

Lucas County Health Center
Chariton, Iowa

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

Together with Independent Auditor's Report

Lucas County Health Center

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Lucas County Health Center

Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees:		
Natalie McGee	Chairman	December 2016
Randy Westman	Vice Chairman	December 2020
Sue Frazier	Secretary	December 2018
Mike Miller	Treasurer	December 2018
Betty Hansen	Member	December 2018
Raymond Meyer	Member	December 2016
Lisa Junkman	Member	December 2020
Health Center Officials:		
Dan Minkoff	Interim Chief Executive Officer/Chief Financial Officer	

Independent Auditor's Report

To the Board of Trustees
Lucas County Health Center
Chariton, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Lucas County Health Center (Health Center) as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 13 to the financial statements, in 2015 the Health Center 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 (pages 4 through 9), budgetary comparison information (page 30) the schedule of the Health Center's proportionate share of the net pension liability (page 31), and the schedule of Health Center contributions (page 32) 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 Health Center's basic financial statements. The supplementary information (Exhibits 1 – 6) is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2015 on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.

SEEM JOHNSON, LLP

Omaha, Nebraska,
November 18, 2015.

Lucas County Health Center

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

As management of Lucas County Health Center, we offer readers of the financial statements this narrative overview and analysis of the Health Center's financial performance during the fiscal years ended June 30, 2015, 2014 and 2013. Please read it in conjunction with the Health Center's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets decreased by \$837,257, or 8%, to \$10,184,416
- Noncurrent assets whose use is limited increased by \$581,072 to \$854,892
- Total property and equipment decreased by \$459,564 to \$4,724,760
- Total net position decreased by \$5,852,402 to \$602,130
- Net patient service revenue increased by \$261,720, or 2%, to \$16,895,347
- Total operating expenses decreased by \$215,911, or 1%, to \$18,872,651

Financial Analysis of the Health Center

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

Lucas County Health Center

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

A summary of the Health Center's statements of net position is presented in Table 1.

	<u>2015</u>	<u>2014 Not restated</u>	<u>2013 Not restated</u>
Assets:			
Estimated third-party payor settlements	\$ --	17,000	12,000
Other current assets	4,604,764	5,546,529	4,295,230
Assets limited as to use or restricted	854,892	273,820	277,313
Capital assets, net	<u>4,724,760</u>	<u>5,184,324</u>	<u>5,727,442</u>
Total assets	<u>10,184,416</u>	<u>11,021,673</u>	<u>10,311,985</u>
Deferred outflows of resources,			
Pension related deferred outflows	<u>1,246,059</u>	--	--
Total assets and deferred outflows of resources	<u>11,430,475</u>	<u>11,021,673</u>	<u>10,311,985</u>
Liabilities:			
Long-term debt	1,092,066	1,123,813	1,297,588
Other current and non-current liabilities	1,919,026	2,269,530	1,663,564
Net pension liability	<u>4,809,032</u>	--	--
Total liabilities	<u>7,820,124</u>	<u>3,393,343</u>	<u>2,961,152</u>
Deferred Inflows of Resources:			
Unavailable property tax revenue	980,608	1,173,798	1,185,000
Pension related deferred inflows	<u>2,027,613</u>	--	--
Total deferred inflows of resources	<u>3,008,221</u>	<u>1,173,798</u>	<u>1,185,000</u>
Net Position:			
Net investment in capital assets	3,632,694	4,060,511	4,429,854
Restricted - expendable for debt service	102,435	102,282	102,085
Unrestricted	<u>(3,132,999)</u>	<u>2,291,739</u>	<u>1,633,894</u>
Total net position	<u>602,130</u>	<u>6,454,532</u>	<u>6,165,833</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,430,475</u>	<u>11,021,673</u>	<u>10,311,985</u>

As depicted in Table 1, total assets and deferred outflows of resources increased in fiscal year 2015 to \$11,430,475. The change in total assets and deferred outflows of resources was primarily due to an increase in pension related deferred outflows as required to be reported in the statement of net position by GASB 68.

Lucas County Health Center

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

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

Table 2: Operating Results and Changes in Net Position

	<u>2015</u>	<u>2014</u> Not restated	<u>2013</u> Not restated
Operating revenue:			
Net patient service revenue	\$ 16,895,347	16,633,627	15,014,982
Other operating revenue	716,170	1,413,205	696,878
Total operating revenue	<u>17,611,517</u>	<u>18,046,832</u>	<u>15,711,860</u>
Operating expenses:			
Salaries and employee benefits	11,458,637	11,561,751	10,956,400
Purchased services and other	6,435,432	6,515,350	6,043,183
Depreciation	978,582	1,011,461	1,019,597
Total expenses	<u>18,872,651</u>	<u>19,088,562</u>	<u>18,019,180</u>
Operating loss	<u>(1,261,134)</u>	<u>(1,041,730)</u>	<u>(2,307,320)</u>
Nonoperating Revenue (Expenses):			
Interest	(49,112)	(59,811)	(65,964)
County taxes	1,184,344	1,187,890	1,056,660
Investment income	75,491	41,084	18,281
Grants and contributions	132,352	161,266	222,582
Total nonoperating revenue, net	<u>1,343,075</u>	<u>1,330,429</u>	<u>1,231,559</u>
Increase (decrease) in net position	81,941	288,699	(1,075,761)
Net position, beginning of year	<u>520,189</u>	<u>6,165,833</u>	<u>7,241,594</u>
Net position, end of year	<u>\$ 602,130</u>	<u>6,454,532</u>	<u>6,165,833</u>

Operating and Financial Performance

The following summarizes the Health Center's statements of revenues, expenses and changes in net position between June 30, 2015 and 2014.

