Wayne County Hospital

Independent Auditor's Report and Financial Statements

June 30, 2015 and 2014

BKD LLP
CPAs & Advisors

Wayne County Hospital
June 30, 2015 and 2014

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Trustees
Wayne County Hospital
Corydon, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Wayne 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 Wayne 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.

As discussed in *Note 1* to the financial statements, in 2015, the Hospital's reporting entity changed to include a blended component unit, Patronus, Inc. as a result of a change in governance documents. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 basic financial statements as a whole. The supplementary information schedules listed in the table of contents are presented for purposes of additional analysis and are 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 basic 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 basic financial statements as a whole.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the 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 financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the 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 January 20, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
January 20, 2016

Wayne County Hospital
Management's Discussion and Analysis
Years Ended June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Wayne County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital. The amounts reported in the management's discussion and analysis for 2014 and 2013 have not been restated for GASB 68 and 71. Beginning July 1, 2013, Patronus has been included as a blended component unit in the financial statements. There were no amounts related to Patronus included in 2013.

Financial Highlights

- Total cash and cash equivalents increased $3,210,767 or 443% between 2015 and 2014 by and decreased between 2014 and 2013 by $1,020,636 or 58%.

- The Hospital's net position increased $2,527,421 or 57% in 2015 before consideration of the beginning of year restatement for GASB 68 of $8,183,491 and decreased $1,645,795 or 27% in 2014.

- The Hospital reported an operating income in 2015 of $2,012,497 and an operating loss in 2014 of $2,398,338.

- Total operating revenues increased by $5,048,913 or 22% in 2015 compared to 2014 and increased by $368,327 or 2% in 2014 compared to 2013.

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, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The 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 all 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 them. 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 was cash 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, deferred outflows of resources, liabilities and deferred inflows of resources reported in the Balance Sheets. The Hospital's net position increased $2,527,421 or 57% in 2015 over 2014 before consideration of the beginning of year restatement for GASB 68 of $8,183,491.

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

	2015	2014	2013
Assets			
Patient accounts receivable, net	$ 3,195,676	$ 2,721,573	$ 2,919,699
Other current assets	7,135,826	3,201,155	3,954,950
Noncurrent cash and deposits	1,579,662	1,527,855	1,545,537
Capital assets, net	7,101,192	8,178,763	9,087,167
Total assets	19,012,356	15,629,346	17,507,353
Deferred Outflows of Resources - Pension Plan	1,405,732	-	-
Total assets and deferred outflows of resources	$ 20,418,088	$ 15,629,346	$ 17,507,353
Liabilities			
Current liabilities	$ 4,784,046	$ 3,250,112	$ 3,232,596
Net pension liability	6,481,708	-	-
Other post-employment benefit obligation	143,952	129,401	109,401
Long-term debt	6,594,541	6,832,169	7,100,397
Total liabilities	18,004,247	10,211,682	10,442,394
Deferred Inflows of Resources			
Property Taxes	986,807	982,492	983,992
Pension Plan	2,647,932	-	-
Total deferred inflows of resources	3,634,739	982,492	983,992
Net Position (Deficit)			
Net investment in capital assets	(41,837)	736,085	1,659,555
Restricted for capital expenditures	-	-	20,000
Restricted under debt agreements	1,308,035	1,075,224	1,089,602
Restricted for payment reserve - capital lease	15,318	15,318	15,318
Unrestricted	(2,502,414)	2,608,545	3,296,492
Total net position (deficit)	(1,220,898)	4,435,172	6,080,967
Total liabilities, deferred inflows of resources and net position	$ 20,418,088	$ 15,629,346	$ 17,507,353

Governmental Accounting Standards Board 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* were implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by $8,183,491 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense, which is more reflective of the amounts employees earned during the year.

In 2015, current assets increased by $4,408,774 from fiscal year 2014. Capital assets decreased by $1,077,571 from year 2014 to 2015.

In 2015, current liabilities increased by $1,533,934 or 47% from fiscal year 2014 due to an increase in estimated amounts due to third-party payers.

In 2014, current assets decreased by $951,921 from fiscal year 2013. Capital assets decreased by $908,404 from year 2013 to 2014.

In 2014, current liabilities increased by $17,516 or 1% from fiscal year 2013.

Operating Results and Changes in the Hospital's Net Position

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service and other service revenue	$ 26,847,519	$ 22,122,814	$ 21,790,589
Other operating revenues	654,821	330,613	294,511
Total operating revenues	27,502,340	22,453,427	22,085,100
Operating Expenses			
Salaries, wages and employee benefits	15,072,111	16,095,868	14,508,855
Depreciation and amortization	1,201,120	1,251,347	1,299,738
Other operating expenses	9,216,612	7,504,550	7,752,433
Total operating expenses	25,489,843	24,851,765	23,561,026
Operating Income (Loss)	2,012,497	(2,398,338)	(1,475,926)
Nonoperating Revenues (Expenses)			
Property taxes	966,249	975,092	1,035,121
Income tax expense	(222,594)	(17,338)	-
Investment income	16,852	28,517	28,038
Interest expense	(374,916)	(378,415)	(390,148)
Noncapital gifts	43,639	17,623	29,653
Other	50,412	37,422	-
Total nonoperating revenues (expenses)	479,642	662,901	702,664
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions	2,492,139	(1,735,437)	(773,262)
Capital Grants and Contributions	35,282	89,642	34,188
Increase (Decrease) in Net Position	$ 2,527,421	$ (1,645,795)	$ (739,074)

Operating Income (Loss)

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

In 2015, the Hospital's gross patient service revenues increased by 26% from 2014. The increase in gross revenues was due to an increase in patient volumes. The operating income was a direct correlation to managing fixed expenses and increasing patient volumes. Other services revenues reported as part of Patronus increased approximately $1,837,000 in 2015.

In 2014, the Hospital's gross patient service revenues decreased by 2% from 2013. The decrease in gross revenues was due to a decrease in patient volumes. The operating loss was a direct correlation to fixed expenses and decreasing patient volumes.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, investment income, interest expense, income tax expense and noncapital gifts. Nonoperating revenues decreased by $183,259 or 28% in 2015 compared to 2014 due primarily to income taxes for Patronus. Nonoperating revenues decreased by $39,763 or 6% in 2014 compared to 2013.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating income and nonoperating revenues in 2015 and 2014, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had $7.1 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $131,108 in 2015.

At the end of 2014, the Hospital had $8.2 million invested in capital assets, net of accumulated depreciation. The Hospital had additions of $342,943 in 2014.

Debt

At the end of 2015 and 2014, the Hospital had approximately $6.8 million and $7.1 million, respectively, in long-term debt outstanding consisting of capital leases, revenue bonds and notes payable to banks. There was no new debt in 2015 or 2014.

