

**Ringgold County Hospital**  
Mount Ayr, Iowa

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

**Together with Independent Auditor's Report**

# Ringgold County Hospital

## Table of Contents

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	<u>Page</u>
Officials – June 30, 2015 .....	1
Independent Auditor's Report .....	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis .....	4 – 9
Basic Financial Statements:	
Statements of Net Position June 30, 2015 and 2014 .....	10
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014 .....	11
Statements of Cash Flows For the Years Ended June 30, 2015 and 2014 .....	12 – 13
Notes to Financial Statements June 30, 2015 and 2014 .....	14 – 31
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Accrual Basis) .....	32
Schedule of the Hospital's Proportionate Share of the Net Pension Liability .....	33
Schedule of the Hospital's Contributions .....	34
Notes to Required Supplementary Information – Pension Liability .....	35
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue For the Years Ended June 30, 2015 and 2014 .....	36
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2015 and 2014 .....	37
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2015 and 2014 .....	38
Exhibit 4 - Patient Receivables and Allowance for Uncollectible Accounts June 30, 2015 and 2014 .....	39
Exhibit 5 - Inventory/Prepaid Expenses June 30, 2015 and 2014 .....	40
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 <i>Government Auditing Standards</i> .....	41 – 42
Schedule of Findings and Responses .....	43 – 44
Audit Staff .....	45

# Ringgold County Hospital

Officials  
June 30, 2015

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Trustees, Executive Committee:</b>		
Kathi Braby	Chairperson	December 2016
Vicki Sickels	Vice-Chairperson	December 2016
Michael Hopkins	Secretary/Treasurer	December 2018
<b>Board of Trustees, Members:</b>		
Greg Jobe	Member	December 2020
Karleen Stephens	Member	December 2016
Contessa Barnes	Member	December 2020
David Drew	Member	December 2020
<b>Hospital Officials:</b>		
Gordon W. Winkler	Administrator/Chief Executive Officer	Indefinite
Teresa Roberts	Chief Financial Officer	Indefinite

## Independent Auditor's Report

To the Board of Trustees  
Ringgold County Hospital  
Mount Ayr, Iowa:

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinion

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

## **Emphasis of Matter**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions on pages 4 through 9 and 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary statements (Exhibits 1 – 5) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary statements (Exhibits 1 – 5) are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary statements (Exhibits 1 – 5) are fairly stated, in all material respects, in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP.

Omaha, Nebraska,  
October 19, 2015.

# Ringgold County Hospital

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

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### Introduction

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

### Financial Highlights

- Cash and cash equivalents and short-term investments increased in 2015 by \$753,886 or 94% and increased in 2014 by \$386,413 or 92%.
- The Hospital's net position decreased in 2015 by \$4,010,495 or 178% and in 2014 by \$1,695,343 or 304%. Changes in pension plan reporting required by the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27* was implemented during fiscal year 2015. This accounting change resulted in a restatement of beginning net position of \$4,104,002, net of deferred outflows.
- The Hospital reported operating losses in 2015 of \$2,949 and \$1,711,412 in 2014. The operating loss in 2015 decreased by \$1,708,463 from the operating loss reported in 2014. The operating loss in 2014 increased by \$1,760,742 from the operating loss reported in 2013. Recruitment of a General/Vascular Surgeon, streamlining of clinic workflows and implementation of new service lines contributed to the significant change in operating loss.
- The Hospital continued a Performance Improvement Plan initiated in fiscal year 2014 to address declining revenues and increasing expenses and to track the implementation of new services that had been identified as a need in the community.

### Using This Annual Report

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

### **The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position**

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

# Ringgold County Hospital

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

### The Statement of Cash Flows

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

### **The Hospital's Net Position**

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by \$4,010,495 or 178% (which includes GASB 68 changes) in 2015 compared to 2014 and decreased by \$1,695,343 or 304% in 2014 compared to 2013 as shown in Table 1 below.

**Table 1: Condensed Statement of Net Position**

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 1,559,572	805,695	419,282
Short-term investments	270,009	270,000	270,000
Assets limited as to use or restricted	435,371	427,469	419,317
Patient accounts receivable, net	2,901,642	1,320,161	2,484,557
Other current assets	2,122,833	1,789,824	1,791,294
Capital assets, net	15,707,715	17,157,417	19,037,816
Other non current assets	1,346,374	1,283,490	1,228,746
	<u>24,343,516</u>	<u>23,054,056</u>	<u>25,651,012</u>
<b>Deferred Outflows of Resources,</b>			
Pension related deferred outflows	483,349	--	--
	<u>483,349</u>	<u>--</u>	<u>--</u>
Total assets and deferred outflows	<u>\$ 24,826,865</u>	<u>23,054,056</u>	<u>25,651,012</u>
<b>Liabilities:</b>			
Long-term debt	\$ 21,669,495	21,993,970	22,299,238
Other current and non-current liabilities	3,913,072	2,033,376	2,629,721
Net pension liability	3,001,745	--	--
	<u>28,584,312</u>	<u>24,027,346</u>	<u>24,928,959</u>
<b>Deferred Inflows of Resources:</b>			
Unavailable property tax revenue	1,280,472	1,280,472	1,280,472
Pension related deferred inflows	1,226,338	--	--
	<u>2,506,810</u>	<u>1,280,472</u>	<u>1,280,472</u>
<b>Net Position:</b>			
Net position	<u>(6,264,257)</u>	<u>(2,253,762)</u>	<u>(558,419)</u>
Total liabilities, deferred inflows and net position	<u>\$ 24,826,865</u>	<u>23,054,056</u>	<u>25,651,012</u>

## Ringgold County Hospital

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

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Year ended June 30, 2015: In 2015 capital assets, net decreased \$1,449,702 primarily due to the Hospital purchasing \$759,861 in capital assets and recording \$2,196,262 of depreciation expense during the fiscal year. Cash reserves increased in 2015 by \$753,877 or 94% over 2014. A 22% increase in net patient revenue provided the increased cash flow for the year. Other noncurrent assets, consisting of assets limited as to use and assets managed by the South Central Iowa Community Foundation increased by \$62,884 or 5% over 2014. In addition, accounts receivable increased \$1,581,481 or 120% over 2014 with the increased patient revenue and clinic billing backlogs.