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

Volume: Acute discharges for fiscal year 2015 were 355 compared to 412 in fiscal year 2014. Average length of stay was 2.70 for fiscal year 2015 compared to 2.92 in fiscal year 2014 as acute patient days decreased to 959 from 1,205 in 2014. Swing bed discharges for fiscal year 2015 were 55 compared to 68 in fiscal year 2014. Swing bed average length of stay decreased and patient days decreased to 593 from 905 in 2014. Volume on the outpatient side indicated positive growth in 2015. In 2015, gross outpatient charges increased to \$25,087,506 compared to \$23,298,582 in 2014. Medical and surgical, ancillary services, ER and LCHC Medical and Surgical Clinics reflected the most significant increases in 2015.

Price Increase: As is customary annually, the Health Center did review its charge structure and incorporated certain price increases in 2015. Overall, gross patient service revenue increased to \$29,117,984 from \$28,486,146 in 2014 as a result of both price increases and changes in volume of services provided.

Lucas County Health Center

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

Payor Mix: The Health Center is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$12,130,124 in 2015 compared to \$11,722,564 in 2014, representing 42% and 41% of gross patient charges, respectively.

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

**Table 3
Payor Mix By Percentage**

	Year ended June 30		
	2015	2014	2013
Medicare	41 %	44 %	46 %
Medicaid	19	16	14
Commercial insurance	37	36	36
Patients	3	4	4
	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

Other Revenue

Other revenue decreased to \$716,170 in 2015 compared to \$1,413,205 in 2014 primarily due to a decrease in electronic health records meaningful use incentive revenue.

Expenses

Approximately 50% of Health Center's expenses are for salaries. Total salaries increased by 3% to \$9,363,151 in 2015 from \$9,113,114 in 2014. The Health Center departments experiencing the most significant increase in 2015 was the LCHC Medical Clinic. Also, the start-up of the LCHC Surgical Clinic created a significant increase in total salaries for 2015.

Approximately 23% of Health Center's expenses are for supplies and other expenses. Total supplies and other expenses decreased by 2% to \$4,388,473 in 2015 from \$4,455,359 in 2014. The Health Center departments experiencing the most significant decrease in 2015 were LCHC Medical Clinic, pharmacy, Humeston medical clinic, dietary and plant operations and maintenance. Approximately 5% of Health Center's expenses relate to provision for depreciation. The provision for depreciation decreased to \$978,582 in 2015 from \$1,011,461 in 2014.

Nonoperating Revenue (Expense)

Nonoperating revenue (expense) remained stable at \$1,343,075 in 2015 compared to \$1,330,429 in 2014.

Property and Equipment

At the end of 2015, the Health Center had \$4,724,760 invested in property and equipment, net of accumulated depreciation. The notes to the financial statements provide more detail of changes in property and equipment. In 2015, \$484,836 was spent to acquire new equipment.

Lucas County Health Center

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

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

**Table 4
Property and Equipment**

	June 30		
	2015	2014	2013
Land	\$ 83,861	83,861	83,861
Land improvements	803,267	786,692	786,692
Building and improvements	8,402,479	8,402,479	8,402,479
Major moveable equipment	11,803,604	11,380,428	11,077,641
	21,093,211	20,653,460	20,350,673
Less accumulated depreciation	(16,368,451)	(15,469,136)	(14,623,231)
Property and equipment, net	\$ <u>4,724,760</u>	<u>5,184,324</u>	<u>5,727,442</u>

Debt Administration

At year end, the Health Center had \$1,092,066 in current and long-term debt. This has decreased by \$31,747, which was the required amount of principal payments of \$161,627, net of new debt issued in the amount of \$129,880 during fiscal year 2015. More detailed information about the Health Center's outstanding debt is presented in the notes to the financial statements. Note that the total long-term debt represents approximately 14% of the Health Center's total liabilities as of year-end.

Performance Compared to County Hospital Budget

The Health Center prepares its annual County Hospital budget on the cash basis, which differs from generally accepted accounting principles, accrual basis. More detailed information as to major differences between County Hospital cash and accrual bases are presented as required supplementary information on page 30. A comparison of the Health Center's fiscal year 2015 actual accrual basis financial information to its County Hospital cash basis is presented in Table 5.

**Table 5
Actual vs Budget**

	Actual Budget Basis	County Hospital Budget	Variance
Amount to be raised by taxation	\$ 1,184,344	1,136,372	47,972
Other revenue/receipts	18,561,764	19,070,685	(508,921)
	19,746,108	20,207,057	(460,949)
Expenses/expenditures	19,509,166	19,318,677	(190,489)
Net	\$ <u>236,942</u>	<u>888,380</u>	<u>(651,438)</u>

Lucas County Health Center

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

Actual other revenues/receipts results were lower than County Hospital budget mostly due to lower net inpatient service revenue than expected. Expenses/expenditures were higher than County Hospital budget mainly due to the start-up of the LCHC Surgical Clinic.

Economic and Other Factors and Next Year's Budget

The Health Center's board and management considered many factors when setting the fiscal year 2015 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements
- Meaningful Use related enhancements and incentive payments
- 340B Program cost savings

Contacting Health Center's Management

This financial report is designed to provide users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about this report or need additional information, contact Lucas County Health Center at (641) 774-3000 or write care of: Chief Financial Officer, Lucas County Health Center, 1200 N. Seventh Street, Chariton, Iowa 50049.

