

Washington County Hospital

Independent Auditor's Report and Financial Statements

June 30, 2015 and 2014



Washington County Hospital

June 30, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
Washington County Hospital
Washington, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Washington County Hospital (Hospital), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2015, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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 do not 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.

BKD, LLP

Kansas City, Missouri
October 27, 2015

Washington County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2015 and 2014

Introduction

The management's discussion and analysis of the financial performance of Washington County Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital. The amounts reported in the management discussion and analysis for 2014 and 2013 have not been restated for GASB 68 and 71.

Financial Highlights

- Cash, short-term investments, assets held under indenture agreement – current and noncurrent cash and investments increased in 2015 by \$3,837 or 0.02% from 2014 and increased in 2014 over 2013 by \$4,533,207 or 21%.
- The Hospital's net position increased in 2015 by \$1,394,417 or 6.6% from 2014 before consideration of the beginning of year restatement for GASB 68 of \$8,150,653 and increased in 2014 over 2013 by \$1,107,441 or 6%.
- The Hospital reported operating income of \$713,579 and \$82,964 in 2015 and 2014, respectively.
- Net nonoperating revenues and expenses decreased in 2015 by \$476,827 or 47% and increased in 2014 by \$263,994 or 35%.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. 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 Balance Sheet and Statement of Revenues, 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 Balance Sheet and The Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred outflows of resources, all liabilities, and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that 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 it. The Hospital's total net position—the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what cash was used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The Hospital's net position increased by \$1,394,417 (6.6%) before consideration of the beginning of year restatement for GASB 68 of \$8,150,653 in 2015 over 2014 and increased by \$1,107,441 (6%) in 2014 over 2013, as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014	2013
Assets			
Patient accounts receivable	\$ 3,139,075	\$ 3,417,621	\$ 2,417,661
Other current assets	10,819,421	10,298,983	12,176,907
Noncurrent cash and investments	8,378,934	8,398,420	10,856,268
Capital assets, net	19,953,473	20,115,976	16,833,784
Other	825,096	933,069	24,923
	<u>43,115,999</u>	<u>43,164,069</u>	<u>42,309,543</u>
Deferred Outflows of Resources - Pension Plan	<u>2,004,613</u>	<u>-</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 45,120,612</u>	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>
Liabilities			
Current liabilities	\$ 3,438,197	\$ 3,711,500	\$ 3,448,061
Long-term debt	16,614,293	17,205,431	17,766,431
Net pension liability	6,904,425	-	-
	<u>26,956,915</u>	<u>20,916,931</u>	<u>21,214,492</u>
Deferred Inflows of Resources			
Property taxes	1,050,115	1,010,469	965,823
Pension plan	2,633,149	-	-
	<u>3,683,264</u>	<u>1,010,469</u>	<u>965,823</u>
Net Position			
Net investment in capital assets	4,296,163	3,896,246	260,139
Restricted expendable	1,133,634	1,122,942	1,102,321
Restricted nonexpendable	37,437	37,073	31,582
Unrestricted	9,013,199	16,180,408	18,735,186
	<u>14,480,433</u>	<u>21,236,669</u>	<u>20,129,228</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 45,120,612</u>	<u>\$ 43,164,069</u>	<u>\$ 42,309,543</u>

Operating Results

The Hospital's increase in net position was \$1,394,417 before consideration of the beginning of year restatement for GASB 68 of \$8,150,653 in 2015 and \$1,107,441 in 2014, as shown in Table 2.

Table 2: Operating Results

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 29,536,877	\$ 25,081,308	\$ 23,749,119
Other operating revenues	945,752	1,088,112	981,307
Total operating revenues	<u>30,482,629</u>	<u>26,169,420</u>	<u>24,730,426</u>
Operating Expenses			
Salaries, wages and benefits	17,790,447	15,624,302	14,153,462
Other operating supplies and expenses	9,952,985	8,730,547	7,925,442
Depreciation and amortization	2,025,618	1,731,607	1,591,981
Total operating expenses	<u>29,769,050</u>	<u>26,086,456</u>	<u>23,670,885</u>
Operating Income	<u>713,579</u>	<u>82,964</u>	<u>1,059,541</u>
Nonoperating Revenues (Expenses)			
Property tax revenue	1,028,021	968,696	930,754
Investment income	344,509	731,447	604,471
Interest expense	(933,938)	(962,188)	(991,923)
Noncapital contributions	76,619	255,962	188,038
Foundation gift shop, net	32,439	30,560	29,143
Total nonoperating revenues	<u>547,650</u>	<u>1,024,477</u>	<u>760,483</u>
Excess of Revenues Over Expenses Before Capital Contributions	1,261,229	1,107,441	1,820,024
Capital Contributions	<u>133,188</u>	<u>-</u>	<u>-</u>
Increase in Net Position	<u>\$ 1,394,417</u>	<u>\$ 1,107,441</u>	<u>\$ 1,820,024</u>

The primary reasons for the change in financial performance in 2015 were:

- Completion of Long-Term Care Facility renovation in August increasing occupancy by 9% year over year.
- FY 2015 was Family Medicine Clinic's first full year in operation, which resulted in a net revenue increase of \$2,180,538 or 202%
- Investment income decrease of \$386,938 or 53%.

Hospital inpatient days decreased by 16% and outpatient visits decreased by 1% year over year. Operations generated an additional \$4,063,555 in net patient service revenue, approximately 50% of which was generated from Family Medicine Clinic and \$895,014 was from the electronic health records (EHR) incentive program. Other revenue decreased \$142,360 or 13%, the majority of which was related to 340B pharmacy revenue. Expenses increased \$3,682,594 or 14%. Regular ongoing expenses were at a 7% increase whereas the additional expense came from the Family Medicine Clinic.

The primary reasons for the change in financial performance in 2014 were:

- Onboarding of the Family Medicine Clinic which was purchased in March 2014
- Renovation of the Long-Term Care Facility

Hospital inpatient days decreased by 1% and outpatient visits increased 1% year over year. Operations generated an additional \$1,332,189 or 6% in net patient service revenue, the majority of which came from the new Family Medicine Clinic. Other revenue increased \$106,805 or 11%, the majority of which was from the 340B program. Expenses increased \$2,415,571 or 10%. Regular ongoing expenses were held to approximately a 4% increase. Additional expense came from normal operating and onboarding expense of the new Family Medicine Clinic.

Nonoperating Revenues and Expenses

Decreases in non-operating revenues and expenses between 2015 and 2014 were primarily a result of a decrease in overall investments due to the purchase of the Family Medicine Clinic and a decrease in investment income of \$416,772 in the Foundation investments.

Increases in non-operating revenues and expenses between 2014 and 2013 were primarily due to an increase in 2014 Foundation investment gains of \$157,703 and an increase in non-capital contributions of \$67,924.

The Hospital's Cash Flows

The Hospital's Cash from Operating Activities was \$1,672,058 in 2015 compared to \$690,689 in 2014. Changes in the Hospital's cash from operating activities are consistent with changes in operating income and nonoperating revenues and expenses.

Capital Assets

At the end of 2015, the Hospital had \$19,953,473 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2015, the Hospital purchased new capital assets costing \$1,769,931.

At the end of 2014, the Hospital had \$20,115,976 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Hospital purchased new capital assets costing \$5,083,060, including an acquisition of a new Family Medicine Clinic costing \$4,157,058.

Debt

At June 30, 2015, the Hospital had \$17,245,000 in revenue bonds. The Hospital issued no new debt in 2015.

At June 30, 2014, the Hospital had \$17,810,000 in revenue bonds. The Hospital issued no new debt in 2014.

Factors Bearing on Washington County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was not aware of any existing circumstances that could significantly affect its financial health in the future.

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 Chief Financial Officer's office at Washington County Hospital, 400 East Polk Street, Washington, Iowa 52353.