Factors Bearing on Wayne County Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future. Legislative uncertainty remains the largest unknown for management to navigate. The Hospital was negatively impacted in 2015 by a reduction in certain payments by 2% due to sequestration. Uncertainty regarding negative impacts of meaningful use and PQRS reporting remain; and the impact of the *Affordable Care Act* is incalculable.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.872.2260.

Wayne County Hospital
Balance Sheets
June 30, 2015 and 2014

Assets and Deferred Outflows of Resources

	2015	2014
Current Assets		
Cash and cash equivalents	$ 3,935,369	$ 724,602
Current portion restricted under debt agreements	228,068	182,306
Current portion designated for health insurance	259,364	166,744
Patient accounts receivable, net of allowance; 2015 – $703,000, 2014 – $661,000	3,195,676	2,721,573
Other receivables	711,932	346,999
Property taxes receivable	1,003,845	1,001,674
Inventories	800,710	619,549
Prepaid expenses	196,538	159,281
Total current assets	10,331,502	5,922,728
Noncurrent Cash and Deposits		
Internally designated for capital improvements	323,598	322,257
Internally designated for health insurance	45,723	-
Restricted for payment reserve – capital lease	15,318	15,318
Restricted under debt agreements	1,195,023	1,190,280
Total noncurrent cash and deposits	1,579,662	1,527,855
Capital Assets, Net	7,101,192	8,178,763
Total Assets	19,012,356	15,629,346
Deferred Outflows of Resources - Pension Plan	1,405,732	-
Total Assets and Deferred Outflows of Resources	$ 20,418,088	$ 15,629,346

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Current Liabilities		
Accounts payable	$ 796,994	$ 908,010
Accrued payroll and related liabilities	986,205	881,809
Accrued health insurance payable	259,364	198,762
Accrued interest payable	112,056	115,056
Income taxes payable	221,041	17,338
Estimated amounts due to third-party payers	1,647,000	336,000
Accrued vacation	546,531	525,467
Current maturities of long-term debt	214,855	267,670
Total current liabilities	4,784,046	3,250,112
Net Pension Liability	6,481,708	-
Other Post-Employment Benefit Obligation	143,952	129,401
Long-term Debt, Net of Current Portion	6,594,541	6,832,169
Total liabilities	18,004,247	10,211,682
Deferred Inflows of Resources		
Property taxes	986,807	982,492
Pension plan	2,647,932	-
Total deferred inflows of resources	3,634,739	982,492
Net Position (Deficit)		
Net investment in capital assets	(41,837)	736,085
Restricted under debt agreements	1,308,035	1,075,224
Restricted for payment reserve – capital lease	15,318	15,318
Unrestricted	(2,502,414)	2,608,545
Total net position (deficit)	(1,220,898)	4,435,172
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 20,418,088	$ 15,629,346

Wayne 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	$ 24,142,282	$ 21,358,485
Provision for uncollectible accounts	732,719	836,618
Net patient service revenue	23,409,563	20,521,867
Assisted living and multi-unit housing revenue	371,577	373,047
Dental clinics	1,153,306	389,441
Orthopedics	1,913,073	838,459
340B retail program	332,240	-
Other	322,581	330,613
Total operating revenues	27,502,340	22,453,427
Operating Expenses		
Salaries and wages	12,699,127	12,784,910
Employee benefits	2,372,984	3,310,958
Contract labor / services	1,913,585	1,316,978
Fees and other services	1,427,048	1,420,714
Supplies	3,495,440	2,748,774
Facility costs	578,493	535,995
Repairs and maintenance - other	393,047	380,806
Equipment lease / rentals	92,278	89,365
Insurance	364,247	330,241
Depreciation / amortization	1,201,120	1,251,347
Other expenses	713,495	681,677
(Gain) loss on disposal of capital assets	(11,436)	-
340B retail program costs	250,415	-
Total operating expenses	25,489,843	24,851,765
Operating Income (Loss)	2,012,497	(2,398,338)
Nonoperating Revenues (Expenses)		
Property taxes	966,249	975,092
Investment income	16,852	28,517
Interest expense	(374,916)	(378,415)
Noncapital gifts	43,639	17,623
Income tax expense	(222,594)	(17,338)
Other	50,412	37,422
Total nonoperating revenues (expenses)	479,642	662,901
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions	2,492,139	(1,735,437)
Capital Grants and Contributions	35,282	89,642
Increase (Decrease) in Net Position	2,527,421	(1,645,795)
Net Position, Beginning of Year	4,435,172	6,080,967
Change in Beginning Net Position for Restatement (GASB No. 68)	(8,183,491)	-
Net Position, End of Year	$ (1,220,898)	$ 4,435,172

Wayne County Hospital

Statements of Cash Flows

Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	$ 27,684,416	$ 22,231,940
Payments to suppliers and contractors	(9,334,603)	(7,757,705)
Payments to employees	(15,553,960)	(15,985,994)
Other receipts, net	289,888	421,553
Net cash provided by (used in) operating activities	3,085,741	(1,090,206)
Noncapital Financing Activities		
Property taxes	968,393	974,702
Noncapital gifts	43,639	17,623
Other noncapital	31,521	20,084
Net cash provided by noncapital financing activities	1,043,553	1,012,409
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(290,443)	(300,682)
Interest paid on capital debt and leases	(377,916)	(381,340)
Proceeds from sale of capital assets	18,995	-
Capital contributions	35,282	109,642
Purchase of capital assets	(131,108)	(502,735)
Net cash used in capital and related financing activities	(745,190)	(1,075,115)
Investing Activities		
Interest on deposits	16,852	28,517
Purchase of deposits	(4,299)	-
Proceeds from disposition of deposits	-	19,755
Net cash provided by investing activities	12,553	48,272
Increase (Decrease) in Cash and Cash Equivalents	3,396,657	(1,104,640)
Cash and Cash Equivalents, Beginning of Year	1,393,973	2,498,613
Cash and Cash Equivalents, End of Year	$ 4,790,630	$ 1,393,973

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

	2015	2014
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 3,935,369	$ 724,602
Current portion restricted under debt agreements	228,068	182,306
Current portion designated for health insurance	259,364	166,744
Noncurrent cash and deposits		
Internally designated for capital improvements	322,106	320,321
Internally designated for health insurance	45,723	-
	$ 4,790,630	$ 1,393,973
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ 2,012,497	$ (2,398,338)
Depreciation and amortization	1,201,120	1,251,347
(Gain) loss on sale of capital assets	(11,436)	-
Changes in operating assets and liabilities		
Patient accounts receivable, net	(474,103)	198,126
Supplies, prepaid expenses and other current assets	(583,351)	(374,028)
Estimated amounts due from and to third-party payers	1,311,000	(89,000)
Net pension liability	(2,729,391)	-
Deferred outflows of resources	(378,124)	-
Deferred inflows of resources	2,647,932	-
Accounts payable and accrued expenses	89,597	321,687
Net cash provided by (used in) operating activities	$ 3,085,741	$ (1,090,206)

Wayne 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

Wayne County Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Wayne County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Wayne County area.