Lucas County Health Center

Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>(not restated) 2014</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 544,649	307,707
Assets limited as to use or restricted, current portion	86,762	86,632
Receivables -		
Patient, net of allowance for uncollectible accounts of \$422,000 in 2015 and \$573,000 in 2014	2,325,784	2,671,828
Succeeding year property tax	980,608	1,173,798
Other	124,639	795,143
Inventories	180,400	176,975
Prepaid expenses	361,922	334,446
Estimated third-party payor settlements	--	17,000
	<u>4,604,764</u>	<u>5,563,529</u>
Total current assets		
Assets limited as to use or restricted, net of current portion	854,892	273,820
Capital assets, net	<u>4,724,760</u>	<u>5,184,324</u>
Total assets	<u>10,184,416</u>	<u>11,021,673</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>1,246,059</u>	--
Total assets and deferred outflows of resources	<u>\$ 11,430,475</u>	<u>11,021,673</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 147,217	153,653
Accounts payable -		
Trade	647,231	901,722
Capital assets	--	337,348
Accrued expenses -		
Accrued salaries, wages and vacation payable	861,623	784,360
Payroll taxes and withholdings	224,599	218,101
Interest	25,395	27,999
Estimated third-party payor settlements	<u>160,178</u>	--
	2,066,243	2,423,183
Total current liabilities		
Long-term debt, net of current portion	944,849	970,160
Net pension liability	<u>4,809,032</u>	--
Total liabilities	<u>7,820,124</u>	<u>3,393,343</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	980,608	1,173,798
Pension related deferred inflows	<u>2,027,613</u>	--
Total deferred inflows of resources	<u>3,008,221</u>	<u>1,173,798</u>
Commitments and contingencies		
NET POSITION		
Net investment in capital assets	3,632,694	4,060,511
Restricted - expendable for debt service	102,435	102,282
Unrestricted	<u>(3,132,999)</u>	<u>2,291,739</u>
Total net position	<u>602,130</u>	<u>6,454,532</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,430,475</u>	<u>11,021,673</u>

See notes to financial statements

Lucas County Health Center

**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	\$ 17,465,325	17,630,550
Provision for bad debt	<u>(569,978)</u>	<u>(996,923)</u>
Net patient service revenue	16,895,347	16,633,627
Other operating revenue	<u>716,170</u>	<u>1,413,205</u>
Total operating revenue	<u>17,611,517</u>	<u>18,046,832</u>
OPERATING EXPENSES:		
Salaries and wages	9,363,151	9,113,114
Employee benefits	2,095,486	2,448,637
Professional fees and purchased services	1,879,619	1,901,176
Supplies and other	4,388,473	4,455,359
Insurance	167,340	158,815
Depreciation	<u>978,582</u>	<u>1,011,461</u>
Total operating expenses	<u>18,872,651</u>	<u>19,088,562</u>
OPERATING LOSS	<u>(1,261,134)</u>	<u>(1,041,730)</u>
NONOPERATING REVENUE (EXPENSES):		
Interest	(49,112)	(59,811)
County taxes	1,184,344	1,187,890
Investment income	75,491	41,084
Noncapital grants and contributions	<u>132,352</u>	<u>161,266</u>
Total nonoperating revenue	<u>1,343,075</u>	<u>1,330,429</u>
INCREASE IN NET POSITION	81,941	288,699
NET POSITION, Beginning of year, as restated	<u>520,189</u>	<u>6,165,833</u>
NET POSITION, End of year	<u>\$ 602,130</u>	<u>6,454,532</u>

See notes to financial statements

Lucas County Health Center

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

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 17,418,569	16,017,570
Cash paid for employee salaries and benefits	(11,718,633)	(11,591,209)
Cash paid to suppliers and contractors	(6,720,824)	(6,196,102)
Other receipts and payments, net	<u>1,376,625</u>	<u>680,885</u>
Net cash provided by (used in) operating activities	<u>355,737</u>	<u>(1,088,856)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	132,352	161,266
Property taxes received	<u>1,184,344</u>	<u>1,187,890</u>
Net cash provided by noncapital financing activities	<u>1,316,696</u>	<u>1,349,156</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(856,366)	(137,478)
Proceeds from sale of capital assets	10,049	9,900
Proceeds from issuance of long term debt	129,880	85,314
Payments on long term debt	(161,627)	(259,089)
Interest paid on debt	<u>(51,716)</u>	<u>(62,323)</u>
Net cash used in capital and related financing activities	<u>(929,780)</u>	<u>(363,676)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Deposits to) withdrawals from assets limited as to use or restricted, net	(581,202)	3,367
Investment income received	<u>75,491</u>	<u>41,084</u>
Net cash provided by (used in) investing activities	<u>(505,711)</u>	<u>44,451</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	236,942	(58,925)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>307,707</u>	<u>366,632</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 544,649</u>	<u>307,707</u>

See notes to financial statements

Lucas County Health Center

**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 (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (1,261,134)	(1,041,730)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	978,582	1,011,461
Gain on disposal of property and equipment	(10,049)	(3,417)
(Increase) decrease in current assets -		
Receivables -		
Patients	346,044	(611,057)
Other	670,504	(728,903)
Inventories	(3,425)	42,920
Prepaid expenses	(27,476)	(24,260)
Estimated third-party payor settlements	17,000	(5,000)
Increase in deferred outflows of resources	(462,705)	--
Increase (decrease) in current liabilities -		
Accounts payable	(254,491)	300,588
Accrued salaries, wages and vacation payable	77,263	(20,679)
Payroll taxes and withholdings	6,498	(8,779)
Estimated third-party payor settlements - Medicare and Medicaid	160,178	--
Increase in deferred inflows of resources	2,027,613	--
Decrease in net pension liability	(1,908,665)	--
Net cash provided by (used in) operating activities	<u>\$ 355,737</u>	<u>(1,088,856)</u>

See notes to financial statements

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

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

The following is a description of the reporting entity and a summary of significant accounting policies of Lucas County Health Center (Health Center). These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

The Health Center is a county public hospital under Chapter 347 of the Code of Iowa and is governed by a seven member Board of Trustees elected for terms of six years. The Health Center is a Critical Access Hospital with 25 acute care beds and primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in Chariton, Iowa and the surrounding area.