Washington County Hospital
Balance Sheets
June 30, 2015 and 2014

Assets and Deferred Outflows of Resources

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 3,401,344	\$ 3,560,821
Short-term investments	4,107,930	3,941,005
Assets held under indenture agreement – current	1,061,969	1,046,094
Patient accounts receivable, net of allowance; 2015 - \$516,121, 2014 - \$506,121	3,139,075	3,417,621
Other receivables	55,103	53,663
Estimated third-party settlements	352,000	-
Succeeding year property tax settlements	1,050,115	1,010,469
Supplies	530,364	429,570
Prepaid expenses	260,596	257,361
	<u>13,958,496</u>	<u>13,716,604</u>
Noncurrent Cash and Investments		
Internally designated		
Capital and other expenditures	5,862,653	5,758,526
Externally restricted		
Indenture agreement	2,018,223	2,034,098
Donors	106,627	109,696
Other	391,431	496,100
	<u>8,378,934</u>	<u>8,398,420</u>
	<u>19,953,473</u>	<u>20,115,976</u>
Capital Assets, net of accumulated depreciation		
	<u>19,953,473</u>	<u>20,115,976</u>
Other Assets		
Foundation assets	26,189	24,339
Noncompete agreements	173,072	230,769
Goodwill	481,107	536,619
Other	144,728	141,342
	<u>825,096</u>	<u>933,069</u>
	<u>825,096</u>	<u>933,069</u>
Total Assets	43,115,999	43,164,069
Deferred Outflows of Resources - Pension Plan	<u>2,004,613</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 45,120,612</u>	<u>\$ 43,164,069</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Current Liabilities		
Current maturities of long-term debt	\$ 595,000	\$ 565,000
Accounts payable	583,764	537,930
Accrued expenses		
Salaries, wages and related accruals	674,764	738,060
Paid time off	842,669	796,971
Self-funded health insurance payable	250,031	250,105
Interest	466,969	481,094
Estimated third-party settlements	-	131,000
Other accrued expenses	25,000	211,340
	<hr/>	<hr/>
Total current liabilities	3,438,197	3,711,500
Long-Term Debt, Less Current Maturities	16,614,293	17,205,431
Net Pension Liability	6,904,425	-
	<hr/>	<hr/>
Total liabilities	26,956,915	20,916,931
Deferred Inflows of Resources		
Property taxes	1,050,115	1,010,469
Pension plan	2,633,149	-
	<hr/>	<hr/>
Total deferred inflows of resources	3,683,264	1,010,469
Net Position		
Net investment in capital assets	4,296,163	3,896,246
Unrestricted	9,013,199	16,180,408
Restricted expendable		
Debt service	1,064,444	1,050,319
Donor restricted	69,190	72,623
Restricted nonexpendable	37,437	37,073
	<hr/>	<hr/>
Total net position	14,480,433	21,236,669
Total Liabilities, Deferred Inflows of Resources and Net Position		
	<hr/> <hr/>	<hr/> <hr/>
	\$ 45,120,612	\$ 43,164,069

Washington County Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 30,350,321	\$ 25,921,370
Provision for uncollectible accounts	(813,444)	(840,062)
	29,536,877	25,081,308
Other	945,752	1,088,112
	30,482,629	26,169,420
Operating Expenses		
Salaries and wages	14,189,421	12,047,093
Employee benefits	3,601,026	3,577,209
Medical professional fees	3,012,809	2,549,775
Supplies and other	3,587,135	3,125,757
General services	1,233,465	1,211,622
Administrative services	1,782,662	1,562,155
Depreciation and amortization	2,025,618	1,731,607
Disposal of capital assets	-	6,634
Insurance	336,914	274,604
	29,769,050	26,086,456
Operating Income	713,579	82,964
Nonoperating Revenues (Expenses)		
Investment income	344,509	731,447
Interest expense	(933,938)	(962,188)
Property tax revenue	1,028,021	968,696
Noncapital contributions	76,619	255,962
Foundation gift shop, net	32,439	30,560
	547,650	1,024,477
Excess of Revenues Over Expenses Before Capital Contributions	1,261,229	1,107,441
Capital Contributions	133,188	-
Increase in Net Position	1,394,417	1,107,441
Net Position, Beginning of the Year	21,236,669	20,129,228
Change in Beginning Net Position for Restatement (GASB No. 68)	(8,150,653)	-
Net Position, End of the Year	\$ 14,480,433	\$ 21,236,669

Washington County Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 29,332,423	\$ 23,790,348
Payments to suppliers	(9,920,676)	(8,612,998)
Payments to employees	(18,612,151)	(15,287,314)
Other receipts and payments, net	872,462	800,653
Net cash provided by operating activities	1,672,058	690,689
Noncapital Financing Activities		
Property taxes supporting operations	1,028,021	968,696
Noncapital contributions	76,619	255,962
Foundation gift shop	32,439	30,560
Net cash provided by noncapital financing activities	1,137,079	1,255,218
Capital and Related Financing Activities		
Purchase of capital assets	(1,769,931)	(926,002)
Acquisition of Family Medicine Clinic	-	(4,792,444)
Principal payments on long-term debt	(565,000)	(540,000)
Interest paid on long-term debt	(948,063)	(975,688)
Contributions of capital assets	133,188	-
Proceeds from the sale of capital assets	-	23,573
Net cash used in capital and related financing activities	(3,149,806)	(7,210,561)
Investing Activities		
Change in deposits and investments	(178,853)	3,758,992
Income received on investments	344,509	731,447
Net cash provided by investing activities	165,656	4,490,439
Decrease in Cash and Cash Equivalents	(175,013)	(774,215)
Cash and Cash Equivalents, Beginning of Year	3,766,489	4,540,704
Cash and Cash Equivalents, End of Year	\$ 3,591,476	\$ 3,766,489
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 3,401,344	\$ 3,560,821
Noncurrent cash and investments	-	-
Capital and other expenditures	190,132	205,668
	\$ 3,591,476	\$ 3,766,489

Washington County Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 713,579	\$ 82,964
Items not requiring cash		
Depreciation and amortization	2,025,618	1,731,607
Loss on disposal of capital assets	-	6,634
Changes in		
Patient and other receivables	277,106	(1,038,003)
Supplies	(100,794)	2,730
Prepaid expenses	(3,235)	(73,340)
Accounts payable and accrued expenses	(67,674)	518,513
Net pension liability	(2,263,533)	-
Estimated amounts due to/from third-party payers	(483,000)	(291,000)
Deferred outflows of resources	(987,308)	-
Deferred inflows of resources	2,633,149	-
Other assets	(71,850)	(249,416)
	\$ 1,672,058	\$ 690,689
Net cash provided by operating activities		

Other Supplemental Cash Flow Information

During 2014, the Hospital acquired certain assets of Family Medicine Clinic located in Washington, Iowa for \$4,792,444.

In conjunction with this acquisition, liabilities were assumed as follows:

Fair value of assets acquired	\$ 4,915,327
Less cash paid	4,792,444
Liabilities assumed	\$ 122,883

In conjunction with this acquisition, assets acquired were as follows:

Inventory	\$ 44,136
Property, plant and equipment	4,157,058
Intangibles	159,010
Goodwill	555,123
Total assets acquired	\$ 4,915,327

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Washington County Hospital (Hospital) is a 25-bed public hospital and 43-bed long-term care facility organized under Chapter 347 of the Code of Iowa and is governed by a seven-member Board of Trustees elected for alternating terms of six years. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Washington County area.

Blended Component Unit

The Hospital is the beneficiary of the Washington County Hospital Foundation, a legally separate not-for-profit corporation. The Foundation was formed to “encourage, accept and steward all public and private gifts, grants and contributions in support of the mission of Washington County Hospital.” The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program-specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Property Taxes

The Hospital received approximately 3% and 4% of its financial support from property tax revenues in the years ended June 30, 2015 and 2014, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the county as of the second preceding January 1. Tax bills are sent by the county in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 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.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters except employee health and dental benefits for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable 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 dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Noncurrent Cash and Investments

Noncurrent cash and investments include (1) assets restricted by donors, (2) assets restricted under indenture agreements, (3) internally designated unrestricted assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes and (4) other long-term investments.