Blended Component Unit

The Hospital is the sole member of Patronus, Inc. (Patronus), a legally separate not-for-profit corporation, whose governance documents were revised in 2015. Patronus was formed as a supporting organization for the benefit of the Hospital, which includes investing in activities and expending funds that benefit the furtherance of the Hospital's community and charitable purposes. Based on the revised governance document, Patronus is a component unit of the Hospital and is reflected in the accompanying financial statements as if the revision to the governance document occurred as of the June 1, 2013, which is the beginning of the earliest period presented, using the blended method for the years ended June 30, 2015 and 2014.

Patronus is the sole member of Lucis Corp, a stock corporation registered in the State of Delaware, which owns the following:

Elgin Independent Living, LLC, which provides independent living services

Murphy Place Assisted Living LLC, which provides assisted living services

Prairie Trails Family Dental LLC, which provides dental services

Southern Iowa Orthopedics, LLC, which provides orthopedic services

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, deferred outflows of resources, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) 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.

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

Reporting Entity

The financial statements at June 30, 2015 and 2014 include the Hospital and Patronus, a blended component unit. Transactions between the Hospital and Patronus are eliminated in preparation of the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources 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 savings accounts.

Property Taxes

The Hospital received approximately 4% of its financial support from property tax revenues in each of the years ended June 30, 2015 and 2014, 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 and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health claims, 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 yet reported.

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.

Supplies

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 40 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Compensated Absences and Benefits

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the 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.

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, deferred taxes 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 three components. Net investment in capital assets consist 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 consists of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted net position.

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. 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.

Contributions

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

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 $25,162 and $102,419 for 2015 and 2014, respectively.

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 law.

Patronus, Inc. is exempt from income tax under IRC 501(c)(3). Lucis Corp and its consolidated entities are subject to income tax. Income taxes are provided for the tax effects of transactions reported in the financial statements for Lucis Corp and its four limited liability companies. A current tax liability or asset is recognized for the amount of taxes that are payable or refundable for the year. A deferred tax liability or asset is recognized for the future tax effects of temporary differences and carryforwards.

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 electronic health records (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 fraction, 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 Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payments received for Medicaid qualified EHR technology expenditures during 2015 and 2014, which was the period 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 revenues of approximately $682,000 and $68,000, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014, respectively.

Implementation of New Accounting Principle

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. Restatement of the 2014 financial statements is not practical because of a lack of information measured under GASB 68 for that period, thus the cumulative effect of applying this statement has been reported as a restatement of beginning net position at July 1, 2014. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Net position July 1, 2014, as previously reported	$ 4,212,525
Net pension liability at July 1, 2014	(9,211,099)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	1,027,608
Net position, beginning of year as restated	$ (3,970,966)

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The reclassifications had no effect on the changes in financial position.

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 2025.

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries are reimbursed based upon a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. 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 Administrative Contractor.

In 2012, the Hospital was notified by the Medicare Administrative Contractor that Medicare cost reports were reopened for 2008, 2009, 2010, 2011 and 2012 to re-evaluate certain costs included in those cost reports. Management has evaluated the impact on the financial statements; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 49% and 51% 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. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 discounts from established charges and prospectively determined rates.

Note 3: Deposits, Investments and Interest 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 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 at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds. Certificates of deposit are considered deposits.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities or other evidences of deposit at federally-insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had no investments at June 30, 2015 and 2014.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	$ 6,002,463	$ 2,601,507

	2015	2014
Included in the following balance sheet captions		
Cash and cash equivalents	$ 3,935,369	$ 724,602
Current portion restricted under debt agreements	228,068	182,306
Current portion designated for health insurance	259,364	166,744
Noncurrent cash and deposits		
Internally designated for capital improvements	323,598	322,257
Internally designated for health insurance	45,723	-
Restricted for payment reserve - capital lease	15,318	15,318
Restricted under debt agreements	1,195,023	1,190,280
	$ 6,002,463	$ 2,601,507

Interest Income

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

	2015	2014
Interest income	$ 16,852	$ 28,517

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2015 and 2014 consisted of:

	2015	2014
Medicare	$ 676,398	$ 646,335
Medicaid	398,272	247,051
Other third-party payers	1,233,503	1,200,902
Patients	1,590,503	1,288,285
	3,898,676	3,382,573
Less allowance for uncollectible accounts	703,000	661,000
	$ 3,195,676	$ 2,721,573

Note 5: Capital Assets

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

2015	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 108,431	$ -	$ -	$ -	$ 108,431
Land improvements	405,660	-	8,437	-	397,223
Buildings	11,685,184	-	38,709	-	11,646,475
Fixed equipment	2,531,554	4,163	23,669	-	2,512,048
Major movable equipment	4,902,524	126,945	261,554	-	4,767,915
	19,633,353	131,108	332,369	-	19,432,092
Less accumulated depreciation					
Land improvements	341,683	8,499	8,437	-	341,745
Buildings	5,889,288	574,768	38,705	-	6,425,351
Fixed equipment	1,899,511	86,777	16,049	-	1,970,239
Major movable equipment	3,324,108	531,076	261,619	-	3,593,565
	11,454,590	1,201,120	324,810	-	12,330,900
Capital assets, net	$ 8,178,763	$ (1,070,012)	$ 7,559	$ -	$ 7,101,192

2014	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
Land	$ 108,431	$ -	$ -	$ -	$ 108,431
Land improvements	411,290	-	-	(5,630)	405,660
Buildings	11,393,075	74,614	-	217,495	11,685,184
Fixed equipment	2,546,740	-	-	(15,186)	2,531,554
Major movable equipment	4,548,848	218,599	-	135,077	4,902,524
Construction in progress	282,026	49,730	-	(331,756)	-
	19,290,410	342,943	-	-	19,633,353
Less accumulated depreciation					
Land improvements	330,653	14,279	-	(3,249)	341,683
Buildings	5,122,718	602,725	-	163,845	5,889,288
Fixed equipment	1,802,095	110,375	-	(12,959)	1,899,511
Major movable equipment	2,947,777	523,968	-	(147,637)	3,324,108
	10,203,243	1,251,347	-	-	11,454,590
Capital assets, net	$ 9,087,167	$ (908,404)	$ -	$ -	$ 8,178,763

Note 6: Medical Malpractice Insurance

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, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: 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 an annual aggregate amount of $50,000 per covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not 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. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

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

	2015	2014
Balance, beginning of year	$ 198,762	$ 295,149
Current year claims incurred and changes in estimates for claims incurred in prior year	1,137,542	1,538,724
Payments for claims	(1,076,940)	(1,635,111)
Balance, end of year	$ 259,364	$ 198,762

Total amounts expensed for health insurance benefits were $900,404 and $1,346,836 for the years ended June 30, 2015 and 2014, respectively. The expense account also includes reductions for reinsurance and amounts paid for HSA accounts.