Due to the nature of cost-based reimbursement under the CMS Critical Access Hospital program and the methods used to calculate interim rates, the Hospital was significantly over-paid by Medicare which results in a payable due to the Medicare program which resulted in a net increase in estimated third-party payor liabilities of \$1,565,416 over 2014.

Year ended June 30, 2014: In 2014 capital assets, net decreased \$1,880,399 primarily due to the Hospital purchasing \$547,992 in capital assets and recording \$2,270,821 of depreciation expense during the fiscal year. Cash reserves increased in 2014 by \$386,413 or 92% over 2013 after billing issues with the new Health Information System implemented in 2013 were cleared up and the backlog of claims were settled. Other noncurrent assets, consisting of assets limited as to use and assets managed by the South Central Iowa Community Foundation increased by \$54,744 or 4% over 2013. In addition, accounts receivable decreased \$1,164,396 or 47% over 2013 with the completion of the billing system implementation and decreased patient volumes for 2014.

#### **Operating Results and Changes in the Hospital's Net Position**

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$4,104,002 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

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

# Ringgold County Hospital

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

**Table 2: Condensed Statement of Revenue, Expenses, and Changes in Net Position**

	<u>2015</u>	<u>(not restated) 2014</u>	<u>(not restated) 2013</u>
<b>Operating revenue:</b>			
Net patient service revenue	\$ 16,522,533	13,555,607	15,650,776
Provision for bad debt	(251,662)	(382,047)	(491,775)
Other operating revenue	339,743	91,096	871,753
Total operating revenue	<u>16,610,614</u>	<u>13,264,656</u>	<u>16,030,754</u>
<b>Operating expenses:</b>			
Salaries and employee benefits	7,734,558	7,220,277	7,814,707
Professional fees and purchased services	3,441,259	2,862,210	2,721,463
Supplies and other	2,204,862	1,621,082	2,198,277
Other operating expenses	1,036,622	1,001,678	961,448
Depreciation	2,196,262	2,270,821	2,285,529
Total operating expenses	<u>16,613,563</u>	<u>14,976,068</u>	<u>15,981,424</u>
<b>Operating gain (loss)</b>	<u>(2,949)</u>	<u>(1,711,412)</u>	<u>49,330</u>
<b>Nonoperating revenue (expense):</b>			
Interest expense	(1,286,525)	(1,333,833)	(1,422,655)
County tax revenue	1,286,458	1,282,475	1,283,114
Investment income, net	19,606	18,354	1,349
Other nonoperating revenue	59,276	27,795	33,237
Total nonoperating revenue (expense), net	<u>78,815</u>	<u>(5,209)</u>	<u>(104,955)</u>
Excess expenses over (under) revenue before capital grants and contributions	75,866	(1,716,621)	(55,625)
Capital grants and contributions	<u>17,641</u>	<u>21,278</u>	<u>53,900</u>
<b>Increase (decrease) in net position</b>	93,507	(1,695,343)	(1,725)
Net position, beginning of year, as restated	<u>(6,357,764)</u>	<u>(558,419)</u>	<u>(556,694)</u>
Net position, end of year	<u>\$ (6,264,257)</u>	<u>(2,253,762)</u>	<u>(558,419)</u>

### Operating Losses

The first component of the overall change in the Hospital's net position is its operating gain or loss—generally, the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating loss. Operating losses in 2015 decreased by \$1,708,463 lower than the loss reported in 2014. Operating losses in 2014 increased \$1,760,742 than the loss reported in 2013.

## Ringgold County Hospital

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

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The primary components impacting operating loss are as follows:

- In fiscal year 2015 net patient service revenue increased \$2,966,926 or 22% over 2014. The employment of a General/Vascular Surgeon increased surgical procedures and other related services due not only to increased volumes, but the addition of vascular surgeries and other procedures not previously performed at Ringgold County Hospital. Professional fees for the surgeon increased \$382,927 or 169% over 2014. Investments were made in new equipment and supplies to support the expanded surgical practice. The Mount Ayr Medical Clinic (MAMC) workflows were examined through a Lean Process Improvement project. As a result of the workflow changes, revenue in the clinic increased \$454,995 or 30% over 2014. During 2015, projects evaluated as part of the Performance Improvement Plan in 2014 were implemented including the opening of "Senior Life Solutions™", a mental health program for Medicare recipients. The program is housed in space formerly used by the Dialysis unit and reached capacity by the end of 2015. Changes needed to support the clinic's transition to a Provider Based Rural Health Clinic (RHC) were implemented through remodeling of the MAMC and visiting physician's departments. The Clinic was surveyed by AAAASF, the government-appointed accrediting body for RHC's, and was approved as of September 2, 2015.
- In fiscal year 2014 net patient service revenue decreased \$2,095,169 or 13% over 2013. The General Surgeon, employed by the hospital, was on an extended leave for 8 months during 2014. Coverage arrangements went into effect December, 2013 through the rest of the fiscal year and the billing for the temporary physician was done by his practice. Only procedures and lower acuity surgeries were performed one day a week during this time and any extensive surgeries were referred to other facilities. Therefore, the Hospital experienced significant declines in professional billings, hospital billings for surgeries and decreased patient days and ancillary services. The MAMC providers and staff had to completely redo workflows with the implementation of the EHR creating an approximate decrease in patient volumes in 2014 over 2013 of 20%. With the decreased volumes of patients being seen in the clinic, inpatient days, and referrals for ancillary services such as lab and imaging decreased significantly as well. Acute patient days were 28% lower in 2014 as compared to 2013. Total operating revenue decreased in 2014 by \$2,766,098 or 17% over 2013. During 2014, as a result of the implementation of a Performance Improvement Plan, the Hospital implemented the following new services: Dexascan, Nail Care program for Diabetics, Pulmonary Rehab, expanded Cardiac Rehab, Allergy testing and immunization services, and worked towards implementing a geriatric mental health program that started in 2015. The Renal Dialysis unit was closed September 2013, in response to the identified significant losses the Hospital experienced in relation to this program as well as the decreased patient volumes in the unit. A total of 7.49 FTE's were eliminated during the year through attrition and staff taking "low census" hours during times of low patient volumes. Other operational changes related to both revenue and expenses, together with the changes listed above, mitigated the patient care revenue losses described above.