Supplies

All supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	5 to 20 years
Buildings and improvements	5 to 40 years
Equipment	5 to 15 years

Compensated Absences and Benefits

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

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.

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Cost-Sharing Defined Benefit Pension Plan

The Hospital participates in a cost-sharing multiple-employer defined benefit pension plan. 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.

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 balance sheet 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.

Net Position

Net position of the Hospital is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts required by bond indentures, reduced by the outstanding balances of any related borrowings.

Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital. Unrestricted net position is the remaining net position that does not meet the definition of investment in capital assets, or restricted net position. When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

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. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts under reimbursement agreements with third-party payers. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$15,771 and \$53,442 for 2015 and 2014, respectively.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, an accrual has been recorded of \$25,000 for 2015 and 2014. It is reasonably possible that this estimate could change materially in the near term.

Income Taxes

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

Goodwill and Intangible Assets

Goodwill is amortized on the straight-line basis over the estimated life. Intangible assets are amortized on the straight-line basis. The assets are periodically evaluated as to the recoverability of their carrying values.

Electronic Health Records Incentive Program

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

Washington County Hospital
Notes to Financial Statements
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The Hospital has recognized the incentive payments received for qualified EHR technology expenditures during 2015 and 2014, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenue of \$895,014 and \$12,000, for the years ended June 30, 2015 and 2014, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position.

Implementation of New Accounting Principles

In 2015, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*. 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. The June 30, 2014 financial statements were not restated due to the lack of availability of information. 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:

	2015
Net position June 30, 2014, as previously reported	\$ 21,236,669
Net position liability at June 30, 2014	(9,167,958)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	1,017,305
Net position, beginning of year as restated	\$ 13,086,016

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Business Combination

On March 1, 2014, the Hospital via an Asset Purchase Agreement purchased the assets of a primary care clinic in Washington, Iowa. This is referred to as the Family Medicine Clinic. The assets purchased include property, plant and equipment of approximately \$4,200,000, and inventories, records and goodwill with an aggregate total of approximately \$4,900,000. The goodwill was assigned a useful life of 10 years. The Hospital used existing cash and investments to fund this transaction. The total payment was approximately \$4,800,000 as the Hospital assumed approximately \$123,000 of property tax liabilities.

Note 2: 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. These payment arrangements include:

Medicare. The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

Approximately 56% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 3: Patient Accounts Receivable

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 at June 30, 2015 and 2014 was:

	2015	2014
Medicare and Medicaid	\$ 989,925	\$ 1,160,314
Other third-party payers	691,028	682,540
Patients	1,067,169	990,793
Clinics	907,074	1,090,095
	3,655,196	3,923,742
Less allowances for uncollectible accounts	(516,121)	(506,121)
	\$ 3,139,075	\$ 3,417,621

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2015 and 2014. The Hospital's deposits in banks and credit unions 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. Hospital deposits in a credit union are entirely covered by federal depository insurance. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

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.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

At June 30, 2015 and 2014, the Hospital had the following investments and maturities:

Type	June 30, 2015				
	Fair Value	Maturities in Years			More Than 10
		Less Than 1	1 – 5	6 – 10	
Money market funds-Hospital	\$ 94,107	\$ 94,107	\$ -	\$ -	\$ -
Money market mutual funds-Hospital	125,757	125,757	-	-	-
Government obligations-Hospital	388,227	-	-	-	388,227
Money market funds-Foundation	1,150	1,150	-	-	-
	609,241	\$ 221,014	\$ -	\$ -	\$ 388,227
Equity mutual funds-Foundation	3,909,064				
	<u>\$ 4,518,305</u>				

Type	June 30, 2014				
	Fair Value	Maturities in Years			More Than 10
		Less Than 1	1 – 5	6 – 10	
Money market funds-Hospital	\$ 47,952	\$ 47,952	\$ -	\$ -	\$ -
Money market mutual funds-Hospital	95,002	95,002	-	-	-
Government obligations-Hospital	384,703	-	-	-	384,703
Money market funds-Foundation	853	853	-	-	-
	528,510	\$ 143,807	\$ -	\$ -	\$ 384,703
Equity mutual funds-Foundation	3,728,858				
	<u>\$ 4,257,368</u>				

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital’s investment policy for investments considered as operating funds is with maturities less than 397 days. Other investments are to have maturities consistent with the needs and use of the Hospital. The money market funds and money market mutual funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately. The government obligations are presented in their respective category based on final maturity date.

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 and 2014, the Hospital’s money market mutual funds, Hospital’s money market funds and the Foundation’s money market funds are not rated. The Hospital’s government obligations were rated AA+ in 2015 and 2014 by Standard & Poor’s.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

At June 30, 2015 and 2014, the Hospital's investments not directly guaranteed by the U.S. government that constituted more than 5% of its total investments are as follows:

	2015	2014
Federal Home Loan Mortgage Corporation obligations	5%	5%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	\$ 12,431,872	\$ 12,688,972
Investments	4,518,305	4,257,368
	\$ 16,950,177	\$ 16,946,340
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,401,344	\$ 3,560,821
Short-term investments	4,107,930	3,941,005
Assets held under indenture agreement – current	1,061,969	1,046,094
Noncurrent cash and investments	8,378,934	8,398,420
	\$ 16,950,177	\$ 16,946,340

Investment Income

Investment income for the years ended June 30, 2015 and 2014 consisted of:

	2015	2014
Interest and dividend income	\$ 397,052	\$ 297,386
Net increase (decrease) in fair value of investments	(52,543)	434,061
	\$ 344,509	\$ 731,447

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 5: Capital Assets

Capital asset additions, retirements and balances for the years ended June 30, 2015 and 2014, were as follows:

2015	Balance 6/30/14	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/15
Land	\$ 146,902	\$ -	\$ -	\$ -	\$ 146,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	29,062,747	3,844	-	141,558	29,208,149
Equipment	8,264,644	880,413	(286,829)	839,917	9,698,145
Construction in progress	235,043	885,674	-	(1,071,976)	48,741
	<u>38,662,731</u>	<u>1,769,931</u>	<u>(286,829)</u>	<u>(90,501)</u>	<u>40,055,332</u>
Less accumulated depreciation for					
Land improvements	(564,884)	(50,807)	-	-	(615,691)
Buildings and leasehold improvements	(11,737,094)	(1,158,826)	-	-	(12,895,920)
Equipment	(6,244,777)	(632,300)	286,829	-	(6,590,248)
	<u>(18,546,755)</u>	<u>(1,841,933)</u>	<u>286,829</u>	<u>-</u>	<u>(20,101,859)</u>
	<u>\$ 20,115,976</u>	<u>\$ (72,002)</u>	<u>\$ -</u>	<u>\$ (90,501)</u>	<u>\$ 19,953,473</u>
2014	Balance 6/30/13	Additions	Retirements	Transfers/ Adjustments	Balance 6/30/14
Land	\$ 10,902	\$ 136,000	\$ -	\$ -	\$ 146,902
Land improvements	953,395	-	-	-	953,395
Buildings and leasehold improvements	25,162,359	3,900,388	-	-	29,062,747
Equipment	7,538,739	631,998	(95,549)	189,456	8,264,644
Construction in progress	108,282	414,674	-	(287,913)	235,043
	<u>33,773,677</u>	<u>5,083,060</u>	<u>(95,549)</u>	<u>(98,457)</u>	<u>38,662,731</u>
Less accumulated depreciation for					
Land improvements	(514,076)	(50,808)	-	-	(564,884)
Buildings and leasehold improvements	(10,673,543)	(1,063,551)	-	-	(11,737,094)
Equipment	(5,752,274)	(557,845)	65,342	-	(6,244,777)
	<u>(16,939,893)</u>	<u>(1,672,204)</u>	<u>65,342</u>	<u>-</u>	<u>(18,546,755)</u>
	<u>\$ 16,833,784</u>	<u>\$ 3,410,856</u>	<u>\$ (30,207)</u>	<u>\$ (98,457)</u>	<u>\$ 20,115,976</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2015 and 2014 follows.