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the Hospital for the years ended June 30, 2015 and 2014:

2015	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable					
Series 2008 (A)	$ 6,340,000	$ -	$ (200,000)	$ 6,140,000	$ 210,000
Note payable to Bank (B)	237,293	-	(11,386)	225,907	-
Note payable to Bank (C)	203,792	-	(11,387)	192,405	-
Capital lease obligations (E)	312,552	-	(67,670)	244,882	4,855
Unamortized bond premium	6,202	-	-	6,202	-
	$ 7,099,839	$ -	$ (290,443)	$ 6,809,396	$ 214,855

2014	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue Bonds Payable					
Series 2008 (A)	$ 6,535,000	$ -	$ (195,000)	$ 6,340,000	$ 200,000
Note payable to Bank (B)	237,293	-	-	237,293	-
Note payable to Bank (C)	203,792	-	-	203,792	-
Clark Electric note (D)	11,335	-	(11,335)	-	-
Capital lease obligations (E)	406,899	-	(94,347)	312,552	67,670
Unamortized bond premium	6,202	-	-	6,202	-
	$ 7,400,521	$ -	$ (300,682)	$ 7,099,839	$ 267,670

(A) Revenue Bonds Payable – Series 2008. The Hospital issued the $7,325,000 Series 2008 Hospital Revenue Bonds during the year ended June 30, 2008, to refund the Revenue Bonds having a balance of approximately $381,000, as well as for a hospital modernization project. Bond interest payments are due semi-annually on March 1 and September 1 through 2033 at fixed rates of 4.5% and 5.75%. Principal payments are due annually on March 1 through 2033.

At June 30, 2015, the audit report was not completed and provided within 150 days as required, but will be submitted after finalization to the appropriate parties.

As of June 30, 2014, the Hospital was not in compliance with the following debt covenant:

Maintaining a Coverage ratio of 1.20. The Hospital was required to hire a Management Consultant, within 30 days following the delivery of the June 30, 2014 audit report, to make a written report evaluating the performance of the Hospital and to recommend corrective measures.

Also, the audit report was not completed and provided within 150 days as required, but was submitted after finalizing to the appropriate parties.

The Hospital is subject to certain covenants, including maintaining a coverage ratio of 1.20 and a debt service reserve requirement of $554,603. The Hospital had a debt service reserve balance of $561,190 at June 30, 2015.

(B) Note payable – 2.40% interest rate, dated March 2011, for the purchase of the South Central Iowa Medical Clinic with available borrowing up to $425,000. The note payable was originally extended to August 2015 with an interest rate of 1.65%. Subsequent to year end, it was extended to August 2016 at which time the principal and interest is due; along with the interest accrued at a rate of 1.65%; secured by certificates of deposit.

(C) Note payable – 2.40% interest rate, dated March 2011, for the construction of the Humeston Clinic with available borrowing up to $350,000. The note payable was originally extended to August 2015 with an interest rate of 1.65%. Subsequent to year end, it was extended to August 2016 at which time the principal and interest is due; along with the interest accrued at a rate of 1.65%; secured by certificates of deposit.

(D) Clark Electric Note Payable – In 2011, the Hospital entered into a zero interest note payable with a rural electric cooperative in the amount of $200,000 for a project to renovate the Hospital's dietary and laundry facilities. Monthly payments were required in the amount of $1,852 through November 2013, at which date the note was paid off in full. The note was collateralized by the gross revenues of the Hospital.

(E) Capital Lease Obligations – During the year ended June 30, 2002, the Hospital entered into an agreement with the City of Corydon, Iowa (the City) for the operation of a child day care center. The operations of the day care center will be conducted in a building constructed by the City and leased to the Hospital under an agreement dated June 1, 2002. Under the agreement, the Hospital is to make lease payments to the City through July 1, 2041. During the term of the agreement, the City retains title to the day care facility, but upon completion of the agreement, title to the facilities transfers to the Hospital.

The Hospital made monthly interest only payments under the lease on March 1, 2003, through August 1, 2003. Effective August 1, 2003, the Hospital began making monthly principal and interest payments totaling $1,368. The effective interest rate on the capital lease is 4.75% and is secured by the gross revenues of the Hospital.

During the year ended June 30, 2010, the Hospital entered into capital lease obligations for various equipment items. The leases had cumulative monthly payments of principal and interest of $8,152 through February 2015.

The debt service requirements on the Series 2008 bonds, as of June 30, 2015, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2016	$ 546,170	$ 210,000	$ 336,170
2017	551,720	225,000	326,720
2018	550,470	235,000	315,470
2019	548,720	245,000	303,720
2020	551,470	260,000	291,470
2021-2025	2,756,608	1,515,000	1,241,608
2026-2030	2,745,988	1,970,000	775,988
2031-2035	1,653,363	1,480,000	173,363
	$ 9,904,509	$ 6,140,000	$ 3,764,509

Scheduled principal and interest payments on the bank notes (B) and (C) above are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2016	$ 422,060	$ 418,312	$ 3,748

Assets acquired under capital leases are as follows:

	2015	2014
Child day care center	$ 288,000	$ 288,000
Movable equipment	265,486	265,486
Less accumulated amortization	(272,016)	(250,017)
	$ 281,470	$ 303,469

Scheduled principal and interest payments on capital lease obligations are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2016	$ 16,416	$ 4,855	$ 11,561
2017	16,416	5,091	11,325
2018	16,416	5,339	11,077
2019	16,416	5,599	10,817
2020	16,416	5,872	10,544
2021-2025	82,080	33,936	48,144
2026-2030	82,081	43,044	39,037
2031-2035	82,080	54,595	27,485
2036-2040	82,080	69,247	12,833
2041-2044	17,789	17,304	485
	$ 428,190	$ 244,882	$ 183,308

Note 9: 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 Sheet

	June 30, 2015			
	Wayne County Hospital	Patronus	Eliminations	Combined
Assets				
Current assets	$ 9,666,258	$ 1,140,534	$ (475,290)	$ 10,331,502
Capital assets	6,767,559	333,633	-	7,101,192
Other assets	1,579,662	-	-	1,579,662
Total assets	18,013,479	1,474,167	(475,290)	19,012,356
Deferred Outflows of Resources - Pension Plan	1,405,732	-	-	1,405,732
Total assets and deferred outflows of resources	$ 19,419,211	$ 1,474,167	$ (475,290)	$ 20,418,088
Liabilities and Net Position				
Current liabilities	$ 4,388,541	$ 870,795	$ (475,290)	$ 4,784,046
Noncurrent liabilities	13,220,201	-	-	13,220,201
Total liabilities	17,608,742	870,795	(475,290)	18,004,247
Deferred Inflows of Resources				
Property taxes	986,807	-	-	986,807
Pension plan	2,647,932	-	-	2,647,932
Total deferred inflows of resources	3,634,739	-	-	3,634,739
Net Position (Deficit)				
Net investment in capital assets	(41,837)	-	-	(41,837)
Unrestricted	(3,105,786)	603,372	-	(2,502,414)
Restricted-expendable for				
Debt service	1,308,035	-	-	1,308,035
Capital lease	15,318	-	-	15,318
Total net position (deficit)	(1,824,270)	603,372	-	(1,220,898)
Total liabilities, deferred inflows of resources and net position	$ 19,419,211	$ 1,474,167	$ (475,290)	$ 20,418,088