For financial reporting purposes, the Health Center has included all the funds of the Health Center, specifically all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue and expenses over which the Health Center's governing board exercises oversight responsibility. The Health Center 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 Health Center are such that exclusion would cause the Health Center'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 Health Center 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 Health Center. The Health Center has no component units which meet the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

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

Management believes that the Health Center 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 Health Center's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

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

C. *Basis of Presentation*

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

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

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 – expendable – This component of net position results when constraints placed on net use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted – This component of net position consists of net position that does 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 Health Center has both restricted and unrestricted resources available for use, generally it is the Health Center's policy to use restricted net position first.

D. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues 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 Health Center'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 of resources, liabilities, deferred inflows of resources 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 include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or under debt agreements.

G. Patient Receivables, Net

Net patient receivables consist of uncollateralized patient and third-party obligations reduced by a valuation allowance for doubtful accounts and contractual adjustments from third-party payors, patients and others. The allowances reflect management's estimate of amounts that will not be collected in the future and are based on reviews of patient balances by payor classes. Percentages are applied to each payor class based on contractual agreements and historical collection and recovery information to determine the net realizable value of the patient receivables. Accounts are considered delinquent based on passage of a specified period of time and consideration of payment history. Accounts deemed uncollectible are written off and charged to the allowance in the year they are deemed uncollectible.

The Health Center also maintains a patient financial assistance policy as described in Note 1(R).

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

H. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the Board of Trustees. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees 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 tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. *Inventories*

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

J. *Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

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

By Debt Agreements – These funds are reserve funds held as security for the Series 1991B Hospital Revenue Note and the Series 1994A USDA Mortgage Note. These funds are used for the payment of principal and interest on the notes.

Amounts required to meet current obligations of the Health Center have been included as current assets in the statements of net position at June 30, 2015 and 2014.

K. *Capital Assets, Net*

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

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

Land improvements	5 to 30 years
Buildings and building improvements	5 to 40 years
Fixed and major moveable equipment	3 to 20 years

The Health Center'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 with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

L. 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.

M. Compensated Absences

Health Center policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Paid Time Off (PTO) accumulates and may be carried forward by an employee in an amount not to exceed 360 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the earned amount is recorded as a current liability. Accrued PTO liability at June 30, 2015 and 2014 was \$408,719 and \$388,952, respectively.

N. 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.

O. 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.

P. Statement 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 healthcare services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as nonoperating revenues and expenses.

Q. Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

R. Charity Care

The Health Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Health Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from patient service revenue under the Health Center's charity care policy were \$92,513 and \$129,955, for 2015 and 2014, respectively.

S. Grants and Contributions

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

T. Fair Value of Financial Instruments

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use or restricted, receivables, and current liabilities approximate fair value due to the relatively short period of time between their origination and expected realization. The carrying value of long-term debt approximates fair value since the interest rates closely reflect market rates.

U. Income Taxes

Under the Code of Iowa, Chapter 347, the Health Center is an instrumentality of the County of Lucas, Iowa. As such, the Health Center is exempt from paying income taxes.

V. Risk Management

The Health Center 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.

W. Subsequent Events

The Health Center considered events occurring through November 18, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Deposits and Assets Limited as to Use or Restricted

The Health Center'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.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

The Health Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Health Center manages the following risks in accordance with their formal investment policy:

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

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 Health Center's investment policy requires the funds to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The composition of 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:		
Money market funds	\$ 752,457	171,538
By Debt Agreements – Reserve and Sinking Fund Accounts:		
Cash and cash equivalents	86,762	86,632
Money market funds	102,435	102,282
	<u>189,197</u>	<u>188,914</u>
Total assets limited as to use or restricted	941,654	360,452
Less amounts required to meet current obligations	<u>86,762</u>	<u>86,632</u>
Long-term portion	\$ <u>854,892</u>	<u>273,820</u>

(3) Net Patient Service Revenue

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

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

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

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 Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Health Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health Center.

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

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient services and swing bed	\$ 4,030,478	5,187,564
Outpatient	21,154,816	19,629,178
Clinics	3,932,690	3,669,404
Total gross patient service revenue	<u>29,117,984</u>	<u>28,486,146</u>
Deductions from patient service revenue:		
Medicare	4,535,630	4,779,762
Medicaid	2,555,407	2,112,318
Other payors	4,469,109	3,833,561
Charity care	92,513	129,955
Total deductions from patient service revenue	<u>11,652,659</u>	<u>10,855,596</u>
Net patient service revenue before provision for bad debt	<u>\$ 17,465,325</u>	<u>17,630,550</u>

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

Revenue from the Medicare and Medicaid programs accounts for approximately 33% and 13%, respectively, of the Health Center's net patient revenue for the year ended June 30, 2015 compared to 34% for Medicare and 11% for Medicaid in 2014. 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.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

(4) Patient Receivables, Net

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

	<u>2015</u>	<u>2014</u>
Patient receivables	\$ 4,197,096	4,506,828
Less estimated third-party contractual adjustments	(1,449,312)	(1,262,000)
Less allowance for uncollectible accounts	<u>(422,000)</u>	<u>(573,000)</u>
	<u>\$ 2,325,784</u>	<u>2,671,828</u>

The Health Center is located in Chariton, Iowa. The Health Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	29%	27%
Medicaid	17	16
Other third-party payors	35	32
Private pay	<u>19</u>	<u>25</u>
	<u>100%</u>	<u>100%</u>