The need to operate and maintain a current information system to meet Center for Medicare and Medicaid Services regulations caused information technology service costs to continue to increase in 2015 and 2014 with the preparation for attestation for Stage 2 Year 1 Meaningful Use of the EHR. As further regulations go into effect surrounding "Meaningful Use" of an EHR, Ringgold County Hospital will see greater information technology costs required as further modules are implemented to meet the regulatory requirements.

#### **Non-operating Revenue and Expenses**

Non-operating revenues and expenses consist primarily of interest expense, county taxes, grants, and investment income.

In fiscal year 2015, county tax revenue increased \$3,983 and investment income increased \$48,560 in 2015 over 2014. Debt Service Reserve funds for Series 2008A & 2008B bonds are invested in U.S. government obligations and declines in the market in 2015 resulted in net unrealized losses in market value of \$10,741. In 2015, \$232,686 in grant funds was received from various sources, including a Stage 1 Year 2 EHR payment from Medicare and Iowa Medicaid.

## Ringgold County Hospital

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

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In fiscal year 2014, county tax revenue decreased \$639 and investment income increased \$17,005 in 2014 over 2013. Debt Service Reserve funds for Series 2008A & 2008B bonds are invested in U.S. government obligations and declines in the market in 2014 resulted in net unrealized losses in market value of \$12,335. In 2014, \$127,458 in grant funds was received from various sources, including a Stage 1 Year 2 EHR payment from Iowa Medicaid.

#### **The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in operating losses and non-operating revenue and expenses, discussed earlier.

#### **Capital Asset and Debt Administration**

##### Capital Assets

At the end of 2015, the Hospital had \$15,707,715 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2015, the Hospital had new capital asset additions of \$759,861 for equipment and improvements.

At the end of 2014, the Hospital had \$17,157,417 invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements. In 2014, the Hospital had new capital asset additions of \$547,992.

##### Debt

At June 30, 2015 and 2014, the Hospital had \$21,993,970 and \$22,299,238, respectively, in long-term debt outstanding which consists of the 2008A & B Revenue Bonds and the 2010 USDA Revenue Bond issued for construction of the current hospital building in 2008.

#### **Other Economic Factors**

The single largest economic factor affecting the Hospital is the aging, declining population of its service area. As the remaining population ages and median income decreases, the Hospital treats a larger percentage of Medicare and Medicaid patients, thus, increasing the Hospital's reliance on those programs' payment systems for a majority of its reimbursement.

#### **Current Economic Conditions**

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including rising insurance rates and increasing out-of-pocket costs, have made it difficult for certain of the Hospital's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of federal regulations on the Medicare program may have an adverse effect on cash flows related to the Medicare program.

#### **Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning 641.464.3226.

# Ringgold County Hospital

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

	2015	(not restated) 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,559,572	805,695
Short-term investments	270,009	270,000
Assets limited as to use or restricted, current portion	435,371	427,469
Receivables -		
Patients, net of estimated uncollectible accounts of \$1,029,000 in 2015 and \$802,000 in 2014	2,901,642	1,320,161
Succeeding year property tax	1,297,419	1,300,368
Other	279,862	63,939
Inventories	425,199	255,918
Prepaid expenses	120,353	169,599
	<u>7,289,427</u>	<u>4,613,149</u>
Total current assets	7,289,427	4,613,149
Assets limited as to use or restricted	1,326,411	1,264,377
Capital assets, net	15,707,715	17,157,417
Other, assets managed by South Central Iowa Community Foundation	19,963	19,113
	<u>24,343,516</u>	<u>23,054,056</u>
Total assets	24,343,516	23,054,056
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	483,349	--
	<u>483,349</u>	<u>--</u>
Total assets and deferred outflows of resources	\$ <u>24,826,865</u>	<u>23,054,056</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 324,475	305,268
Accounts payable	626,363	456,570
Accrued salaries, vacation and benefits payable	974,629	845,653
Accrued interest on long-term debt	268,471	272,167
Estimated third-party payor settlements	1,719,134	153,718
	<u>3,913,072</u>	<u>2,033,376</u>
Total current liabilities	3,913,072	2,033,376
Long-term debt, net of current portion	21,669,495	21,993,970
Net pension liability	3,001,745	--
	<u>28,584,312</u>	<u>24,027,346</u>
Total liabilities	28,584,312	24,027,346
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	1,280,472	1,280,472
Pension related deferred inflows	1,226,338	--
	<u>2,506,810</u>	<u>1,280,472</u>
Total deferred inflows of resources	2,506,810	1,280,472
<b>NET POSITION</b>		
Net investment in capital assets	(5,183,103)	(4,071,201)
Restricted -		
Expendable for debt service	366,787	313,100
Nonexpendable	19,963	19,113
Unrestricted	(1,467,904)	1,485,226
	<u>(6,264,257)</u>	<u>(2,253,762)</u>
Total net position	(6,264,257)	(2,253,762)
Total liabilities, deferred inflows of resources and net position	\$ <u>24,826,865</u>	<u>23,054,056</u>

See notes to financial statements

# Ringgold County Hospital

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

	<u>2015</u>	<u>(not restated) 2014</u>
<b>OPERATING REVENUE:</b>		
Net patient service revenue before provision for bad debt	\$ 16,522,533	13,555,607
Provision for bad debt	<u>(251,662)</u>	<u>(382,047)</u>
Net patient service revenue	16,270,871	13,173,560
Other operating revenue	<u>339,743</u>	<u>91,096</u>
Total operating revenue	<u>16,610,614</u>	<u>13,264,656</u>
<b>OPERATING EXPENSES:</b>		
Salaries	6,069,139	5,345,574
Employee benefits	1,665,419	1,874,703
Professional fees and purchased services	3,441,259	2,862,210
Supplies and other	2,204,862	1,621,082
Repairs and maintenance	578,986	510,624
Utilities	279,757	313,128
Insurance	177,879	177,926
Depreciation	<u>2,196,262</u>	<u>2,270,821</u>
Total operating expenses	<u>16,613,563</u>	<u>14,976,068</u>
OPERATING LOSS	<u>(2,949)</u>	<u>(1,711,412)</u>
<b>NONOPERATING REVENUE (EXPENSE), NET:</b>		
Interest expense	(1,286,525)	(1,333,833)
County tax revenue	1,286,458	1,282,475
Investment income, net	19,606	18,354
Noncapital gifts	15,597	14,139
Rental income	<u>43,679</u>	<u>13,656</u>
Total nonoperating revenue (expense), net	<u>78,815</u>	<u>(5,209)</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	75,866	(1,716,621)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>17,641</u>	<u>21,278</u>
INCREASE (DECREASE) IN NET POSITION	<u>93,507</u>	<u>(1,695,343)</u>
NET POSITION, beginning of year, as restated	<u>(6,357,764)</u>	<u>(558,419)</u>
NET POSITION, end of year	<u>\$ (6,264,257)</u>	<u>(2,253,762)</u>