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

	June 30, 2014			
	Wayne County Hospital	Patronus	Eliminations	Combined
Assets				
Current assets	$ 5,603,249	$ 600,366	$ (280,887)	$ 5,922,728
Capital assets	7,835,924	342,839	-	8,178,763
Other assets	1,527,855	-	-	1,527,855
Total assets	$ 14,967,028	$ 943,205	$ (280,887)	$ 15,629,346
Liabilities and Net Position				
Current liabilities	$ 2,810,441	$ 720,558	$ (280,887)	$ 3,250,112
Noncurrent liabilities	6,961,570	-	-	6,961,570
Total liabilities	9,772,011	720,558	(280,887)	10,211,682
Deferred Inflows of Resources				
Property taxes	982,492	-	-	982,492
Net Position				
Net investment in capital assets	736,085	-	-	736,085
Unrestricted	2,385,898	222,647	-	2,608,545
Restricted-expendable for				
Debt service	1,075,224	-	-	1,075,224
Capital lease	15,318	-	-	15,318
Total net position	4,212,525	222,647	-	4,435,172
Total liabilities, deferred inflows of resources and net position	$ 14,967,028	$ 943,205	$ (280,887)	$ 15,629,346

Wayne 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			
	Wayne County Hospital	Patronus	Eliminations	Combined
Operating Revenue				
Net patient service and other service revenue	$ 23,409,563	$ 3,831,845	$ (393,889)	$ 26,847,519
Other	650,846	3,975	-	654,821
Total operating revenues	24,060,409	3,835,820	(393,889)	27,502,340
Operating Expenses				
Other operating expenses	21,525,282	3,157,330	(393,889)	24,288,723
Depreciation and amortization	1,133,307	67,813	-	1,201,120
Total operating expenses	22,658,589	3,225,143	(393,889)	25,489,843
Operating Income	1,401,820	610,677	-	2,012,497
Nonoperating Revenues (Expenses)				
Property taxes	966,249	-	-	966,249
Investment income	16,852	-	-	16,852
Interest expense	(367,558)	(7,358)	-	(374,916)
Noncapital gifts	43,639	-	-	43,639
Income tax expense	-	(222,594)	-	(222,594)
Other	50,412	-	-	50,412
Total nonoperating revenues (expenses)	709,594	(229,952)	-	479,642
Excess of Revenues Over Expenses, Before Capital Contributions	2,111,414	380,725	-	2,492,139
Capital Contributions	35,282	-	-	35,282
Increase in Net Position	2,146,696	380,725	-	2,527,421
Net Position, Beginning of Year	4,212,525	222,647	-	4,435,172
Change in Beginning Net Position for Restatement (GASB No. 68)	(8,183,491)	-	-	(8,183,491)
Net Position, End of Year	$ (1,824,270)	$ 603,372	$ -	$ (1,220,898)

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

	Year Ended June 30, 2014			
	Wayne County Hospital	Patronus	Eliminations	Combined
Operating Revenue				
Net patient service and other service revenue	$ 20,708,886	$ 1,699,248	$ (285,320)	$ 22,122,814
Other	328,738	1,875	-	330,613
Total operating revenues	21,037,624	1,701,123	(285,320)	22,453,427
Operating Expenses				
Other operating expenses	22,364,049	1,625,972	(389,603)	23,600,418
Depreciation and amortization	1,237,283	14,064	-	1,251,347
Total operating expenses	23,601,332	1,640,036	(389,603)	24,851,765
Operating Income (Loss)	(2,563,708)	61,087	104,283	(2,398,338)
Nonoperating Revenues (Expenses)				
Property taxes	975,092	-	-	975,092
Investment income	28,517	-	-	28,517
Interest expense	(378,415)	-	-	(378,415)
Noncapital gifts	17,623	-	-	17,623
Income tax expense	-	(17,338)	-	(17,338)
Other	37,422	-	-	37,422
Total nonoperating revenues (expenses)	680,239	(17,338)	-	662,901
Excess of Revenues Over Expenses, Before Capital Contributions	(1,883,469)	43,749	104,283	(1,735,437)
Capital Contributions	15,027	178,898	(104,283)	89,642
Increase (Decrease) in Net Position	(1,868,442)	222,647	-	(1,645,795)
Net Position, Beginning of Year	6,080,967	-	-	6,080,967
Net Position, End of Year	$ 4,212,525	$ 222,647	$ -	$ 4,435,172

Condensed Statements of Cash Flows

	Year Ended June 30, 2015			
	Wayne County Hospital	Patronus	Eliminations	Combined
Net Cash Provided by Operating Activities	$ 2,612,472	$ 473,269	$ -	$ 3,085,741
Net Cash Provided by (Used in) Noncapital Financing Activities	1,062,444	(18,891)	-	1,043,553
Net Cash Used in Capital and Related Financing Activities	(502,572)	(242,618)	-	(745,190)
Net Cash Provided by Investing Activities	12,553	-	-	12,553
Change in Cash and Cash Equivalents	3,184,897	211,760	-	3,396,657
Cash and Cash Equivalents, Beginning of Year	1,378,340	15,633	-	1,393,973
Cash and Cash Equivalents, End of Year	$ 4,563,237	$ 227,393	$ -	$ 4,790,630

	Year Ended June 30, 2014			
	Wayne County Hospital	Patronus	Eliminations	Combined
Net Cash Provided by (Used in) Operating Activities	$ (1,375,797)	$ 285,591	$ -	$ (1,090,206)
Net Cash Provided by (Used in) Noncapital Financing Activities	1,029,747	(17,338)	-	1,012,409
Net Cash Used in Capital and Related Financing Activities	(822,495)	(252,620)	-	(1,075,115)
Net Cash Provided by Investing Activities	48,272	-	-	48,272
Change in Cash and Cash Equivalents	(1,120,273)	15,633	-	(1,104,640)
Cash and Cash Equivalents, Beginning of Year	2,498,613	-	-	2,498,613
Cash and Cash Equivalents, End of Year	$ 1,378,340	$ 15,633	$ -	$ 1,393,973

Note 10: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS 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 the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

Pension Benefits

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

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

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% 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% 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 years 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%. Protection occupation members contributed 6.56% of pay and the Hospital contributed 9.84% for a total rate of 16.40%.

The Hospital's contributions to IPERS for the years ended June 30, 2015, 2014 and 2013 were $986,753, $1,027,608 and $955,098, respectively.