(5) Capital Assets

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

	<u>June 30,</u> <u>2014</u>	<u>Additions</u>	<u>Transfers</u> <u>and Disposals</u>	<u>June 30,</u> <u>2015</u>
Capital assets, not being depreciated:				
Land	\$ 83,861	--	--	83,861
Construction in progress	31,480	34,182	(31,480)	34,182
Total capital assets, not being depreciated	<u>115,341</u>	<u>34,182</u>	<u>(31,480)</u>	<u>118,043</u>
Capital assets, being depreciated:				
Land improvements	786,692	16,575	--	803,267
Building and leasehold improvements	8,402,479	--	--	8,402,479
Fixed equipment	4,697,335	--	--	4,697,335
Major movable equipment	6,651,613	468,261	(47,787)	7,072,087
Total capital assets, being depreciated	<u>20,538,119</u>	<u>484,836</u>	<u>(47,787)</u>	<u>20,975,168</u>
Less accumulated depreciation:				
Land improvements	483,961	37,070	--	521,031
Building and leasehold improvements	5,430,637	315,898	--	5,746,535
Fixed equipment	4,107,323	115,533	--	4,222,856
Major movable equipment	5,447,215	510,081	(79,267)	5,878,029
Total accumulated depreciation	<u>15,469,136</u>	<u>978,582</u>	<u>(79,267)</u>	<u>16,368,451</u>
Total capital assets, being depreciated, net	<u>5,068,983</u>	<u>(493,746)</u>	<u>31,480</u>	<u>4,606,717</u>
Total capital assets, net	<u>\$ 5,184,324</u>	<u>(459,564)</u>	<u>--</u>	<u>4,724,760</u>

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 83,861	--	--	83,861
Construction in progress	241,835	58,430	(268,785)	31,480
Total capital assets, not being depreciated	<u>325,696</u>	<u>58,430</u>	<u>(268,785)</u>	<u>115,341</u>
Capital assets, being depreciated:				
Land improvements	786,692	--	--	786,692
Building and leasehold improvements	8,402,479	--	--	8,402,479
Fixed equipment	4,455,500	--	241,835	4,697,335
Major movable equipment	6,380,306	416,396	(145,089)	6,651,613
Total capital assets, being depreciated	<u>20,024,977</u>	<u>416,396</u>	<u>96,746</u>	<u>20,538,119</u>
Less accumulated depreciation:				
Land improvements	446,387	37,574	--	483,961
Building and leasehold improvements	5,106,289	324,348	--	5,430,637
Fixed equipment	4,007,583	99,740	--	4,107,323
Major movable equipment	5,062,972	549,799	(165,556)	5,447,215
Total accumulated depreciation	<u>14,623,231</u>	<u>1,011,461</u>	<u>(165,556)</u>	<u>15,469,136</u>
Total capital assets, being depreciated, net	<u>5,401,746</u>	<u>(595,065)</u>	<u>262,302</u>	<u>5,068,983</u>
Total capital assets, net	<u>\$ 5,727,442</u>	<u>(536,635)</u>	<u>(6,483)</u>	<u>5,184,324</u>

Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$978,582 and \$1,011,461, respectively

(6) Long-Term Debt

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

	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Hospital Revenue Note, Series 1991B (A)	\$ 183,729	--	42,712	141,017	44,847
USDA Mortgage Note, Series 1994A (B)	680,280	--	18,761	661,519	19,606
Notes Payable, equipment (C)	259,804	129,880	100,154	289,530	82,764
	<u>1,123,813</u>	<u>129,880</u>	<u>161,627</u>	<u>1,092,066</u>	<u>147,217</u>
	June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Hospital Revenue Note, Series 1991B (A)	\$ 224,406	--	40,677	183,729	42,712
USDA Mortgage Note, Series 1994A (B)	698,234	--	17,954	680,280	18,761
Notes Payable, equipment (C)	374,948	85,314	200,458	259,804	92,180
	<u>1,297,588</u>	<u>85,314</u>	<u>259,089</u>	<u>1,123,813</u>	<u>153,653</u>

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

- (A) The Health Center issued a Hospital Revenue Note, Series 1991B (Note) in the original amount of \$700,000 to finance capital improvements of the Health Center. The Note is payable solely from future revenues of the Health Center and is due in equal annual installments of \$51,898, including interest at 5%, payable each July through 2017.
- (B) The Health Center entered into a USDA Rural Economic and Community Development Mortgage Note, Series 1994A (Note) in the original amount of \$900,000 to finance the construction of a medical office building adjacent to the Health Center. The Note is secured by a mortgage and is due in equal annual installments of \$49,374, including interest at 4.5%, payable each November through 2035.
- (C) The Health Center has entered into various notes payable with local banks to finance the purchase of certain medical equipment. The notes require monthly payments ranging from \$523 to \$11,979, including interest with rates ranging from 2.78% to 5.99%, with various maturity dates through February 2020.

A summary of the Health Center's annual debt service requirements are as of June 30, 2015:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 147,217	48,313	195,530
2017	154,137	41,393	195,530
2018	128,802	34,493	163,295
2019	65,499	28,991	94,490
2020	42,148	26,292	68,440
2021 – 2025	133,662	113,208	246,870
2026 – 2030	166,567	80,304	246,871
2031 – 2035	207,572	39,298	246,870
2036	46,462	2,090	48,552
	<u>\$ 1,092,066</u>	<u>414,382</u>	<u>1,506,448</u>

Under the terms of the Hospital Revenue Note and USDA Mortgage Note, the Health Center is required to maintain certain funds which are included in assets limited as to use or restricted in the accompanying financial statements. The Hospital Revenue Note and USDA Mortgage Note also contain certain financial covenants related to the operations of the Health Center, of which the Health Center is in substantial compliance with those covenants.

(7) Line of Credit

The Health Center has a bank revolving line of credit that provides for maximum borrowings of \$500,000 with a variable interest rate and matures on July 28, 2016. The agreement is secured by substantially all assets of the Health Center. There were no amounts withdrawn on the line of credit for the years ended June 30, 2015 and 2014.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

(8) 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>
Day care	\$ 343,211	340,754
Rental income	171,278	180,524
Cafeteria	72,983	91,925
Lifeline	31,639	36,949
Gain on disposal at capital assets	10,049	3,417
Medical records	4,806	4,690
Electronic health records incentive payments	32,000	723,819
Miscellaneous	50,204	31,127
	<u>\$ 716,170</u>	<u>1,413,205</u>

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the hospital's Medicare share fraction, which includes a 20% incentive. If meaningful use criteria are not met in future periods, the Health Center is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

During 2014 the Health Center qualified for Medicare and Medicaid incentive payments by attesting it met specific criteria set by CMS. The Health Center recognized incentive payments of \$32,000 and \$723,819 for the years ended June 30, 2015 and 2014, respectively, as other operating revenue in the periods earned.