	Balance 6/30/14	Additions	Reductions	Balance 6/30/15	Amounts Due Within One Year
Series 2006 Hospital Revenue Bonds (A)	\$ 17,810,000	\$ -	\$ (565,000)	\$ 17,245,000	\$ 595,000
	17,810,000	<u>\$ -</u>	<u>\$ (565,000)</u>	17,245,000	<u>\$ 595,000</u>
Less unamortized discount	<u>39,569</u>			<u>35,707</u>	
	<u>\$ 17,770,431</u>			<u>\$ 17,209,293</u>	

	Balance 6/30/13	Additions	Reductions	Balance 6/30/14	Amounts Due Within One Year
Series 2006 Hospital Revenue Bonds (A)	\$ 18,350,000	\$ -	\$ (540,000)	\$ 17,810,000	\$ 565,000
	18,350,000	<u>\$ -</u>	<u>\$ (540,000)</u>	17,810,000	<u>\$ 565,000</u>
Less unamortized discount	<u>43,569</u>			<u>39,569</u>	
	<u>\$ 18,306,431</u>			<u>\$ 17,770,431</u>	

(A) Series 2006 Hospital Revenue Bonds; \$3,085,000 maturing serially at varying amounts through 2017, semiannual interest payments at rates ranging from 4.625% to 5.25%; \$7,750,000 term bonds with mandatory sinking fund redemption, due July 2026 with an interest rate of 5.375% and \$7,640,000 term bonds with mandatory sinking fund redemption, due July 2032 with an interest rate of 5.50%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures place 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.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Scheduled principal and interest repayments on long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 595,000	\$ 918,691	\$ 1,513,691
2017	625,000	887,428	1,512,428
2018	660,000	854,088	1,514,088
2019	690,000	818,219	1,508,219
2020	730,000	780,056	1,510,056
2021 – 2025	4,280,000	3,250,713	7,530,713
2026 – 2030	5,565,000	1,929,419	7,494,419
2031 – 2033	4,100,000	348,563	4,448,563
	<u>\$ 17,245,000</u>	<u>\$ 9,787,177</u>	<u>\$ 27,032,177</u>

During 2013, the Hospital bought back \$25,000 of revenue bonds which was offset against the remaining balance of the 2006 revenue bonds.

Note 7: Operating Leases

Noncancelable operating leases for equipment will expire December 2016.

Future minimum lease payments at June 30, 2015 are:

2016	\$ 224,854
2017	121,380
2018	92,232
2019	92,232
2020	<u>7,686</u>
Future minimum lease payments	<u>\$ 538,384</u>

Rental expense for all operating leases was \$313,425 and \$386,672 for the years ended June 30, 2015 and 2014, respectively.

Note 8: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to \$50,000 per eligible participant. Commercial stop-loss insurance coverage is purchased for claims in excess of \$50,000. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not

Washington County Hospital
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yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors.

Activity in the Hospital's accrued employee health claims liability during 2015 and 2014 is summarized as follows:

	2015	2014
Balance, beginning of year	\$ 250,105	\$ 249,599
Current year claims incurred and changes in estimates for claims incurred in prior years	1,894,538	1,540,651
Claims and expenses paid	(1,894,612)	(1,540,145)
Balance, end of year	\$ 250,031	\$ 250,105

Note 9: Defined Benefit 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 provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, Post Office Box 9117, Des Moines, Iowa, 50306-9117 or at www.ipers.org.

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

Pension Benefits

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

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

Washington County Hospital

Notes to Financial Statements

June 30, 2015 and 2014

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 and 2014, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the years ended June 30, 2015, 2014 and 2013 were \$1,227,365, \$1,017,305 and \$907,963, respectively.

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

At June 30, 2015, the Hospital reported a liability of \$6,904,425 for its proportionate share of the net pension liability. The Hospital 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

Washington County Hospital
Notes to Financial Statements
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June 30, 2014, the Hospital's collective proportion was 0.1706%, which was an increase of 0.009% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of \$609,673. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 75,038	\$ -
Change of assumptions	304,708	-
Net difference between projected and actual earnings on pension plan investments	-	2,633,149
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	397,502	-
Hospital contributions subsequent to the measurement date	1,227,365	-
Total	\$ 2,004,613	\$ 2,633,149

At June, 30, 2015, the Hospital reported \$1,227,365 as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date and prior to year end that will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at June 30, 2015, related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (476,687)
2017	(476,687)
2018	(476,687)
2019	(476,687)
2020	50,848
	\$ (1,855,901)

There were no non-employer contributing entities at IPERS.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

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:

Inflation (effective June 30, 2014)	3.00%
Salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
	<hr style="width: 50%; margin: auto;"/> 100% <hr style="width: 50%; margin: auto;"/>	

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Discount Rate

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

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

The following presents the Hospital’s proportionate share of the net pension liability calculated using the discount rate of 7.5%, 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%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease	Current	1% Increase
	6.50%	Discount Rate	8.50%
	6.50%	7.50%	8.50%
Hospital’s proportionate share of the net pension liability	\$ 13,045,718	\$ 6,904,425	\$ 1,720,538

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$128,845 for legally required employer contributions and \$63,210 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 10: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2015:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,028,021	\$ -	\$ 1,028,021	\$ 1,010,469
Other revenues/receipts	30,978,839	(206,304)	30,772,535	31,420,094
	32,006,860	(206,304)	31,800,556	32,430,563
Expenses/disbursements	30,702,988	276,332	30,979,320	32,428,609
	1,303,872	(482,636)	821,236	1,954
Balance, beginning of year as restated	9,110,724	(780,815)	8,329,909	8,572,100
Balance, end of year	<u>\$ 10,414,596</u>	<u>\$ (1,263,451)</u>	<u>\$ 9,151,145</u>	<u>\$ 8,574,054</u>

Note 11: Restricted and Designated Net Position

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

	2015	2014
Debt service	\$ 1,064,444	\$ 1,050,319
Specific operating activities and capital acquisition	69,190	72,623
	<u>\$ 1,133,634</u>	<u>\$ 1,122,942</u>

At June 30, 2015 and 2014, restricted nonexpendable net position was \$37,437 and \$37,073, respectively, required to be maintained in perpetuity by the donor.

At June 30, 2015 and 2014, unrestricted net position has been designated by the Hospital's Board of Trustees for the following purposes:

	2015	2014
Capital and other expenditures	<u>\$ 5,862,653</u>	<u>\$ 5,758,526</u>

Designated net position remains under the control of the Board of Trustees. The Board may, at its discretion, later use these amounts for other purposes.

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 12: Condensed Combining Information

The following tables include condensed information for the Hospital and its component unit as of June 30, 2015 and 2014.