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 $6,481,708 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's collective proportion was 0.1633%, which was an increase of 0.001% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Hospital recognized pension expense of $522,065. 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	$ 60,225	$ -
Changes of assumptions	291,469	-
Net difference between projected and actual earnings on pension plan investments	-	2,647,932
Changes in proportion and difference between Hospital contributions and proportionate share of contributions	67,285	-
Hospital contributions subsequent to the measurement date	986,753	-
Total	$ 1,405,732	$ 2,647,932

Approximately $986,753 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	
2016	$ (564,091)
2017	(564,091)
2018	(564,091)
2019	(564,091)
2020	27,411

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014, actuarial valuations 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%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50%, net of pension plan investment expense, including inflation

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.31%
Non-U.S. 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%
	100%	

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 Discount Rate	1% Increase
Hospital's net pension liability	$ 12,626,756	$ 6,481,708	$1,295,039

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 $83,893 for legally required employer contributions and $55,929 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 11: Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of $333,484 and $391,987 were incurred for the years ended June 30, 2015 and 2014, respectively. At June 30, 2015 and 2014, the Hospital had accounts payable to the organization of $37,656 and $27,372, respectively.

Note 12: Postemployment Health Care Plan

Plan Description

The Hospital provides health insurance benefits for certain retired employees under a single-employer self-insured plan. The plan provides health insurance and other benefits to participating retirees who have reached the age of 55. Benefits are available for retirees as required by state statutes until they reach the age of 65. Pursuant to the provisions of the plan, retirees are required to pay the total premium cost. As of July 1, 2012, there were no retirees receiving health benefits from the Hospital's health plan.

Annual OPEB Cost and Net OPEB Obligation

The Hospital's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation to the plan:

	2015	2014
Annual required contribution (ARC)	$ 22,600	$ 24,000
Interest on net OPEB obligation	1,100	1,100
Adjustment to ARC	(1,149)	(1,100)
Annual OPEB cost	22,551	24,000
Contributions during the year	(8,000)	(4,000)
Increase in net OPEB obligation	14,551	20,000
Net OPEB - beginning of year	129,401	109,401
Net OPEB - end of year	$ 143,952	$ 129,401

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015, 2014 and 2013 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
June 30, 2015	$ 22,551	$ 8,000	35.48%	$ 143,952
June 30, 2014	24,000	4,000	16.67%	129,401
June 30, 2013	31,000	1,000	3.23%	109,401

Funded Status and Funding Progress

As of July 1, 2012, the most recent actuarial valuation date, the Hospital does not have a funded plan, resulting in an unfunded actuarial accrued liability (UAAL) of $87,000. The covered payroll (annual payroll of active employees covered by the plan) was $9,400,848, and the ratio of the UAAL to the covered payroll was 0.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

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

In the July 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated, based on the funded level of the plan at the valuation date and an annual health care cost trend rate of 9% initially, reduced by decrements of .5% to an ultimate rate of 5% after 8 years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2015 was 27 years.

Note 13: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Hospital Board of Trustees annually adopts a budget on a 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.

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

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	$ 966,249	$ -	$ 966,249	$ 981,992
Other revenues/receipts	24,206,594	481,976	24,688,570	23,741,955
	25,172,843	481,976	25,654,819	24,723,947
Expenses/disbursements	23,026,147	184,022	23,210,169	24,524,888
	2,146,696	297,954	2,444,650	199,059
Balance, beginning of year	(3,970,966)	871,384	(3,099,582)	(3,099,582)
Balance, end of year	$ (1,824,270)	$ 1,169,338	$ (654,932)	$ (2,900,523)

Note 14: Related Parties

At June 30, 2014, the Hospital was owed $280,887 from a dental clinic for employment related expenses for dentists employed by the Hospital that were incurred after January 1, 2014. This clinic was divested in January 2014, but included as part of Patronus in 2015 and eliminated in combination.

Note 15: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Those matters include the following:

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Other Estimates

The Hospital has other significant estimates for the allowance for uncollectible accounts, capital assets and property taxes, all of which are described in *Note 1* and third-party payer settlements described in *Note 2*. Events could occur that would change these estimates materially in the near term.

Required Supplementary Information

Wayne County Hospital

Schedule of Hospital's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Determined as of the Measurement Date*
Required Supplementary Information

	Regular Group 2015	Protection Group 2015
Hospital's proportion of the net pension asset (liability)	0.1633%	0.1625%
Hospital's proportionate share of the net pension asset (liability)	$ (6,610,712)	$ 129,004
Hospital's covered-employee payroll	$ 10,907,386	$ 528,394
Hospital's proportionate share of the net pension asset (liability) as a percentage of its covered-employee payroll	60.6%	24.4%
Plan fiduciary net position as a percentage of the total pension liability	86.6%	106.3%

* The amounts presented are determined as of the measurement date (June 30 of the prior year) of the net pension liability.

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

Wayne County Hospital

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	$ 986,753	$ 1,027,608	$ 955,098	$ 796,907	$ 520,924	$ 465,708	$ 398,877	$ 329,840	$ 272,792	$ 238,576
Contributions in relation to the statutorily required contribution	(986,753)	(1,027,608)	(955,098)	(796,907)	(520,924)	(465,708)	(398,877)	(329,840)	(272,792)	(238,576)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Hospital's covered-employee payroll	$ 11,436,030	$ 11,435,780	$ 10,898,977	$ 9,685,706	$ 7,812,573	$ 7,241,760	$ 6,464,235	$ 5,630,564	$ 4,685,866	$ 4,303,371
Contributions as a percentage of covered-employee payroll	8.63%	8.99%	8.76%	8.23%	6.67%	6.43%	6.17%	5.86%	5.82%	5.54%

See Independent Auditor's Report

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.

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

Wayne County Hospital
Combining Balance Sheet
June 30, 2015

Assets and Deferred Outflows of Resources

	Wayne County Hospital	Patronus	Eliminations	Total
Current Assets				
Cash and cash equivalents	$ 3,707,976	$ 227,393	$ -	$ 3,935,369
Current portion restricted under debt agreements	228,068	-	-	228,068
Current portion designated for health insurance	259,364	-	-	259,364
Patient accounts receivable, net of allowance; 2015 – $703,000	3,195,676	-	-	3,195,676
Other receivables	683,284	503,938	(475,290)	711,932
Property taxes receivable	1,003,845	-	-	1,003,845
Inventories	392,303	408,407	-	800,710
Prepaid expenses	195,742	796	-	196,538
Total current assets	9,666,258	1,140,534	(475,290)	10,331,502
Noncurrent Cash and Deposits				
Internally designated for capital improvements	323,598	-	-	323,598
Internally designated for health insurance	45,723	-	-	45,723
Restricted for payment reserve – capital lease	15,318	-	-	15,318
Restricted under debt agreements	1,195,023	-	-	1,195,023
Total noncurrent cash and deposits	1,579,662	-	-	1,579,662
Capital Assets, Net	6,767,559	333,633	-	7,101,192
Total Assets	18,013,479	1,474,167	(475,290)	19,012,356
Deferred Outflows of Resources - Pension Plan	1,405,732	-	-	1,405,732
Total Assets and Deferred Outflows of Resources	$ 19,419,211	$ 1,474,167	$ (475,290)	$ 20,418,088