(9) Professional Liability Insurance

The Health Center 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 Health Center carries an umbrella policy which also provides \$5,000,000 per occurrence and \$5,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Health Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Health Center does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2015 and 2014, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

(10) Pension Plan

Plan Description

The Health Center contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Pension Benefits

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

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

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

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

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.

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

Contributions

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

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

The Health Center's contributions to IPERS for the year ended June 30, 2015 and 2014 were \$763,972 and \$778,039, respectively.

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

At June 30, 2015, the Health Center reported a liability of \$4,809,032 for its proportionate share of the net pension liability. The Health Center'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 Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Health Center's proportion was 0.1245951 percent, which was an increase of 0.000037 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Health Center recognized pension expense of \$429,115. At June 30, 2015, the Health Center 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	\$ 53,709	11,973
Changes of assumptions	218,099	286
Net difference between projected and actual earnings on pension plan investments	--	2,015,354
Changes in proportion and differences between Health Center contributions and proportionate share of contributions	210,279	--
Health Center contributions subsequent to the measurement date	<u>763,972</u>	<u>--</u>
Total	<u>\$ 1,246,059</u>	<u>2,027,613</u>

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

Deferred outflows of resources related to pensions included \$763,972 resulting from the Health Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (394,065)
2017	(394,065)
2018	(394,065)
2019	(394,065)
2020	<u>30,734</u>
	<u>\$ (1,545,526)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

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

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

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

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

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

Discount Rate

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

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

The following presents the Health Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Health Center'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>
Health Center's proportionate share of the net pension liability	\$ 9,454,071	4,809,032	888,792

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the Health Center reported payables to the defined benefit pension plan of \$47,705 for legally required employer contributions and \$71,595 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(11) Other Postemployment Benefits (OPEB)

The Health Center operates a single-employer retiree benefit plan which provides medical benefits/prescription drug benefits for retirees and their spouses. The Health Center applies GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. An actuarial valuation of the Plan has been performed and the other postemployment benefits have been determined by management to be immaterial to the Health Center and therefore are not included in the financial statements of the Health Center.

(12) Commitments and Contingencies

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

Lucas County Health Center

Notes to the Financial Statements June 30, 2015 and 2014

(13) 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	\$ 6,454,532
Net pension liability at June 30, 2014	(6,717,697)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>783,354</u>
Net position July 1, 2014, as restated	<u>\$ 520,189</u>

(14) Subsequent Events

The Health Center has entered into various notes payable with local banks to finance the purchase of certain medical equipment and for a facility remodeling project amounting to a total of \$1,077,095. The notes bear interest at rates ranging from 0% to 3.25% and have various maturity dates through June 2020.

Effective September 1, 2015, the Health Center entered into a hospital management agreement with UnityPoint Health – Des Moines to provide management of the Health Center operations, including the provision of a Chief Executive Officer, and specialized administrative services. The terms of the agreement call for the reimbursement of the cost of the Chief Executive Officer's salaries and benefits and the payment of a monthly management fee.

Lucas County Health Center

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

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Lucas County Health Center 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 Health Center on the accrual basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

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

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,184,344	--	1,184,344	1,136,372	47,972
Add: Other revenues / receipts	17,819,360	742,404	18,561,764	19,070,685	(508,921)
Less: Expenses / disbursements	<u>18,921,763</u>	<u>587,403</u>	<u>19,509,166</u>	<u>19,318,677</u>	<u>(190,489)</u>
Net	81,941	155,001	236,942	888,380	<u>(651,438)</u>
Balance beginning of year, as restated	<u>520,189</u>	<u>(212,482)</u>	<u>307,707</u>	<u>1,512,681</u>	
Balance end of year	<u>\$ 602,130</u>	<u>(57,481)</u>	<u>544,649</u>	<u>2,401,061</u>	

See accompanying independent auditor's report

Lucas County Health Center

**Schedule of the Health Center's Proportionate Share of the Net Pension Liability
June 30, 2015**

Iowa Public Employee's Retirement System
Last Fiscal Year*
(In Thousands)

	<u>2015</u>
Health Center's proportion of net pension liability	0.1245951%
Health Center's proportionate share of the net pension liability	\$ 4,809
Health Center's covered-employee payroll	\$ 8,555
Health Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.21%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

See accompanying independent auditor's report

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

Lucas County Health Center

**Schedule of Health Center Contributions
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	\$ 764	778	719	680	461	414	381	340	299	305
Contributions in relation to the statutorily required contribution	<u>(764)</u>	<u>(778)</u>	<u>(719)</u>	<u>(680)</u>	<u>(461)</u>	<u>(414)</u>	<u>(381)</u>	<u>(340)</u>	<u>(299)</u>	<u>(305)</u>
Contribution deficiency (excess)	\$ <u> --</u>	<u> --</u>								
Health Center's covered-employee payroll	\$ 8,555	8,712	8,283	8,416	6,643	6,235	6,000	5,611	5,200	5,304
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.75%	5.75%

