(95)	4,382	28,899	15,325	--	3,337	18,662
Anesthesiology	--	248,487	2,658	251,145	--	133,433	1,263	134,696
Respiratory therapy	66,752	62,880	16,887	146,519	79,409	40,688	17,684	137,781
Physical therapy	255,107	1,026	16,055	272,188	150,009	78,972	21,761	250,742
Occupational therapy	26,008	48,809	7,749	82,566	28,819	47,883	6,002	82,704
Speech therapy	--	--	718	718	--	--	13	13
Clinics	63,334	--	7,424	70,758	42,520	--	4,574	47,094
Medical records	126,088	--	17,416	143,504	126,610	1,107	16,097	143,814
Quality assurance	14,470	--	453	14,923	41,123	--	937	42,060
	<u>1,987,320</u>	<u>2,046,965</u>	<u>1,774,268</u>	<u>5,808,553</u>	<u>1,762,480</u>	<u>1,462,552</u>	<u>1,199,697</u>	<u>4,424,729</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	102,844	3,123	275,518	381,485	103,997	7	254,511	358,515
Laundry and linen	11,196	42,975	516	54,687	12,359	40,646	2,765	55,770
Dietary	163,633	23,901	91,667	279,201	175,085	37,922	87,105	300,112
Housekeeping	107,101	6,348	18,442	131,891	98,079	11,286	12,306	121,671
	<u>384,774</u>	<u>76,347</u>	<u>386,143</u>	<u>847,264</u>	<u>389,520</u>	<u>89,861</u>	<u>356,687</u>	<u>836,068</u>
ADMINISTRATIVE SERVICES	<u>667,564</u>	<u>316,167</u>	<u>462,088</u>	<u>1,445,819</u>	<u>628,385</u>	<u>350,577</u>	<u>523,148</u>	<u>1,502,110</u>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	--	--	1,133,317	1,133,317	--	--	1,354,544	1,354,544
Depreciation and amortization	--	--	1,481,614	1,481,614	--	--	1,460,852	1,460,852
Insurance	--	--	76,594	76,594	--	--	69,415	69,415
	<u>--</u>	<u>--</u>	<u>2,691,525</u>	<u>2,691,525</u>	<u>--</u>	<u>--</u>	<u>2,884,811</u>	<u>2,884,811</u>
<b>TOTAL EXPENSES</b>	<u>\$ 3,785,483</u>	<u>2,441,999</u>	<u>5,432,220</u>	<u>11,659,702</u>	<u>3,608,850</u>	<u>1,906,748</u>	<u>5,033,671</u>	<u>10,549,269</u>

See accompanying independent auditor's report

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

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,270,487	46.45 %	1,039,656	56.27 %
31 - 60	454,253	16.61	259,610	14.05
61 - 90	236,587	8.65	197,524	10.69
91 - 120	210,149	7.68	114,819	6.21
121 and over	563,727	20.61	236,168	12.78
	<u>2,735,203</u>	<u>100.00 %</u>	<u>1,847,777</u>	<u>100.00 %</u>
Less:				
Allowance for uncollectable accounts	(343,000)		(205,000)	
Allowance for contractual adjustments	<u>(672,001)</u>		<u>(483,001)</u>	
	<u>\$ 1,720,202</u>		<u>1,159,776</u>	

	2015	2014
ALLOWANCE FOR UNCOLLECTABLE ACCOUNTS:		
Balance, beginning of year	\$ 205,000	234,000
Provision of uncollectible accounts	482,823	552,268
Recoveries of accounts previously written off	131,259	118,214
Accounts written off	<u>(476,082)</u>	<u>(699,482)</u>
Balance, end of year	<u>\$ 343,000</u>	<u>205,000</u>