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

Liabilities, Deferred Inflows of Resources and Net Position

	Wayne County Hospital	Patronus	Eliminations	Total
Current Liabilities				
Accounts payable	$ 830,291	$ 441,993	$ (475,290)	$ 796,994
Accrued payroll and related liabilities	778,444	207,761	-	986,205
Accrued health insurance payable	259,364	-	-	259,364
Accrued interest payable	112,056	-	-	112,056
Income taxes payable	-	221,041	-	221,041
Estimated amounts due to third-party payers	1,647,000	-	-	1,647,000
Accrued vacation	546,531	-	-	546,531
Current maturities of long-term debt	214,855	-	-	214,855
Total current liabilities	4,388,541	870,795	(475,290)	4,784,046
Net Pension Liability	6,481,708	-	-	6,481,708
Other Post-Employment Benefit Obligation	143,952	-	-	143,952
Long-term Debt, Net of Current Portion	6,594,541	-	-	6,594,541
Total liabilities	17,608,742	870,795	(475,290)	18,004,247
Deferred Inflows of Resources				
Property taxes	986,807	-	-	986,807
Pension plan	2,647,932	-	-	2,647,932
Total deferred inflows of resources	3,634,739	-	-	3,634,739
Net Position (Deficit)				
Net investment in capital assets	(41,837)	-	-	(41,837)
Restricted under debt agreements	1,308,035	-	-	1,308,035
Restricted for payment reserve – capital lease	15,318	-	-	15,318
Unrestricted	(3,105,786)	603,372	-	(2,502,414)
Total net position (deficit)	(1,824,270)	603,372	-	(1,220,898)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 19,419,211	$ 1,474,167	$ (475,290)	$ 20,418,088

Wayne County Hospital

Combining Schedule of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2015

	Wayne County Hospital	Patronus	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	$ 24,142,282	$ -	$ -	$ 24,142,282
Provision for uncollectible accounts	732,719	-	-	732,719
Net patient service revenue	23,409,563	-	-	23,409,563
Assisted living and multi-unit housing revenue	-	371,577	-	371,577
Dental clinics	-	1,153,306	-	1,153,306
Orthopedics	-	2,306,962	(393,889)	1,913,073
340B retail program	332,240	-	-	332,240
Other	318,606	3,975	-	322,581
Total operating revenues	24,060,409	3,835,820	(393,889)	27,502,340
Operating Expenses				
Salaries and wages	11,390,145	1,308,982	-	12,699,127
Employee benefits	2,231,715	141,269	-	2,372,984
Contract labor / services	934,403	979,182	-	1,913,585
Fees and other services	1,722,192	-	(295,144)	1,427,048
Supplies	3,120,947	473,238	(98,745)	3,495,440
Facility costs	421,542	156,951	-	578,493
Repairs and maintenance - other	393,047	-	-	393,047
Equipment lease / rentals	92,278	-	-	92,278
Insurance	320,739	43,508	-	364,247
Depreciation / amortization	1,133,307	67,813	-	1,201,120
Other expense	640,300	73,195	-	713,495
(Gain) loss on sale of capital assets	7,559	(18,995)	-	(11,436)
340B retail program costs	250,415	-	-	250,415
Total operating expenses	22,658,589	3,225,143	(393,889)	25,489,843
Operating Income	1,401,820	610,677	-	2,012,497
Nonoperating Revenues (Expenses)				
Property taxes	966,249	-	-	966,249
Investment income	16,852	-	-	16,852
Interest expense	(367,558)	(7,358)	-	(374,916)
Noncapital gifts	43,639	-	-	43,639
Income tax expense	-	(222,594)	-	(222,594)
Other	50,412	-	-	50,412
Total nonoperating revenues (expenses)	709,594	(229,952)	-	479,642
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,111,414	380,725	-	2,492,139
Capital Grants and Contributions	35,282	-	-	35,282
Increase in Net Position	2,146,696	380,725	-	2,527,421
Net Position, Beginning of Year	4,212,525	222,647	-	4,435,172
Change in Beginning Net Position for Restatement (GASB No. 68)	(8,183,491)	-	-	(8,183,491)
Net Position, End of Year	$ (1,824,270)	$ 603,372	$ -	$ (1,220,898)

Wayne County Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2015 and 2014

	2015 Total	2015 Inpatient	2015 Outpatient	2014 Total	2014 Inpatient	2014 Outpatient
Daily Patient Services						
Medical and surgical	$ 1,812,925	$ 1,812,925		$ 1,508,166	$ 1,508,166	
Skilled nursing care	704,663	704,663		533,538	533,538	
Obstetrics	425,499	425,499		345,990	345,990	
Nursery	245,605	245,605		209,195	209,195	
Special care	118,525	118,525		68,425	68,425	
	3,307,217	3,307,217		2,665,314	2,665,314	
Other Nursing Services						
Operating and recovery rooms	4,172,692	549,394	$ 3,623,298	3,127,551	411,518	$ 2,716,033
Delivery and labor room	315,642	227,748	87,894	267,575	194,961	72,614
Medical and surgical supplies	2,821,758	1,426,477	1,395,281	1,809,991	1,072,571	737,420
Emergency service	3,845,077	63,298	3,781,779	2,864,150	42,622	2,821,528
Ambulance	1,061,432		1,061,432	919,044		919,044
Kidney dialysis	1,101,163		1,101,163	916,030		916,030
	13,317,764	2,266,917	11,050,847	9,904,341	1,721,672	8,182,669
Other Professional Services						
Laboratory	4,818,271	738,973	4,079,298	4,139,899	599,883	3,540,016
Electrocardiology	494,200	18,693	475,507	437,066	15,103	421,963
Radiology	6,341,021	369,674	5,971,347	4,746,566	303,303	4,443,263
Pharmacy	3,532,912	852,071	2,680,841	2,629,539	635,459	1,994,080
Anesthesiology	1,791,770	206,510	1,585,260	1,221,993	236,891	985,102
Respiratory therapy	373,454	227,947	145,507	226,654	119,420	107,234
Physical therapy	1,137,063	231,175	905,888	942,941	179,007	763,934
Speech therapy	51,864	26,604	25,260	26,374	11,016	15,358
Occupational therapy	261,385	77,614	183,771	194,504	65,822	128,682
Lineville clinic	244,046		244,046	252,365		252,365
SCIMC clinic	4,637,434		4,637,434	4,012,217		4,012,217
Seymour medical clinic	670,111		670,111	572,954		572,954
Dental clinic	-		-	454,701		454,701
Surgeon and outpatient clinics	1,823,368		1,823,368	1,493,778		1,493,778
Cardiac Rehab	70,706		70,706	67,640		67,640
Wound care clinic	148,981		148,981	82,890		82,890
HFMC	305,277		305,277	251,168		251,168
Chemotherapy	70,226		70,226	-		-
	26,772,089	2,749,261	24,022,828	21,753,249	2,165,904	19,587,345
Gross Patient Service Revenue	43,397,070	$ 8,323,395	$ 35,073,675	34,322,904	$ 6,552,890	$ 27,770,014
Contractual Adjustments	(19,936,725)			(13,032,419)		
Electronic Health Records Incentive Program Revenue	681,937			68,000		
Net Patient Service Revenue before Provision for Uncollectible Accounts	24,142,282			21,358,485		
Provision for Uncollectible Accounts	(732,719)			(836,618)		
Net Patient Service Revenue	$ 23,409,563			$ 20,521,867		