See accompanying independent auditor's report

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

Notes to Required Supplementary Information – Pension Liability

Changes of benefit terms

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

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

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

Changes of assumptions

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

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

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

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

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

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

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

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

	2015			2014 (Not Restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Acute care patients	\$ 1,230,550	--	1,230,550	1,514,850	--	1,514,850
Swing bed	415,100	--	415,100	625,470	--	625,470
Observation	--	318,222	318,222	--	276,301	276,301
Nursery	114,504	--	114,504	86,427	--	86,427
	<u>1,760,154</u>	<u>318,222</u>	<u>2,078,376</u>	<u>2,226,747</u>	<u>276,301</u>	<u>2,503,048</u>
OTHER PROFESSIONAL SERVICES:						
Radiology	306,838	6,082,334	6,389,172	431,495	5,824,906	6,256,401
LCHC Medical Clinic	--	3,932,690	3,932,690	--	3,669,404	3,669,404
Laboratory	411,151	3,273,375	3,684,526	429,863	2,997,063	3,426,926
Emergency	44,679	2,721,230	2,765,909	48,211	2,426,462	2,474,673
Pharmacy	540,889	2,014,069	2,554,958	772,385	1,695,912	2,468,297
Operating room	226,664	1,993,040	2,219,704	333,602	1,733,847	2,067,449
Psychiatric and behavioral health services	20,151	1,213,674	1,233,825	28,889	1,221,637	1,250,526
Ambulance	--	917,929	917,929	--	880,500	880,500
Anesthesiology	153,631	719,779	873,410	184,030	697,895	881,925
Physical therapy	100,904	702,921	803,825	139,594	746,637	886,231
Respiratory therapy	236,845	267,904	504,749	370,791	248,551	619,342
Cardiology	1,286	241,237	242,523	2,549	231,459	234,008
Delivery and labor room	160,202	42,445	202,647	126,177	41,062	167,239
Wound treatment	--	169,488	169,488	--	103,619	103,619
Electrocardiology	15,132	148,006	163,138	15,399	122,092	137,491
Occupational therapy	36,772	80,132	116,904	46,102	79,544	125,646
Infusion therapy	--	116,772	116,772	--	128,430	128,430
Humeston Clinic	--	82,483	82,483	--	144,219	144,219
Speech therapy	15,180	30,990	46,170	31,730	23,939	55,669
Surgery Clinic	--	18,514	18,514	--	5,013	5,013
Diabetic education	--	272	272	--	90	90
	<u>2,270,324</u>	<u>24,769,284</u>	<u>27,039,608</u>	<u>2,960,817</u>	<u>23,022,281</u>	<u>25,983,098</u>
GROSS PATIENT SERVICE REVENUE	\$ 4,030,478	25,087,506	29,117,984	5,187,564	23,298,582	28,486,146
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(11,338,508)			(10,598,969)
Charity care services and other discounts, based on charges forgone			(314,151)			(256,627)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			17,465,325			17,630,550
Provision for bad debt			(569,978)			(996,923)
NET PATIENT SERVICE REVENUE			\$ 16,895,347			\$ 16,633,627

See accompanying independent auditor's report

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

	<u>2015</u>	<u>2014</u>
Day care	\$ 343,211	340,754
Rental income	171,278	180,524
Cafeteria	72,983	91,925
Lifeline	31,639	36,949
Gain (loss) on disposal of property and equipment	10,049	3,417
Medical records	4,806	4,690
Electronic health records incentive payments	32,000	723,819
Miscellaneous	50,204	31,127
	<u>\$ 716,170</u>	<u>1,413,205</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	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:						
Medical and surgical	\$ 826,832	145,788	972,620	1,012,257	161,464	1,173,721
Nursing administration	110,085	3,953	114,038	108,615	3,879	112,494
Nursery	35,263	6,309	41,572	20,151	5,050	25,201
	<u>972,180</u>	<u>156,050</u>	<u>1,128,230</u>	<u>1,141,023</u>	<u>170,393</u>	<u>1,311,416</u>
OTHER PROFESSIONAL SERVICES:						
LCHC Medical Clinic	2,258,921	523,596	2,782,517	2,151,752	445,767	2,597,519
Emergency service	1,249,875	408,797	1,658,672	1,235,382	419,151	1,654,533
Pharmacy	226,610	790,667	1,017,277	243,958	832,991	1,076,949
Radiology	261,018	745,555	1,006,573	263,676	713,155	976,831
Laboratory	284,945	453,599	738,544	286,422	482,000	768,422
Psychiatric and behavioral health services	513,326	91,550	604,876	443,090	87,989	531,079
Operating room	223,370	349,267	572,637	234,201	323,689	557,890
Anesthesiology	--	439,015	439,015	--	435,161	435,161
Kids life	362,430	60,900	423,330	349,558	52,625	402,183
Physical therapy	264,874	29,062	293,936	253,197	28,924	282,121
Delivery room	173,080	55,661	228,741	131,832	54,696	186,528
Ambulance	156,901	40,430	197,331	176,514	41,541	218,055
Medical records	144,488	46,638	191,126	143,486	56,048	199,534
Surgery Clinic	159,810	4,255	164,065	--	--	--
Humeston Clinic	120,479	27,576	148,055	159,034	49,397	208,431
Vreedenburg Center	7,296	133,534	140,830	8,552	159,912	168,464
Respiratory therapy	63,627	53,778	117,405	73,603	51,859	125,462
Cardiology	73,340	3,726	77,066	69,395	8,097	77,492
Infusion therapy	69,575	3,406	72,981	60,042	4,661	64,703
Wound treatment	64,502	7,126	71,628	63,093	7,917	71,010
Speech therapy	--	69,489	69,489	--	62,399	62,399
Electrocardiology	16,933	--	16,933	12,273	56	12,329
Specialty clinics	7,846	(9)	7,837	10,474	456	10,930
	<u>6,703,246</u>	<u>4,337,618</u>	<u>11,040,864</u>	<u>6,369,534</u>	<u>4,318,491</u>	<u>10,688,025</u>
GENERAL SERVICES:						
Plant operation and maintenance	230,079	579,889	809,968	199,179	673,532	872,711
Dietary	175,829	112,134	287,963	168,498	133,694	302,192
Housekeeping	211,831	33,901	245,732	211,075	36,098	247,173
Laundry	21,558	5,899	27,457	21,881	4,456	26,337
	<u>639,297</u>	<u>731,823</u>	<u>1,371,120</u>	<u>600,633</u>	<u>847,780</u>	<u>1,448,413</u>
ADMINISTRATIVE SERVICES						
	<u>1,048,428</u>	<u>1,209,941</u>	<u>2,258,369</u>	<u>1,001,924</u>	<u>1,178,686</u>	<u>2,180,610</u>
NONDEPARTMENTAL:						
Employee benefits	--	2,095,486	2,095,486	--	2,448,637	2,448,637
Depreciation	--	978,582	978,582	--	1,011,461	1,011,461
	<u>--</u>	<u>3,074,068</u>	<u>3,074,068</u>	<u>--</u>	<u>3,460,098</u>	<u>3,460,098</u>
TOTAL EXPENSES	\$ <u>9,363,151</u>	<u>9,509,500</u>	<u>18,872,651</u>	<u>9,113,114</u>	<u>9,975,448</u>	<u>19,088,562</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Uncollectible Accounts
For the Years Ended June 30, 2015 and 2014**