See notes to financial statements

# Ringgold County Hospital

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

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 16,254,806	14,011,999
Cash paid to employee salaries and benefits	(7,964,850)	(7,351,458)
Cash paid to suppliers and contractors	(6,848,908)	(5,609,305)
Other receipts and payments, net	<u>287,402</u>	<u>193,785</u>
Net cash provided by operating activities	<u>1,728,450</u>	<u>1,245,021</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital gifts	15,597	14,139
County tax revenue	<u>1,289,407</u>	<u>1,279,973</u>
Net cash provided by noncapital financing activities	<u>1,305,004</u>	<u>1,294,112</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(694,219)	(519,631)
Principal payments on long-term debt	(305,268)	(286,216)
Interest paid on long-term debt	(1,290,221)	(1,337,265)
Rental income	43,679	13,656
Capital grants and contributions	<u>17,641</u>	<u>21,278</u>
Net cash used in capital and related financing activities	<u>(2,228,388)</u>	<u>(2,108,178)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	19,606	18,354
Change in other assets, net	(850)	(2,290)
Change in short-term investments and assets limited as to use or restricted, net	<u>(69,945)</u>	<u>(60,606)</u>
Net cash used in investing activities	<u>(51,189)</u>	<u>(44,542)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	753,877	386,413
CASH AND CASH EQUIVALENTS, beginning of year	<u>805,695</u>	<u>419,282</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 1,559,572</u>	<u>805,695</u>

See notes to financial statements

## Ringgold County Hospital

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

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (2,949)	(1,711,412)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	2,196,262	2,270,821
(Gain) loss on sale of capital asset	(52,341)	102,689
Decrease in net pension liability	(1,576,045)	--
Increase in deferred outflows of resources	(9,561)	--
Increase in deferred inflows of resources	1,226,338	--
(Increase) decrease in current assets -		
Receivables -		
Patients	(1,581,481)	1,164,396
Other	(215,923)	84,298
Inventories	(169,281)	3,921
Prepaid expenses	49,246	(84,247)
Increase (decrease) in current liabilities -		
Accounts payable	169,793	(128,307)
Accrued salaries, vacation and benefits payable	128,976	(131,181)
Estimated third-party payor settlements	<u>1,565,416</u>	<u>(325,957)</u>
Net cash provided by operating activities	\$ <u><u>1,728,450</u></u>	<u><u>1,245,021</u></u>

*See notes to financial statements*

# Ringgold County Hospital

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

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

The following is a description of the reporting entity and is a summary of significant accounting policies of Ringgold County Hospital (Hospital). These policies are in accordance with U.S. generally accepted accounting principles.

#### A. *Reporting Entity*

The Hospital is a county public hospital organized under Chapter 347 of the Code of Iowa which is governed by a seven member board of trustees elected for terms of six years. The Hospital is a Critical Access Hospital, operating with 16 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Ringgold County area.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital 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 Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. 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 displays the Hospital's assets, deferred outflows, liabilities, and deferred inflows with the differences reported as net position. Net position is reported in the following categories:

# Ringgold County Hospital

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

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

Restricted:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require it to be maintained permanently by the Hospital.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

*D. Measurement Focus and Basis of Accounting*

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

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

*E. Use of Estimates*

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

*F. Cash and Cash Equivalents*

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

*G. Patient Receivables, Net*

Net patient receivables are uncollateralized patient and third-party payer obligations. Unpaid patient receivables are not assessed interest. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

# Ringgold County Hospital

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

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The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payers. Management reviews patient receivables by payer class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

The Hospital also maintains a charity care policy as described in Note 1(W).

*H. Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property 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 assets held by trustees under indenture or loan agreements. These funds are reserve funds held as security for the Series 2008A, 2008B and 2010 bonds. These funds are used for the payment of principal and interest on the Series 2008A, 2008B and 2010 bonds when insufficient funds are available in the sinking fund. Amounts required to meet current liabilities of the Hospital have been reclassified in the statements of net position at June 30, 2015 and 2014.

*K. Investments*

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

*L. Capital Assets, Net*

The Hospital's capital assets are recorded at historical cost. 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. Contributed capital assets are reported at their estimated fair value at the time of their donation.

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:

# Ringgold County Hospital

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

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Land improvements	15 to 20 years
Buildings and building improvements	20 to 40 years
Equipment	3 to 10 years

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

Gifts of capital assets 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.

*M. Deferred Outflows of Resources*

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

*N. Compensated Absences*

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

*O. Pensions*

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

*P. Deferred Inflows of Resources*

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

*Q. Group Health Insurance Costs*

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses, and change in net assets is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end.

# Ringgold County Hospital

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

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R. *Income Taxes*

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

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

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

T. *Net Patient Service Revenue*

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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.

U. *Grants and Contributions*

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

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

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

W. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination.

## Ringgold County Hospital

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

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X. *Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Y. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. During the year, the Hospital had an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of \$445,463 and \$460,697 were incurred for the years ended June 30, 2015 and 2014, respectively.