Condensed Balance Sheets

	June 30, 2015			
	Washington County Hospital	Foundation	Eliminations	Combined
Assets				
Current assets	\$ 10,025,475	\$ 3,933,021	\$ -	\$ 13,958,496
Capital assets	19,953,473	-	-	19,953,473
Other assets	9,071,214	132,816	-	9,204,030
Total assets	<u>39,050,162</u>	<u>4,065,837</u>	<u>-</u>	<u>43,115,999</u>
Deferred Outflows of Resources - Pension Plan				
	<u>2,004,613</u>	<u>-</u>	<u>-</u>	<u>2,004,613</u>
Total assets and deferred outflows of resources	<u>\$ 41,054,775</u>	<u>\$ 4,065,837</u>	<u>\$ -</u>	<u>\$ 45,120,612</u>
Liabilities				
Current liabilities	\$ 3,438,197	\$ -	\$ -	\$ 3,438,197
Noncurrent liabilities	16,614,293	-	-	16,614,293
Net pension liability	6,904,425	-	-	6,904,425
Total liabilities	<u>26,956,915</u>	<u>-</u>	<u>-</u>	<u>26,956,915</u>
Deferred Inflows of Resources				
Property taxes	1,050,115	-	-	1,050,115
Pension plan	2,633,149	-	-	2,633,149
Total deferred inflows of resources	<u>3,683,264</u>	<u>-</u>	<u>-</u>	<u>3,683,264</u>
Net Position				
Net investment in capital assets	4,296,163	-	-	4,296,163
Unrestricted	5,053,989	3,959,210	-	9,013,199
Restricted-expendable for				
Debt service	1,064,444	-	-	1,064,444
Donor restricted	-	69,190	-	69,190
Restricted nonexpendable	-	37,437	-	37,437
Total net position	<u>10,414,596</u>	<u>4,065,837</u>	<u>-</u>	<u>14,480,433</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 41,054,775</u>	<u>\$ 4,065,837</u>	<u>\$ -</u>	<u>\$ 45,120,612</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	June 30, 2014			
	Washington County Hospital	Foundation	Eliminations	Combined
Assets				
Current assets	\$ 9,875,347	\$ 3,841,257	\$ -	\$ 13,716,604
Capital assets	20,115,976	-	-	20,115,976
Other assets	9,197,454	134,035	-	9,331,489
	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>
Liabilities				
Current liabilities	\$ 3,711,500	\$ -	\$ -	\$ 3,711,500
Noncurrent liabilities	17,205,431	-	-	17,205,431
	<u>20,916,931</u>	<u>-</u>	<u>-</u>	<u>20,916,931</u>
Deferred Inflows of Resources - Property Taxes				
	<u>1,010,469</u>	<u>-</u>	<u>-</u>	<u>1,010,469</u>
Net Position				
Net investment in capital assets	3,896,246	-	-	3,896,246
Unrestricted	12,314,812	3,865,596	-	16,180,408
Restricted-expendable for				
Debt service	1,050,319	-	-	1,050,319
Donor restricted	-	72,623	-	72,623
Restricted nonexpendable	-	37,073	-	37,073
	<u>17,261,377</u>	<u>3,975,292</u>	<u>-</u>	<u>21,236,669</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 39,188,777</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 43,164,069</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2015			
	Washington County Hospital	Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 29,536,877	\$ -	\$ -	\$ 29,536,877
Other	945,752	-	-	945,752
Total operating revenues	30,482,629	-	-	30,482,629
Operating Expenses				
Other operating expenses	27,743,432	-	-	27,743,432
Depreciation and amortization	2,025,618	-	-	2,025,618
Total operating expenses	29,769,050	-	-	29,769,050
Operating Income	713,579	-	-	713,579
Nonoperating Revenues (Expenses)				
Investment earnings	163,806	180,703	-	344,509
Interest expense	(933,938)	-	-	(933,938)
Property tax revenue	1,028,021	-	-	1,028,021
Noncapital contributions	66,029	(122,597)	133,187	76,619
Foundation gift shop, net	-	32,439	-	32,439
Total nonoperating revenues	323,918	90,545	133,187	547,650
Capital Contributions from Hospital	266,375	-	(133,187)	133,188
Change in Net Position	1,303,872	90,545	-	1,394,417
Net Position, Beginning of Year	17,261,377	3,975,292	-	21,236,669
Change in Beginning Net Position for Restatement (GASB No. 68)	(8,150,653)	-	-	(8,150,653)
Net Position, End of Year	\$ 10,414,596	\$ 4,065,837	\$ -	\$ 14,480,433

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	Year Ended June 30, 2014			
	Washington County Hospital	Foundation	Eliminations	Combined
Operating Revenues				
Net patient service revenue	\$ 25,081,308	\$ -	\$ -	\$ 25,081,308
Other	1,088,112	-	-	1,088,112
Total operating revenues	<u>26,169,420</u>	<u>-</u>	<u>-</u>	<u>26,169,420</u>
Operating Expenses				
Other operating expenses	24,354,849	-	-	24,354,849
Depreciation and amortization	1,731,607	-	-	1,731,607
Total operating expenses	<u>26,086,456</u>	<u>-</u>	<u>-</u>	<u>26,086,456</u>
Operating Income	<u>82,964</u>	<u>-</u>	<u>-</u>	<u>82,964</u>
Nonoperating Revenues (Expenses)				
Investment earnings	133,972	597,475	-	731,447
Interest expense	(962,188)	-	-	(962,188)
Property tax revenue	968,696	-	-	968,696
Noncapital contributions	234,093	21,869	-	255,962
Foundation gift shop, net	-	30,560	-	30,560
Total nonoperating revenues (expenses)	<u>374,573</u>	<u>649,904</u>	<u>-</u>	<u>1,024,477</u>
Change in Net Position	457,537	649,904	-	1,107,441
Net Position, Beginning of Year, as Restated	<u>16,803,840</u>	<u>3,325,388</u>	<u>-</u>	<u>20,129,228</u>
Net Position, End of Year	<u>\$ 17,261,377</u>	<u>\$ 3,975,292</u>	<u>\$ -</u>	<u>\$ 21,236,669</u>

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Condensed Statements of Cash Flows

	Year Ended June 30, 2015			
	Washington County Hospital	Foundation	Eliminations	Combined
Net Cash Provided by (Used In) Operating Activities	\$ 1,673,910	\$ (1,852)	\$ -	\$ 1,672,058
Net Cash Provided by (Used In) Noncapital Financing Activities	1,227,237	(90,158)	-	1,137,079
Net Cash Used in Capital and Related Financing Activities	(3,149,806)	-	-	(3,149,806)
Net Cash Provided by Investing Activities	37,732	127,924	-	165,656
Change in Cash and Cash Equivalents	(210,927)	35,914	-	(175,013)
Cash and Cash Equivalents, Beginning of Year	3,671,821	94,668	-	3,766,489
Cash and Cash Equivalents, End of Year	\$ 3,460,894	\$ 130,582	\$ -	\$ 3,591,476

Washington County Hospital
Notes to Financial Statements
June 30, 2015 and 2014

	Year Ended June 30, 2014			
	Washington County Hospital	Foundation	Eliminations	Combined
Net Cash Provided by Operating Activities	\$ 690,105	\$ 584	\$ -	\$ 690,689
Net Cash Provided by Noncapital Financing Activities	1,202,789	52,429	-	1,255,218
Net Cash Used in Capital and Related Financing Activities	(7,210,561)	-	-	(7,210,561)
Net Cash Provided by Investing Activities	4,489,472	967	-	4,490,439
Change in Cash and Cash Equivalents	(828,195)	53,980	-	(774,215)
Cash and Cash Equivalents, Beginning of Year	4,500,016	40,688	-	4,540,704
Cash and Cash Equivalents, End of Year	<u>\$ 3,671,821</u>	<u>\$ 94,668</u>	<u>\$ -</u>	<u>\$ 3,766,489</u>

Required Supplementary Information

Washington County Hospital
Schedule of Hospital's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
Required Supplementary Information
June 30, 2015

	2015
Hospital's proportion of the net pension liability	0.1706%
Hospital's proportionate share of the net pension liability	\$ 6,904,425
Hospital's covered-employee payroll	\$ 11,440,107
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60%
Plan fiduciary net position as a percentage of the total pension liability	86.60%

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

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

Washington County Hospital
Schedule of Hospital Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years
Required Supplementary Information
June 30, 2015

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Statutorily required contribution	\$ 1,227,365	\$ 1,017,305	\$ 907,963	\$ 834,154	\$ 709,447
Contributions in relation to the statutorily required contribution	<u>(1,227,365)</u>	<u>(1,017,305)</u>	<u>(907,963)</u>	<u>(834,154)</u>	<u>(709,447)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's covered-employee payroll	\$ 13,735,780	\$ 11,440,107	\$ 10,497,478	\$ 10,277,114	\$ 10,574,128
Contributions as a percentage of covered-employee payroll	8.94%	8.89%	8.65%	8.12%	6.71%

* Not available

2010	2009	2008	2007	2006
\$ 682,182	\$ 674,670	\$ 642,576	\$ 476,505	\$ 454,477
<u>(682,182)</u>	<u>(674,670)</u>	<u>(642,576)</u>	<u>(476,505)</u>	<u>(454,477)</u>
<u>\$ -</u>				
\$ 10,266,627	\$ 10,570,807	\$ 10,485,190	\$ 8,229,813	*
6.64%	6.38%	6.13%	5.79%	-

Washington County Hospital

Notes to Required Supplementary Information – Pension Liability

Year Ended June 30, 2015

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% per year measured from the member's first unreduced retirement age to a 6% 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% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% 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.