ANALYSIS OF AGING:

Days Since Discharge	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,207,961	53 %	2,258,016	50 %
31 - 60	581,427	14	691,064	15
61 - 90	289,264	7	405,214	9
91 - 120	234,166	6	268,789	6
121 and over	884,278	20	883,745	20
	<u>4,197,096</u>	<u>100 %</u>	<u>4,506,828</u>	<u>100 %</u>
Less:				
Allowance for uncollectible accounts	(422,000)		(573,000)	
Allowance for contractual adjustments	<u>(1,449,312)</u>		<u>(1,262,000)</u>	
	<u>\$ 2,325,784</u>		<u>2,671,828</u>	

	2015	2014
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:		
Balance, beginning of year	\$ 573,000	455,000
Provision of uncollectible accounts	569,978	996,923
Recoveries of accounts previously written off	196,075	215,445
Accounts written off	<u>(917,053)</u>	<u>(1,094,368)</u>
Balance, end of year	<u>\$ 422,000</u>	<u>573,000</u>

See accompanying independent auditor's report

Inventory/Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVENTORY:		
Pharmacy	\$ 80,732	60,704
Plant operation and maintenance	30,227	33,699
Central store	29,684	45,726
Gift shop	21,160	15,017
Dietary	7,785	7,716
General office	6,366	7,777
Laboratory	4,446	4,875
Laundry	--	1,461
	<u>\$ 180,400</u>	<u>176,975</u>
	<u>2015</u>	<u>2014</u>
PREPAID EXPENSES:		
Insurance	\$ 174,463	146,154
Maintenance contracts	108,430	106,984
Other	79,029	81,308
	<u>\$ 361,922</u>	<u>334,446</u>

See accompanying independent auditor's report

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

	<u>2015</u>	<u>2014</u>
Patient days:		
Adult and pediatric –		
Medicare	533	781
All other	426	424
Swing bed	593	905
Nursery	<u>125</u>	<u>95</u>
Total	<u><u>1,677</u></u>	<u><u>2,205</u></u>
Patient discharges:		
Adult and pediatric –		
Medicare	177	217
All other	178	195
Swing bed	55	68
Nursery	<u>65</u>	<u>47</u>
Total	<u><u>475</u></u>	<u><u>527</u></u>
Average length of stay (based on discharge days):		
Adult and pediatric –		
Medicare	3.01 days	3.60 days
All other	2.39 days	2.17 days
Swing bed	10.78 days	13.31 days
Observation equivalent days	225	200
Surgical procedures	714	693
Emergency room visits	3,230	2,795
Number of employees - full-time equivalents	183.57	187.53

See accompanying independent auditor's report

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

To the Board of Trustees
Lucas County Health Center
Chariton, Iowa:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Lucas County Health Center (Health Center) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements, and have issued our report thereon dated November 18, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Health Center'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 Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 Health Center'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Health Center'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 Health Center'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 Health Center. 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.

Health Center's Response to Findings

The Health Center's responses to findings identified in our audit are described in the accompanying schedule of findings and responses. The Health Center'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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEEM JOHNSON, LLP

Omaha, Nebraska,
November 18, 2015.

Lucas County Health Center

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

Part I: Summary of the Independent Auditor's Results

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

Part II: Findings Related to the Financial Statements

Internal Control Deficiencies:

No matters were reported.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15 Certified Budget: Health Center disbursements during the year ended June 30, 2015 exceeded amounts budgeted.

Recommendation: The Health Center should review its budget estimates to actual expenditures and adopt amendments to budgeted expenditures if actual expenditures are expected to exceed budgeted amounts.

Response: Actual disbursements exceeded the reported budget for fiscal year ending June 30, 2015 by \$190,489. The Health Center will monitor its disbursements compared to budgeted amounts and will adopt amendments in the future when actual expenditures are expected to exceed budgeted amounts.

Conclusion: 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.

III-C-15 Travel Expense: No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

III-D-15 Business Transactions: No business transactions between the Health Center and Health Center 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 Health Center 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 investments provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Health Center's investment policy.

Lucas County Health Center

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

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 Health Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

III-H-15 Financial Condition: The Health Center has a deficit unrestricted fund balance of \$3,132,999 at June 30, 2015.

Recommendation: The Health Center should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response: The deficit was the result of recognizing the Health Center's proportionate share of IPERS' net pension liability. The Health Center realizes this liability is not due and payable immediately. Rather the pension liability will be paid down over a period of time with the Health Center's future employer share of IPERS contributions.

Conclusion: Response accepted.

Lucas County Health Center

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

This audit was performed by:

Darren R. Osten, FHFMA, CPA, Partner

Becky S. Frazee, CPA, Manager

Brad D. Pieper, Staff Auditor