Z. *Reclassification*

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

AA. *Subsequent Events*

The Hospital considered events occurring through October 19, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

**(2) Cash, Investments and Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments at June 30, 2015 and 2014 consisted of cash, money market mutual funds, and U.S. government obligations as follows:

# Ringgold County Hospital

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

		2015			
		Maturities in Years			
Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasury Money					
Market Mutual Funds	\$ 778,889	778,889	--	--	--
U.S. Government Agency Obligations	982,893	255,068	505,082	222,743	--
	<u>\$ 1,761,782</u>	<u>1,033,957</u>	<u>505,082</u>	<u>222,743</u>	<u>--</u>

  

		2014			
		Maturities in Years			
Type	Fair Value	Less than 1	1 - 5	6 - 10	More than 10
U.S. Treasury Money					
Market Mutual Funds	\$ 696,367	696,367	--	--	--
U.S. Government Agency Obligations	995,479	--	562,447	433,032	--
	<u>\$ 1,691,846</u>	<u>696,367</u>	<u>562,447</u>	<u>433,032</u>	<u>--</u>

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

*Credit Risk:* Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015 the Hospital's investments in U.S. Government agency obligations not directly guaranteed by the U.S. government were rated AA+ by Standards & Poor's and its investments in U.S. Treasury money market mutual funds were rated AA+ by Standard & Poor's.

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

*Custodial credit risk:* Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy does not address how investments are to be held.

## Ringgold County Hospital

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

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

	<u>2015</u>	<u>2014</u>
Short-term investments, Certificates of deposit	\$ <u>270,009</u>	<u>270,000</u>
Assets limited as to use or restricted:		
By bond agreements –		
U.S. government agency obligations	982,893	995,479
U.S. treasury money market funds	<u>778,889</u>	<u>696,367</u>
Total assets limited as to use or restricted	1,761,782	1,691,846
Less amounts required to meet current obligations	<u>435,371</u>	<u>427,469</u>
Long-term portion	\$ <u>1,326,411</u>	<u>1,264,377</u>

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 30,347	30,689
Change in unrealized gains and losses, net	<u>(10,741)</u>	<u>(12,335)</u>
Total investment return	\$ <u>19,606</u>	<u>18,354</u>

### (3) Net Patient Service Revenue

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

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

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

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

## Ringgold County Hospital

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

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

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

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient	\$ 4,515,120	2,519,588
Outpatient	14,593,090	12,009,232
Swing bed	292,283	384,975
Dialysis	--	246,738
Clinic	2,865,635	2,151,802
	<u>22,266,128</u>	<u>17,312,335</u>
Total gross patient service revenue		
	<u>22,266,128</u>	<u>17,312,335</u>
Deductions from gross patient service revenue:		
Medicare	3,220,651	1,576,356
Medicaid	423,794	315,968
Other payers	2,011,448	1,708,096
Charity care	87,702	156,308
	<u>5,743,595</u>	<u>3,756,728</u>
Total deductions from gross patient service revenue		
	<u>5,743,595</u>	<u>3,756,728</u>
Net patient service revenue before provision for bad debt	\$ <u>16,522,533</u>	<u>13,555,607</u>

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payers, 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 56% and 13%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 63% for Medicare and 10% 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. The 2015 and 2014 net patient service revenue increased approximately \$200,000 and \$310,000, respectively, due to additional allowances necessary or removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, reviews and investigations.

# Ringgold County Hospital

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

### (4) Meaningful Use of Certified Electronic Health Record Technology Incentive Payments

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During 2015 and 2014, the Hospital qualified for the financial incentive payments by attesting it met specific criteria set by the Center for Medicare and Medicaid services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment was and will be earned and received through various payments through 2016. The incentive amount is computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. In 2015 and 2014, the Hospital elected to record \$152,745 and \$-0-, respectively, of the incentive payment as other operating revenue and defer approximately \$187,460 and \$-0-, respectively, related to future Medicare reimbursement. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2015. Medicaid incentive revenue of \$62,300 and \$124,600 was earned in 2015 and 2014, respectively, and included with other revenue. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

### (5) Composition of Patient Receivables

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

	<u>2015</u>	<u>2014</u>
Patient accounts	\$ 4,527,265	2,550,161
Less estimated third-party contractual adjustments	(596,623)	(428,000)
Less allowance for uncollectible accounts	<u>(1,029,000)</u>	<u>(802,000)</u>
	<u>\$ 2,901,642</u>	<u>1,320,161</u>

The Hospital is located in Mount Ayr, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	39%	32%
Medicaid	7	11
Commercial	27	20
Private pay	<u>27</u>	<u>37</u>
	<u>100%</u>	<u>100%</u>

# Ringgold County Hospital

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

### (6) Capital Assets

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

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 368,364	--	--	368,364
Construction in progress	263,264	453,679	(716,943)	--
Total capital assets, not being depreciated	<u>631,628</u>	<u>453,679</u>	<u>(716,943)</u>	<u>368,364</u>
Capital assets, being depreciated:				
Land improvements	1,502,354	2,685	--	1,505,039
Hospital buildings	9,468,113	--	284,591	9,752,704
Fixed equipment	7,692,668	2,404	--	7,695,072
Major moveable equipment	7,513,756	301,093	175,169	7,990,018
Total capital assets, being depreciated	<u>26,176,891</u>	<u>306,182</u>	<u>459,760</u>	<u>26,942,833</u>
Less accumulated depreciation:				
Land improvements	404,833	91,146	--	495,979
Hospital buildings	2,335,909	500,467	--	2,836,376
Fixed equipment	2,076,737	445,411	--	2,522,148
Major moveable equipment	4,833,623	1,159,238	(243,882)	5,748,979
Total accumulated depreciation	<u>9,651,102</u>	<u>2,196,262</u>	<u>(243,882)</u>	<u>11,603,482</u>
Total capital assets, being depreciated, net	<u>16,525,789</u>	<u>(1,890,080)</u>	<u>703,642</u>	<u>15,339,351</u>
Total capital assets, net	<u>\$ 17,157,417</u>	<u>(1,436,401)</u>	<u>(13,301)</u>	<u>15,707,715</u>
	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 368,364	--	--	368,364
Construction in progress	26,520	263,264	(26,520)	263,264
Total capital assets, not being depreciated	<u>394,884</u>	<u>263,264</u>	<u>(26,520)</u>	<u>631,628</u>
Capital assets, being depreciated:				
Land improvements	1,502,354	--	--	1,502,354
Hospital buildings	9,468,113	--	--	9,468,113
Fixed equipment	7,769,077	5,593	(82,002)	7,692,668
Major moveable equipment	7,461,117	279,135	(226,496)	7,513,756
Total capital assets, being depreciated	<u>26,200,661</u>	<u>284,728</u>	<u>(308,498)</u>	<u>26,176,891</u>
Less accumulated depreciation:				
Land improvements	313,836	90,997	--	404,833
Hospital buildings	1,816,786	519,123	--	2,335,909
Fixed equipment	1,702,156	447,907	(73,326)	2,076,737
Major moveable equipment	3,724,951	1,212,794	(104,122)	4,833,623
Total accumulated depreciation	<u>7,557,729</u>	<u>2,270,821</u>	<u>(177,448)</u>	<u>9,651,102</u>
Total capital assets, being depreciated, net	<u>18,642,932</u>	<u>(1,986,093)</u>	<u>(131,050)</u>	<u>16,525,789</u>
Total capital assets, net	<u>\$ 19,037,816</u>	<u>(1,722,829)</u>	<u>(157,570)</u>	<u>17,157,417</u>