Washington County Hospital
Notes to Required Supplementary Information – Pension Liability (Continued)
Year Ended June 30, 2015

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% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

Washington County Hospital
Combining Balance Sheet
June 30, 2015

Assets and Deferred Outflows of Resources

	Washington County Hospital	Foundation	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 3,270,760	\$ 130,584		\$ 3,401,344
Short-term investments	305,493	3,802,437		4,107,930
Assets held under indenture agreement – current	1,061,969			1,061,969
Patient accounts receivable	3,139,075			3,139,075
Other receivables	55,103			55,103
Estimated third-party settlements	352,000			352,000
Succeeding year property tax settlements	1,050,115			1,050,115
Supplies	530,364			530,364
Prepaid expenses	260,596			260,596
	<u>10,025,475</u>	<u>3,933,021</u>		<u>13,958,496</u>
Noncurrent Cash and Investments				
Internally designated Capital and other expenditures	5,862,653			5,862,653
Externally restricted Indenture agreement	2,018,223			2,018,223
Donors		106,627		106,627
Other	391,431			391,431
	<u>8,272,307</u>	<u>106,627</u>		<u>8,378,934</u>
Capital Assets, net of accumulated depreciation				
	<u>19,953,473</u>			<u>19,953,473</u>
Other Assets				
Foundation assets		26,189		26,189
Noncompete agreements	173,072			173,072
Goodwill	481,107			481,107
Other	144,728			144,728
	<u>798,907</u>	<u>26,189</u>		<u>825,096</u>
Total Other Assets	<u>798,907</u>	<u>26,189</u>		<u>825,096</u>
Total Assets	39,050,162	4,065,837		43,115,999
Deferred Outflow of Resources - Pension Plan	<u>2,004,613</u>			<u>2,004,613</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 41,054,775</u>	<u>\$ 4,065,837</u>	<u>\$ -</u>	<u>\$ 45,120,612</u>

Washington County Hospital
Combining Balance Sheet (Continued)
June 30, 2015

Liabilities, Deferred Inflows of Resources and Net Position

	Washington County Hospital	Foundation	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 595,000			\$ 595,000
Accounts payable	583,764			583,764
Accrued expenses				
Salaries, wages and related accruals	674,764			674,764
Paid time off	842,669			842,669
Self-funded health insurance payable	250,031			250,031
Interest	466,969			466,969
Other accrued expenses	25,000			25,000
	<u>3,438,197</u>			<u>3,438,197</u>
Total current liabilities				3,438,197
Long-Term Debt, less current maturities	16,614,293			16,614,293
Net Pension Liability	<u>6,904,425</u>			<u>6,904,425</u>
Total liabilities	<u>26,956,915</u>			<u>26,956,915</u>
Deferred Inflows of Resources				
Property taxes	1,050,115			1,050,115
Pension plan	2,633,149			2,633,149
Total deferred inflows of resources	<u>3,683,264</u>			<u>3,683,264</u>
Net Position				
Net investment in capital assets	4,296,163			4,296,163
Unrestricted	5,053,989	\$ 3,959,210		9,013,199
Restricted expendable				
Debt service	1,064,444			1,064,444
Donor restricted		69,190		69,190
Restricted nonexpendable	-	37,437		37,437
Total net position	<u>10,414,596</u>	<u>4,065,837</u>		<u>14,480,433</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 41,054,775</u>	<u>\$ 4,065,837</u>	<u>\$ -</u>	<u>\$ 45,120,612</u>

Washington County Hospital
Combining Schedule of Revenues, Expenses
and Changes in Net Position
Year Ended June 30, 2015

	Washington County Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 30,350,321			\$ 30,350,321
Provision for uncollectible accounts	(813,444)			(813,444)
Net patient service revenue	29,536,877			29,536,877
Other	945,752			945,752
	<u>30,482,629</u>			<u>30,482,629</u>
Operating Expenses				
Salaries and wages	14,189,421			14,189,421
Employee benefits	3,601,026			3,601,026
Medical professional fees	3,012,809			3,012,809
Supplies and other	3,587,135			3,587,135
General services	1,233,465			1,233,465
Administrative services	1,782,662			1,782,662
Depreciation and amortization	2,025,618			2,025,618
Insurance	336,914			336,914
Total expenses	<u>29,769,050</u>			<u>29,769,050</u>
Operating Income	<u>713,579</u>			<u>713,579</u>
Nonoperating Revenues (Expenses)				
Investment income	163,806	\$ 180,703		344,509
Interest expense	(933,938)			(933,938)
Property tax revenue	1,028,021			1,028,021
Noncapital contributions	66,029	(122,597)	\$ 133,187	76,619
Foundation gift shop, net		32,439		32,439
	<u>323,918</u>	<u>90,545</u>	<u>133,187</u>	<u>547,650</u>
Excess of Revenues Over Expenses Before Capital Contributions	1,037,497	90,545	133,187	1,261,229
Capital Contributions	<u>266,375</u>	<u>-</u>	<u>(133,187)</u>	<u>133,188</u>
Increase in Net Position	<u>\$ 1,303,872</u>	<u>\$ 90,545</u>	<u>\$ -</u>	<u>\$ 1,394,417</u>

Washington County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2015 and 2014

	2015			2014		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical/surgical	\$ 2,272,033	\$ 1,657,464	\$ 614,569	\$ 2,443,845	\$ 1,779,557	\$ 664,288
Obstetrics	595,002	427,761	167,241	575,119	436,414	138,705
Labor and delivery	415,715	272,826	142,889	403,500	267,308	136,192
Special care unit	31,556	31,556	-	10,735	10,735	-
Nursery	248,880	248,880	-	278,622	278,622	-
Swing-bed	2,053,742	2,053,742	-	2,497,735	2,497,735	-
Long-term care	2,885,627	2,885,627	-	2,561,897	2,561,897	-
Operating and recovery	3,452,219	190,744	3,261,475	2,869,567	198,782	2,670,785
Emergency	4,226,015	4,006	4,222,009	3,657,695	10,852	3,646,843
	<u>16,180,789</u>	<u>7,772,606</u>	<u>8,408,183</u>	<u>15,298,715</u>	<u>8,041,902</u>	<u>7,256,813</u>
Other Professional Services						
Central service and supply	866,262	151,224	715,038	792,231	177,793	614,438
Laboratory	7,168,247	877,336	6,290,911	6,532,024	985,237	5,546,787
Radiology	6,792,830	316,599	6,476,231	6,685,384	337,010	6,348,374
Pharmacy	3,715,764	982,415	2,733,349	2,995,765	1,130,278	1,865,487
Anesthesiology	1,314,125	297,793	1,016,332	1,062,089	272,927	789,162
Physical therapy	1,368,374	295,290	1,073,084	1,256,663	278,371	978,292
Speech therapy	43,861	13,500	30,361	36,801	19,713	17,088
Occupational therapy	342,969	212,904	130,065	323,023	240,669	82,354
Respiratory therapy	761,900	531,767	230,133	711,607	558,666	152,941
Electrocardiology	370,389	40,200	330,189	369,257	42,735	326,522
Cardiac rehabilitation	1,056,505	99,458	957,047	932,544	118,236	814,308
Pulmonary rehabilitation	48,131	-	48,131	24,351	-	24,351
Ambulatory care	137,517	-	137,517	98,968	-	98,968
Women's Healthcare Clinic	996,942	-	996,942	938,447	-	938,447
Medical Clinic	3,157,653	-	3,157,653	2,832,732	-	2,832,732
Family Medicine Clinic	5,628,188	-	5,628,188	1,659,183	-	1,659,183
	<u>33,769,657</u>	<u>3,818,486</u>	<u>29,951,171</u>	<u>27,251,069</u>	<u>4,161,635</u>	<u>23,089,434</u>
Patient Service Revenue	49,950,446	<u>\$ 11,591,092</u>	<u>\$ 38,359,354</u>	42,549,784	<u>\$ 12,203,537</u>	<u>\$ 30,346,247</u>
Contractual Allowances	(20,495,139)			(16,640,414)		
Electronic Health Records Program Incentive Revenue	<u>895,014</u>			<u>12,000</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	30,350,321			25,921,370		
Provision for Uncollectible Accounts	<u>(813,444)</u>			<u>(840,062)</u>		
Net Patient Service Revenue	<u>\$ 29,536,877</u>			<u>\$ 25,081,308</u>		