*See accompanying independent auditor's report*

**Inventories / Prepaid Expenses**  
**June 30, 2015 and 2014**

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	<u>2015</u>	<u>2014</u>
INVENTORIES:		
Plant operations and maintenance	\$ 206,855	98,882
Pharmacy	104,709	76,867
Laboratory	37,822	37,327
Operating room	19,249	8,403
Dietary	7,411	7,736
Laundry	7,168	5,394
	<u>\$ 383,214</u>	<u>234,609</u>
PREPAID EXPENSES:		
Insurance	\$ 6,533	1,623
Maintenance contracts	87,298	74,677
	<u>\$ 93,831</u>	<u>76,300</u>

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


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	<u>2015</u>	<u>2014</u>
Patient days:		
Adult and pediatric-		
Medicare	405	593
Other	<u>242</u>	<u>224</u>
	647	817
Swing bed - Skilled	455	730
Respite	<u>104</u>	<u>40</u>
Total	<u><u>1,206</u></u>	<u><u>1,587</u></u>
Patient discharges:		
Adult and pediatric-		
Medicare	139	192
Other	<u>81</u>	<u>69</u>
	220	261
Swing bed - Skilled	48	65
Respite	<u>10</u>	<u>10</u>
Total	<u><u>278</u></u>	<u><u>336</u></u>
Average length of stay:		
Adult and pediatric-		
Medicare	2.91 days	3.09 days
Other	2.99 days	3.24 days
Swing bed - Skilled	9.48 days	11.23 days
Respite	10.40 days	4.00 days
Surgical procedures	471	252
Emergency room visits	2,934	2,683
Number of employees - full-time equivalents	81.64	82.59

**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 of  
Decatur County Hospital  
Leon, Iowa:

We have audited 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, the financial statements of Decatur 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 25, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**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*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### **Hospital's Response to Findings**

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

### **Purpose of this Report**

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

Seim Johnson, LLP

Omaha, Nebraska,  
September 25, 2015.

# Decatur County Hospital

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

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### Part I: Summary of the Independent Auditor's Results

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

### Part II: Findings Related to the Financial Statements

#### Instances of Non-Compliance

No matters were reported.

#### Significant Deficiency:

##### II-A-15

<i>Criteria:</i>	Proper segregation of duties ensures an adequate internal control structure.
<i>Condition:</i>	We identified instances where a lack of segregation of duties exists.
<i>Effect:</i>	Without proper segregation of duties, a greater risk of fraud and defalcation may exist.
<i>Cause:</i>	Due to a limited number of administrative personnel, a lack of segregation of duties exists.
<i>Recommendation:</i>	We recommend the Hospital continue to monitor and improve its segregation of duties.
<i>Response:</i>	Management is aware of this control deficiency and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.
<i>Conclusion:</i>	Response accepted.

### Part III: Other Findings Related to Required Statutory Reporting

#### III-A-15

Certified Budget: Hospital disbursements during the year ended June 30, 2015 exceeded amounts budgeted.

<i>Recommendation:</i>	Management should periodically review its budget estimates to actual activity and make appropriate revisions when necessary.
<i>Response:</i>	Actual disbursements exceeded the reported budget for fiscal year ending June 30, 2015 by \$1,053,463. Management has identified the reporting difference and will make appropriate adjustments to the reported budget for fiscal year ending June 30, 2016 if necessary.
<i>Conclusion:</i>	Response accepted.

#### III-B-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.

# Decatur County Hospital

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

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### III-C-15

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

### III-D-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-E-15

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

### III-F-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-G-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.

# Decatur County Hospital

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

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<u>Finding</u>	<u>Finding title</u>	<u>Status</u>	<u>If not corrected, corrective action plan or other explanation</u>
II-A-14	Segregation of duties in the accounting and data processing areas.	Not corrected	Management is aware of this deficiency in internal control and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties. Similar finding reported at II-A-15.

# Decatur County Hospital

## Audit Staff

For the Year Ended June 30, 2015

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### This audit was performed by:

- Randy D. Hoffman, CPA, FHFMA, Partner
- Jeremy J. Behrens, CPA, FHFMA, Senior Manager
- J. Alex Morton, CPA, In-charge Auditor
- Cody J. Powers, Staff Auditor