Depreciation expense of \$2,196,262 and \$2,270,821 in 2015 and 2014, respectively, is included in the accompanying statements of revenue, expenses and change in net position.

# Ringgold County Hospital

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

### (7) Long-Term Debt

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

	<u>June 30,</u> <u>2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2015</u>	<u>Due Within</u> <u>One Year</u>
Hospital Revenue Bond, Series 2008A (A)	\$ 12,550,000	--	185,000	12,365,000	195,000
Hospital Revenue Bond, Series 2008B (B)	1,420,000	--	10,000	1,410,000	15,000
Hospital Revenue Bond, Series 2010 (C)	<u>8,329,238</u>	<u>--</u>	<u>110,268</u>	<u>8,218,970</u>	<u>114,475</u>
	<u>\$ 22,299,238</u>	<u>--</u>	<u>305,268</u>	<u>21,993,970</u>	<u>324,475</u>

  

	<u>June 30,</u> <u>2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>
Hospital Revenue Bond, Series 2008A (A)	\$ 12,720,000	--	170,000	12,550,000	185,000
Hospital Revenue Bond, Series 2008B (B)	1,430,000	--	10,000	1,420,000	10,000
Hospital Revenue Bond, Series 2010 (C)	<u>8,435,454</u>	<u>--</u>	<u>106,216</u>	<u>8,329,238</u>	<u>110,268</u>
	<u>\$ 22,585,454</u>	<u>--</u>	<u>286,216</u>	<u>22,299,238</u>	<u>305,268</u>

- (A) Series 2008A Hospital Revenue Bonds; issued in the original amount of \$13,030,000, maturing serially at varying amounts through 2038, semiannual interest payments at 6.70%; collateralized by the Hospital's net revenue. The USDA-RD has issued to ArborOne ACA (the Servicer) a conditional commitment for guarantee, whereby, subject to certain conditions, to guarantee payment of principal and interest on the Series 2008A Bonds.
- (B) Series 2008B Hospital Revenue Bonds; issued in the original amount of \$1,450,000, maturing serially at varying amounts through 2038, semiannual interest payments at 10.12%; collateralized by the Hospital's net revenue.
- (C) In October 2010, the Hospital refinanced the Hospital Revenue Bonds Series 2009 and acquired permanent financing through the USDA Rural Development with Hospital Revenue Bonds, Series 2010 at 3.75%. Monthly principal and interest payments at \$35,061 are due commencing November 1, 2010 through October 1, 2050.

In conjunction with the issuance of the Hospital Revenue Bonds, the Hospital has agreed to comply with certain covenants as described in the bond indentures which places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

In addition, the Hospital is required to make monthly payments of \$3,506 into a debt service reserve account for ten years.

# Ringgold County Hospital

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

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 324,475	1,270,113	1,594,588
2017	338,842	1,250,827	1,589,669
2018	358,376	1,230,538	1,588,914
2019	378,083	1,209,070	1,587,153
2020	422,970	1,185,495	1,608,465
2021-2025	2,529,926	5,501,994	8,031,920
2026-2030	3,368,290	4,611,503	7,979,793
2031-2035	4,518,228	3,396,348	7,914,576
2036-2040	6,186,240	1,640,988	7,827,228
2041-2045	1,575,166	528,494	2,103,660
2046-2050	1,899,457	204,203	2,103,660
2051	93,917	700	94,617
	<u>\$ 21,993,970</u>	<u>22,030,273</u>	<u>44,024,243</u>

### (8) Professional Liability Insurance

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

Accounting principles generally accepted in the United States of America require a healthcare provider to 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 Hospital 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.

### (9) Pension Plan

#### Plan Description

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

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

# Ringgold County Hospital

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

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### Pension Benefits

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

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

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

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

### Disability and Death Benefits

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

### Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. 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, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the year ended June 30, 2015 and 2014 were \$522,381 and \$473,788, respectively.

# Ringgold County Hospital

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

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

At June 30, 2015, the Hospital reported a liability of \$3,001,745 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .0753576 percent, which was a decrease of .00468931 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$163,113. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 33,232	5,044
Changes of assumptions	134,945	120
Net difference between projected and actual earnings on pension plan investments	--	1,221,174
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(207,209)	--
Hospital contributions subsequent to the measurement date	<u>522,381</u>	<u>--</u>
Total	<u>\$ 483,349</u>	<u>1,226,338</u>

\$522,381 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	
2016	\$ (315,620)
2017	(315,620)
2018	(315,620)
2019	(315,620)
2020	<u>(2,890)</u>
	<u>\$ (1,265,370)</u>

There were no non-employer contributing entities at IPERS.

# Ringgold County Hospital

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

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### Actuarial Assumptions

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

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.0 to 17.0 percent, 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	1	(0.69)
Total	<u>100%</u>	

### Discount Rate

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

# Ringgold County Hospital

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 5,901,127	3,001,745	554,774

### Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$38,268 for legally required employer contributions and \$25,499 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## (10) Self-Funded Health Insurance

The Hospital has established a self-funded employee health insurance fund. All employees' payroll withholdings for health insurance and the Hospital's contributions are deposited into a separate benefit account. Under the self-insured plan, the Hospital pays claims from this fund, up to certain limits, and carries stop loss insurance for claims in excess of the limits. Stop-loss coverage is provided through a commercial insurance company. The Hospital incurred health insurance expenses of \$997,624 and \$954,451 as of June 30, 2015 and 2014, respectively.