Washington County Hospital
Schedules of Other Revenues
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Rental income	\$ 85,659	\$ 79,439
Cafeteria	79,474	74,749
Meals on Wheels	8,302	5,616
Lifeline services	54,395	56,170
340B pharmacy revenue	547,038	691,033
Other	30,443	29,795
Contracted social work	22,421	24,333
Fresh start	117,945	126,977
Education program	75	-
	<u>\$ 945,752</u>	<u>\$ 1,088,112</u>

Washington County Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	2015			2014		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 212,187	\$ 183,610	\$ 28,577	\$ 275,860	\$ 250,452	\$ 25,408
Medical/surgical	1,417,746	1,310,737	107,009	1,515,731	1,318,928	196,803
Obstetrics and nursery	428,964	324,493	104,471	419,723	361,010	58,713
Long-term care	1,449,952	1,339,137	110,815	1,306,132	1,232,975	73,157
Operating and recovery	464,868	334,800	130,068	343,089	291,614	51,475
Emergency	1,738,317	521,621	1,216,696	1,608,335	522,205	1,086,130
	<u>5,712,034</u>	<u>4,014,398</u>	<u>1,697,636</u>	<u>5,468,870</u>	<u>3,977,184</u>	<u>1,491,686</u>
Other Professional Services						
Laboratory	1,149,544	543,428	606,116	1,083,577	473,020	610,557
Radiology	1,140,524	484,294	656,230	1,183,373	476,677	706,696
Cardiac rehabilitation	146,431	44,434	101,997	123,225	31,704	91,521
Pharmacy	2,047,608	294,146	1,753,462	1,667,975	292,365	1,375,610
Anesthesiology	430,243	-	430,243	432,928	-	432,928
Physical therapy	458,917	426,858	32,059	423,786	390,999	32,787
Speech therapy	31,296	-	31,296	19,487	-	19,487
Occupational therapy	86,154	80,469	5,685	73,326	73,012	314
Pulmonary rehabilitation	9,206	9,131	75	6,093	5,165	928
Medical supplies	510,593	132,452	378,141	485,084	129,314	355,770
Respiratory therapist	115,375	80,905	34,470	113,531	80,338	33,193
Ambulatory care	39,832	38,570	1,262	54,425	51,647	2,778
Specialty Clinic	2,302	175	2,127	841	70	771
Keota Clinic	943	-	943	826	-	826
Medical Clinic	2,257,023	2,026,988	230,035	2,085,122	1,861,453	223,669
Women's Healthcare Clinic	783,856	619,609	164,247	782,727	706,597	76,130
Lifeline	35,192	3,425	31,767	39,007	9,912	29,095
Surgery Clinic	4,587	-	4,587	-	-	-
Family Medicine Clinic	2,871,123	2,433,557	437,566	956,948	766,162	190,786
	<u>12,120,749</u>	<u>7,218,441</u>	<u>4,902,308</u>	<u>9,532,281</u>	<u>5,348,435</u>	<u>4,183,846</u>
General Services						
Dietary	766,327	404,051	362,276	743,613	398,627	344,986
Operation of plant	948,624	163,377	785,247	972,307	195,667	776,640
Housekeeping	334,178	284,295	49,883	322,712	275,975	46,737
Laundry	111,700	75,641	36,059	110,249	66,990	43,259
	<u>2,160,829</u>	<u>927,364</u>	<u>1,233,465</u>	<u>2,148,881</u>	<u>937,259</u>	<u>1,211,622</u>
Administrative Services						
Medical records	415,456	278,549	136,907	378,097	288,623	89,474
Administration	3,255,739	1,693,819	1,561,920	2,820,415	1,442,222	1,378,193
Foundation	37,486	35,862	1,624	20,755	19,797	958
Marketing	103,199	20,988	82,211	127,103	33,573	93,530
	<u>3,811,880</u>	<u>2,029,218</u>	<u>1,782,662</u>	<u>3,346,370</u>	<u>1,784,215</u>	<u>1,562,155</u>
Insurance	<u>336,914</u>		<u>336,914</u>	<u>274,604</u>		<u>274,604</u>
Employee Benefits	<u>3,601,026</u>		<u>3,601,026</u>	<u>3,577,209</u>		<u>3,577,209</u>
Depreciation and Amortization	<u>2,025,618</u>		<u>2,025,618</u>	<u>1,731,607</u>		<u>1,731,607</u>
Disposal of Capital Assets	<u>-</u>		<u>-</u>	<u>6,634</u>		<u>6,634</u>
	<u>\$ 29,769,050</u>	<u>\$ 14,189,421</u>	<u>\$ 15,579,629</u>	<u>\$ 26,086,456</u>	<u>\$ 12,047,093</u>	<u>\$ 14,039,363</u>

Washington County Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2015 and 2014

Schedules of Patient Receivables

	<u>2015</u>		<u>2014</u>	
	<u>Amounts</u>	<u>Percent to Total</u>	<u>Amounts</u>	<u>Percent to Total</u>
Days Since Discharge				
0-30 days	\$ 2,912,606	66%	\$ 2,831,434	63%
31-60 days	546,939	12%	678,766	15%
61-90 days	277,850	6%	349,204	8%
91-120 days	248,321	6%	212,474	5%
Over 4 months	450,659	10%	395,022	9%
Total	4,436,375	<u>100%</u>	4,466,900	<u>100%</u>
Clinic and other receivables	907,074		1,090,095	
Less contractual allowances	1,688,253		1,633,253	
Less allowance for uncollectible accounts	<u>516,121</u>		<u>506,121</u>	
Net patient receivables	<u>\$ 3,139,075</u>		<u>\$ 3,417,621</u>	

Allowance for Uncollectible Accounts

	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 506,121	\$ 543,867
Provision for year	813,444	840,062
Recoveries of accounts previously written off	356,325	327,755
	<u>1,675,890</u>	<u>1,711,684</u>
Accounts written off	<u>1,159,769</u>	<u>1,205,563</u>
Balance, end of year	<u>\$ 516,121</u>	<u>\$ 506,121</u>

Washington County Hospital
Schedules of Supplies and Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Supplies		
Pharmacy	\$ 219,207	\$ 163,761
Operating and recovery rooms	105,497	97,514
Store room	46,296	45,566
Laboratory	29,895	27,699
Radiology	8,162	5,683
Emergency	11,854	11,425
Dietary	10,647	11,608
Family medicine clinic	49,393	42,050
All other	49,413	24,264
	<u>\$ 530,364</u>	<u>\$ 429,570</u>
Prepaid Expenses		
Insurance	\$ 97,275	\$ 95,724
Dues/other	163,321	161,637
	<u>\$ 260,596</u>	<u>\$ 257,361</u>

Other Supplementary Information

Washington County Hospital
Schedule of Officials
June 30, 2015

Name	Title	Term Expires
Board of Trustees		
Keith Lazar	Chairperson	November 2016
Jim Harris	Vice Chairman	November 2018
Phyllis Litwiller	Secretary	November 2018
Michael Van Osdol	Treasurer	November 2020
Ron Barnes	Member	November 2016
David Burns	Member	November 2020
Karolyn Leary	Member	November 2020
Hospital Officials		
Dennis Hunger	Chief Executive Officer	
Andrea Leyden, beginning 5/24/15	Chief Nursing Officer	
Steve Sanders	Chief Financial Officer	