## (11) Commitments and Contingencies

### Commitments

The Hospital leases certain equipment under various three to five year noncancellable operating leases. The rental expense for the operating leases was \$222,074 and \$233,800 for the years ended June 30, 2015 and 2014, respectively. The following is a schedule by year of future minimum rental payments required under noncancellable operating leases that have initial or remaining noncancellable lease terms in excess of one year as of June 30, 2015:

2016	\$ 263,178
2017	295,398
2018	245,448
2019	221,648
2020	170,464
Thereafter	<u>211,050</u>
	<u>\$ 1,407,186</u>

# Ringgold County Hospital

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

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### (12) Risks and Uncertainties

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

### (13) Deficit Balance

The Hospital had a deficit unrestricted balance of \$1,467,904 at June 30, 2015 primarily due to the net pension liability.

### (14) Change in Accounting Principle

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

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ (2,253,762)
Net pension liability at June 30, 2014	(4,577,790)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>473,788</u>
Net position July 1, 2014, as restated	\$ <u><u>(6,357,764)</u></u>

## Ringgold County Hospital

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

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This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences.

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

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

	Actual Accrual Basis	(Amended) Budgeted Accrual Amounts	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,286,458	1,243,484	42,974
Add: Other revenues / receipts	16,707,137	16,052,214	654,923
Less: Expenses / disbursements	<u>17,900,088</u>	<u>18,592,508</u>	<u>692,420</u>
Net	93,507	(1,296,810)	<u>1,390,317</u>
Balance beginning of year	<u>(6,357,764)</u>	<u>(1,919,067)</u>	
Balance end of year	<u>\$ (6,264,257)</u>	<u>(3,215,877)</u>	

*See accompanying independent auditor's report*

# Ringgold County Hospital

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

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	<u>2015</u>
Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)	
Hospital's proportion of net pension liability	0.0753576%
Hospital's proportionate share of the net pension liability	\$ 3,002
Hospital's covered-employee payroll	\$ 5,297
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	56.68%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

*See accompanying independent auditor's report*

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

**Ringgold County Hospital**

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

Iowa Public Employee's Retirement System  
Last 10 Fiscal Years  
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 522	473	470	430	379	314	243	275	241	255
Contributions in relation to the statutorily required contribution	<u>(522)</u>	<u>(473)</u>	<u>(470)</u>	<u>(430)</u>	<u>(379)</u>	<u>(314)</u>	<u>(243)</u>	<u>(275)</u>	<u>(241)</u>	<u>(255)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>								
Hospital's covered-employee payroll	\$ 5,845	5,297	5,415	5,322	5,461	4,729	3,827	4,538	4,206	4,435
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.73%	5.75%

*See accompanying independent auditor's report*

# Ringgold County Hospital

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

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### Notes to Required Supplementary Information – Pension Liability

#### *Changes of benefit terms*

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

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

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

#### *Changes of assumptions*

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

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

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

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

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

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

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

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

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
<b>DAILY PATIENT SERVICES:</b>						
Medical and surgical	\$ 862,659	--	862,659	517,682	--	517,682
Swing bed	63,580	--	63,580	93,912	--	93,912
	<u>926,239</u>	<u>--</u>	<u>926,239</u>	<u>611,594</u>	<u>--</u>	<u>611,594</u>
<b>NURSING SERVICES:</b>						
Central services	1,257,176	353,628	1,610,804	715,589	160,933	876,522
Operating room	466,459	1,069,393	1,535,852	142,068	593,674	735,742
Emergency	10,340	1,156,323	1,166,663	5,436	969,243	974,679
Intravenous therapy	180,519	277,097	457,616	117,726	167,078	284,804
CRNA	106,530	267,141	373,671	30,008	164,979	194,987
Recovery room	41,329	261,841	303,170	12,521	150,930	163,451
	<u>2,062,353</u>	<u>3,385,423</u>	<u>5,447,776</u>	<u>1,023,348</u>	<u>2,206,837</u>	<u>3,230,185</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Radiology	420,978	3,362,148	3,783,126	268,267	2,808,545	3,076,812
Laboratory	476,912	2,938,176	3,415,088	338,954	2,750,372	3,089,326
Clinic	--	2,888,703	2,888,703	32,186	2,566,007	2,598,193
Pharmacy	441,298	1,561,521	2,002,819	234,453	1,389,315	1,623,768
Physical, occupational, and speech therapy	183,280	743,667	926,947	170,663	776,469	947,132
Emergency room physicians	5,498	775,302	780,800	--	723,748	723,748
Respiratory therapy	227,618	381,427	609,045	181,198	283,207	464,405
Mental health	--	571,140	571,140	--	--	--
Ambulance service	5,286	493,791	499,077	--	468,484	468,484
Cardiology	41,890	316,092	357,982	23,945	301,420	325,365
Transfusion service	16,051	41,335	57,386	19,930	43,416	63,346
Dialysis	--	--	--	--	88,968	88,968
Anesthesiology	--	--	--	25	984	1,009
	<u>1,818,811</u>	<u>14,073,302</u>	<u>15,892,113</u>	<u>1,269,621</u>	<u>12,200,935</u>	<u>13,470,556</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>4,807,403</u></b>	<b><u>17,458,725</u></b>	<b><u>22,266,128</u></b>	<b><u>2,904,563</u></b>	<b><u>14,407,772</u></b>	<b><u>17,312,335</u></b>
<b>LESS:</b>						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(5,655,893)			(3,600,420)
Charity care services and other discounts, based on charges forgone			<u>(87,702)</u>			<u>(156,308)</u>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>			<b>16,522,533</b>			<b>13,555,607</b>
<b>PROVISION FOR BAD DEBT</b>			<b><u>(251,662)</u></b>			<b><u>(382,047)</u></b>
<b>NET PATIENT SERVICE REVENUE</b>			<b>\$ <u>16,270,871</u></b>			<b>\$ <u>13,173,560</u></b>