Washington County Hospital
Schedule of Insurance Coverage
June 30, 2015

SFM	
Workers' compensation; expires 12/01/15	\$ 500,000
MMIC	
Professional liability; expires 5/30/16	1,000,000/3,000,000
General liability; expires 5/30/16	1,000,000/3,000,000
Umbrella liability; expires 5/30/16	3,000,000/3,000,000
Travelers Casualty and Surety	
Blanket coverage, building and personal property; expires 5/30/16	48,568,497
Chubb Insurance	
Directors and officers; expires 5/30/16	2,000,000
Horak Insurance	
Fidelity bond; expires 11/01/17	500,000
Horak Insurance	
Surety bond; expires 8/29/15	2,500

Washington County Hospital
Statistical Information
Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Patient Days		
Acute	1,575	1,715
Swing-bed	1,667	2,202
Newborn	273	319
Long-term care	<u>13,405</u>	<u>12,301</u>
Total	<u><u>16,920</u></u>	<u><u>16,537</u></u>
Discharges		
Acute	490	517
Swing-bed	163	212
Long-term care	<u>27</u>	<u>20</u>
Total	<u><u>680</u></u>	<u><u>749</u></u>
Average Length of Stay		
Acute	3.21	3.32
Swing-bed	10.23	10.39
Long-term care	496.48	615.05
Beds		
Acute	25	25
Long-term care	43	43
Occupancy Percent		
Acute and swing-bed	35.53%	42.93%
Long-term care	85.41%	78.38%

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

Board of Trustees
Washington County Hospital
Washington, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Washington County Hospital, which comprise the balance sheet as of June 30, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 27, 2015, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance

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*.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2015. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

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.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2015 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979 and Hospital policy.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; *i.e.*, bankers on the Board of Trustees.

Trustee Minutes

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

Deposits and Investments

We noted no instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital is required to evaluate the need to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

Other Matters

We noted certain matters that we reported to the Hospital's management in a separate letter dated October 27, 2015.

Purpose of this Report

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

BKD, LLP

Kansas City, Missouri
October 27, 2015

Washington County Hospital
Schedule of Findings and Responses
Year Ended June 30, 2015

Reference Number	Finding	Status
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No matters are reportable.

Board of Trustees and Management
Washington County Hospital
Washington, Iowa

In planning and performing our audit of the financial statements of Washington County Hospital as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

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 of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or 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.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases Cycle

- The Accounts Payable Clerk and the Finance Director have duties that include access, recording and reconciling duties in the purchasing cycle. We recommend another person be responsible for check signing and access to those checks after they are signed.

Revenue and Cash Receipts Cycle

- The Patient Account Manager and the Financial Credit Counselor have access to assets and recording abilities in the revenue cycle within the Hospital and the Clinics. We recommend separating duties of persons receiving cash and the ability to record transactions.

Payroll Cycle

- The Payroll Clerk and the Finance Director have duties that include check signing and the recording ability in the payroll cycle. We recommend another person have access to the signature plate and sign checks.

We observed matters that we considered deficiencies that we verbally communicated to management.

Other Matters

Although not considered material weaknesses, significant deficiencies or deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Impending Phase 2 Office of Civil Rights HIPAA Audits

In 2011, the U.S. Department of Health and Human Services (HHS) Office for Civil Rights (OCR) was designated to support a pilot audit program. The objectives of these Phase 1 audits were to assess the controls and processes implemented by covered entities under the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the Health Information Technology for Economic and Clinical Health Act (HITECH). These regulations were established to require the privacy of protected health information (PHI), the security of electronic PHI and breach notification.

On March 31, 2014, the OCR announced its plan for the Phase 2 audits that will likely be conducted in 2015. For Phase 2, the OCR is revising its audit program to include areas such as security risk assessments, ongoing risk mitigation plans and breach notification procedures. This phase will also include Business Associates, in addition to Covered Entities. Although the timeline of the Phase 2 audits has not been determined, it is imperative that health care organizations be prepared for these examinations.

We recommend that management continue to enhance its current HIPAA program to reduce the risk of PHI breach and develop initiatives that will help to prepare the Hospital for a potential OCR audit. As part of this process, management should address the following areas:

- Perform comprehensive, periodic risk analyses
- Maintain a current catalogue or repository of all business associate arrangements
- Document encryption capabilities
- Maintain updated, reviewed and approved HIPAA program and breach notification policies and procedures
- Document all security training that has been conducted
- Maintain an inventory of all areas, including devices and databases, where PHI is stored

Meeting the Increasing Challenges of Health Care Cybersecurity

The increasing value of electronic protected health information (ePHI) is driving more health care organizations to prepare for the potential of a cyberattack. Increased focus has been placed on the risks around cybersecurity, resulting in Executive Order 13636 “Improving Critical Infrastructure Cybersecurity.” Cybersecurity refers to ways to prevent, detect and respond to attacks or unauthorized access against a computer system and its information. It is critical that organizations apply the principles and best practices of risk management to make critical infrastructure more secure in order to protect this vulnerable information.

The National Institute of Standards and Technology (NIST) has developed a Cybersecurity Framework to assist in this effort. The prioritized, flexible, repeatable and cost-effective approach of the NIST Cybersecurity Framework helps organizations manage cybersecurity-related risk more effectively. Within the framework, five key functions have been identified that are necessary to ensure the confidentiality, integrity and availability of your ePHI digital assets. The functions are as follows:

- **Identify:** Use organizational understanding to minimize risk to systems, assets, data and capabilities.
- **Protect:** Design safeguards to limit the impact of potential events on critical services and infrastructure.
- **Detect:** Implement activities to identify the occurrence of a cybersecurity event.
- **Respond:** Take appropriate action after learning of a security event.
- **Recover:** Plan for resilience and the timely repair of compromised capabilities and services.

We recommend management incorporate the NIST Cybersecurity Framework’s standards, guidelines and practices within the Hospital’s overall HIPAA and Risk Management Program to strengthen overall cybersecurity preparedness. We also recommend management consider performing a cybersecurity assessment to gauge the overall readiness and maturity of existing controls as it relates to this critical area.

340B Drug Pricing Program Integrity Initiative

In 2012, the Health Resources and Services Administration (HRSA) began a program integrity initiative related to the 340B drug pricing program to target risks of fraud, waste and abuse within the program. The program integrity initiative, which is intended to cover traditional hospital outpatient programs and contract retail pharmacy agreements, has resulted in over 200 audits since 2012 and the agency expects to double the number of audits performed each year. The results of the audits are made public on the HRSA website and include instances of non-compliance that may result in paybacks requiring a public letter to drug manufacturers for recoupment. The integrity initiatives also include the following actions:

- Conduct selective and targeted audits of 340B covered entities to provide additional oversight, monitor for program violations and prevent diversion and duplicate discounts.
- Increase efforts to ensure that covered entities are not being overcharged through additional oversight of manufacturers.
- Issue policy releases to all 340B stakeholders in order to provide increased transparency into the processes and procedures already in place by HRSA and to ensure program integrity and compliance.
- Annual recertification for hospital providers including attestation that the covered entity has complied with all program requirements and verification that certain outpatient facilities are included as reimbursable departments on the hospital's cost report.

With the increased scrutiny and complexity of the program, we recommend the Hospital regularly review its compliance with the program, its continued eligibility to participate in the program and make certain that comprehensive and accurate policies and procedures are being followed and kept current.

New GASB Standards

The Governmental Accounting Standards Board (GASB) has issued several new standards. While most of the new standards will have minimal impact on the Hospital, we have noted below the standards we believe will have the most impact on the Hospital.

- Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* – Effective June 30, 2016
- Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – Effective June 30, 2018
- Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State & Local Governments* – Effective June 30, 2016
- GASB Project – Lease Accounting
- GASB Project – Asset Retirement Obligations

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This communication is intended solely for the information and use of management, the Board of Trustees and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 27, 2015