See accompanying independent auditor's report

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

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	<u>2015</u>	<u>2014</u>
Medicare EHR incentive	\$ 152,745	--
Medicaid EHR incentive	62,300	124,600
Gain (loss) on sale of capital assets	52,341	(102,689)
Meals sold to employees and guests	33,658	28,703
Lifeline rental	24,466	25,303
Other	<u>14,233</u>	<u>15,179</u>
	<u>\$ 339,743</u>	<u>91,096</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
<b>NURSING SERVICES:</b>						
Operating room	\$ 355,131	806,383	1,161,514	262,469	426,364	688,833
Medical and surgical	794,336	67,728	862,064	751,021	46,058	797,079
Nursing administration	140,235	131,232	271,467	129,802	129,042	258,844
Emergency services	104,036	51,336	155,372	97,487	18,010	115,497
Central services and supply	61,526	8,579	70,105	59,408	9,039	68,447
	<u>1,455,264</u>	<u>1,065,258</u>	<u>2,520,522</u>	<u>1,300,187</u>	<u>628,513</u>	<u>1,928,700</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Clinics	1,874,715	475,093	2,349,808	1,471,381	428,344	1,899,725
Radiology	231,945	586,897	818,842	181,269	741,271	922,540
Laboratory	334,755	449,028	783,783	299,917	395,197	695,114
Pharmacy	176,290	590,945	767,235	154,549	472,738	627,287
Emergency room physicians	249,433	337,114	586,547	233,112	363,726	596,838
Physical, occupational, and speech therapy	206,780	190,467	397,247	236,687	190,999	427,686
Medical records	214,513	162,809	377,322	163,210	135,295	298,505
Mental health	65,372	234,491	299,863	--	--	--
Ambulance service	246,805	38,270	285,075	228,805	44,187	272,992
Anesthesiology	--	230,063	230,063	--	130,950	130,950
Respiratory therapy	125,637	85,940	211,577	116,322	78,364	194,686
Physician private offices	39,418	14,941	54,359	22,242	13,364	35,606
Transfusion service	--	40,588	40,588	--	39,951	39,951
Cardiology	14,782	8,185	22,967	15,922	6,491	22,413
Dialysis	--	--	--	42,563	35,810	78,373
	<u>3,780,445</u>	<u>3,444,831</u>	<u>7,225,276</u>	<u>3,165,979</u>	<u>3,076,687</u>	<u>6,242,666</u>
<b>GENERAL SERVICES:</b>						
Plant operation and maintenance	137,388	395,033	532,421	110,485	413,738	524,223
Dietary	132,365	87,964	220,329	134,247	73,944	208,191
Housekeeping	140,060	25,248	165,308	132,728	20,617	153,345
Laundry	22,596	14,166	36,762	25,176	12,633	37,809
	<u>432,409</u>	<u>522,411</u>	<u>954,820</u>	<u>402,636</u>	<u>520,932</u>	<u>923,568</u>
<b>ADMINISTRATIVE AND FISCAL SERVICES</b>						
Administrative	401,021	1,650,243	2,051,264	476,772	1,258,838	1,735,610
Employee benefits	--	1,665,419	1,665,419	--	1,874,703	1,874,703
	<u>401,021</u>	<u>3,315,662</u>	<u>3,716,683</u>	<u>476,772</u>	<u>3,133,541</u>	<u>3,610,313</u>
<b>NONDEPARTMENTAL,</b>						
Depreciation	--	2,196,262	2,196,262	--	2,270,821	2,270,821
<b>TOTAL EXPENSES</b>	<u>\$ 6,069,139</u>	<u>10,544,424</u>	<u>16,613,563</u>	<u>5,345,574</u>	<u>9,630,494</u>	<u>14,976,068</u>

See accompanying independent auditor's report

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

Age of Accounts	2015		2014	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 2,204,801	48.71 %	1,221,507	47.90 %
31 - 60	450,205	9.94	222,979	8.74
61 - 90	438,453	9.68	189,519	7.43
91 - 120	177,429	3.92	126,671	4.97
121 and over	1,256,377	27.75	789,485	30.96
	<u>4,527,265</u>	<u>100.00 %</u>	<u>2,550,161</u>	<u>100.00 %</u>
Less:				
Allowance for uncollectible accounts	(1,029,000)		(802,000)	
Allowance for contractual adjustments	<u>(596,623)</u>		<u>(428,000)</u>	
	<u>\$ 2,901,642</u>		<u>1,320,161</u>	

	2015	2014
ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:		
Balance, beginning of year	\$ 802,000	834,000
Provision of uncollectible accounts	251,662	382,047
Accounts written off	<u>(24,662)</u>	<u>(414,047)</u>
Balance, end of year	<u>\$ 1,029,000</u>	<u>802,000</u>

*See accompanying independent auditor's report*

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

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	<u>2015</u>	<u>2014</u>
INVENTORIES:		
Medical supplies	\$ 294,852	171,921
Pharmacy	120,100	77,445
Information technology	<u>10,247</u>	<u>6,552</u>
	<u>\$ 425,199</u>	<u>255,918</u>
PREPAID EXPENSES:		
Insurance	\$ 33,349	29,310
Maintenance contracts	<u>87,004</u>	<u>140,289</u>
	<u>\$ 120,353</u>	<u>169,599</u>

*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  
Ringgold County Hospital  
Mount Ayr, 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 Ringgold County Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 19, 2015.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

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

**Purpose of this Report**

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

SEIM JOHNSON, LLP.

Omaha, Nebraska,  
October 19, 2015.

# Ringgold County Hospital

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

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

- (a) An unmodified opinion was issued on the financial statements.
- (b) The audit did not disclose any significant deficiencies or material weaknesses in internal control over financial reporting.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

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

#### II-A-15 *Internal control deficiencies:*

No matters were reported.

#### *Instances of Non-Compliance:*

No matters were reported.

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

#### III-A-15

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

#### III-B-15

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

#### III-C-15

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

#### III-D-15

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

#### III-E-15

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

#### III-F-15

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

## Ringgold County Hospital

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

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#### III-G-15

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

#### III-H-15

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

#### III-I-15

Financial Condition: The Hospital has a deficit unrestricted fund balance of \$1,467,904 at June 30, 2015.

Recommendation – The Hospital 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 Hospital's proportionate share of IPERS' net pension liability. The Hospital realizes this liability is not due and payable immediately. Rather, the pension liability will be paid down over a period of time with the Hospital's future employer share of IPERS contributions.

Conclusion – Response accepted.

## **Ringgold County Hospital**

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

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**This audit was performed by:**

Marty J. Dubas, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

McKayla I. Anderson, Staff Auditor