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

	2015	2014
Other Revenues		
Office rent	$ 33,471	$ 28,341
Miscellaneous	16,464	20,358
Cafeteria	256,065	264,838
Meals on Wheels	12,381	13,361
Community programs	225	1,840
	$ 318,606	$ 328,738

Wayne County Hospital

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

	2015			2014		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	$ 95,852	$ 92,981	$ 2,871	$ 105,000	$ 101,555	$ 3,445
Operating room	1,748,111	355,457	1,392,654	1,370,953	353,853	1,017,100
Medical surgical	1,607,372	1,395,749	211,623	1,493,475	1,318,577	174,898
Nursery	64,821	64,821	-	28,152	28,152	-
Obstetrics	140,548	115,369	25,179	174,023	144,119	29,904
Emergency service	1,615,244	1,520,806	94,438	1,925,490	1,714,918	210,572
	5,271,948	3,545,183	1,726,765	5,097,093	3,661,174	1,435,919
Other Professional Services						
Anesthesiology	505,201	-	505,201	490,699	-	490,699
Laboratory	768,468	319,757	448,711	759,057	321,594	437,463
Electrocardiology	81,536	2,351	79,185	78,573	2,509	76,064
Ambulance	102,931	63,749	39,182	103,414	67,170	36,244
Respiratory therapy	110,435	77,584	32,851	106,286	71,458	34,828
Kidney dialysis	265,855	184,637	81,218	251,751	176,899	74,852
Radiology	794,488	226,546	567,942	710,330	237,154	473,176
Orthopedics	158,251	85,980	72,271	304,734	228,547	76,187
Speech therapy	22,965	-	22,965	13,807	-	13,807
Physical therapy	272,275	233,174	39,101	268,506	240,786	27,720
Occupational therapy	119,811	56,714	63,097	92,421	55,385	37,036
Pharmacy	852,446	207,967	644,479	760,324	188,739	571,585
Lineville clinic	261,897	193,081	68,816	334,496	267,184	67,312
Seymour medical clinic	443,043	347,853	95,190	498,577	346,831	151,746
SCIMC clinic	3,403,855	2,820,003	583,852	3,328,550	2,810,741	517,809
Dental clinic	-	-	-	381,311	265,235	116,076
Wound care clinic	27,852	16,978	10,874	33,160	19,938	13,222
Surgeon and outpatient clinics	475,596	385,073	90,523	329,815	269,951	59,864
Assisted living	-	-	-	137,306	120,332	16,974
Day care	22,838	-	22,838	23,581	-	23,581
Medical records	331,046	284,457	46,589	314,076	278,917	35,159
Cardiac Rehab	26,803	24,293	2,510	27,953	25,003	2,950
HFMC	289,313	210,245	79,068	289,795	222,334	67,461
Chemotherapy	9,269	7,727	1,542	-	-	-
340B program	250,415	-	250,415	-	-	-
	9,596,589	5,748,169	3,848,420	9,638,556	6,216,707	3,421,849
General Services						
Operation of plant	547,355	242,919	304,436	595,973	251,081	344,892
Dietary	620,028	322,709	297,319	626,683	336,362	290,321
Purchasing	77,923	48,509	29,414	85,147	53,206	31,941
Housekeeping	277,260	228,892	48,368	290,503	245,183	45,320
Laundry	95,742	78,452	17,290	65,120	48,350	16,770
	1,618,308	921,481	696,827	1,663,426	934,182	729,244
Administrative Services	2,478,424	1,175,312	1,303,112	2,332,232	1,156,144	1,176,088
Employee Benefits	2,231,715		2,231,715	3,224,762		3,224,762
Insurance	320,739		320,739	303,697		303,697
Loss on Disposal of Capital Assets	7,559		7,559	104,283		104,283
Depreciation	1,133,307		1,133,307	1,237,283		1,237,283
	$ 22,658,589	$ 11,390,145	$ 11,268,444	$ 23,601,332	$ 11,968,207	$ 11,633,125

See Independent Auditor's Report

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

Schedules of Patient Receivables

	Amounts 2015	Amounts 2014	Percent to Total 2015	Percent to Total 2014
Days Since Discharge				
0 – 30	$ 3,888,850	$ 2,792,973	65%	59%
31 – 60	595,421	462,764	10%	10%
61 – 90	443,736	377,766	8%	8%
91 and over	1,032,057	1,095,683	17%	23%
	5,960,064	4,729,186	100%	100%
Less				
Contractual allowances	2,061,388	1,346,613		
Allowance for uncollectible accounts	703,000	661,000		
	$ 3,195,676	$ 2,721,573		
Net Patient Service Revenue Per Calendar Day (Excluding Provision for Bad Debt)	$ 66,143	$ 58,516		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	48	47		

Allowance for Uncollectible Accounts

	2015	2014
Balance, beginning of year	$ 661,000	$ 550,000
Provision for year	732,719	836,618
Recoveries of accounts previously written off	424,289	193,911
	1,818,008	1,580,529
Less accounts written off	1,115,008	919,529
Balance, end of year	$ 703,000	$ 661,000

Wayne County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2015 and 2014

Inventories

	2015	2014
Central supply	$ 41,453	$ 41,240
Clinics	62,978	55,437
Pharmacy	157,583	115,031
Nursing	12,337	10,010
Physical therapy	629	713
Operating room	49,776	52,347
Laboratory	32,664	23,092
Dietary	10,461	11,268
Radiology	1,225	1,196
Housekeeping	1,140	1,996
Kidney dialysis	385	3,211
Laundry and linen	1,342	3,443
Emergency department	7,429	6,552
HFMC	12,901	9,996
	$ 392,303	$ 335,532

Prepaid Expenses

	2015	2014
Insurance	$ 32,873	$ 30,857
Other	162,869	127,231
	$ 195,742	$ 158,088

Other Supplementary Information

Wayne County Hospital
Schedule of Officials
Year Ended June 30, 2015

Name	Title	Term Expires
	Board of Trustees	
Gary Runyon	Chairman	2020
Norman Riekens	Vice Chairman	2018
Jill Tueth	Secretary	2016
Darrell Cook	Treasurer	2016
Donna Donald	Member	2018
Rhonda Ewing	Member	2020
Russ Parker	Member	2018
	Hospital Officials	
Daren Relph	CEO/Administrator	
Denise Hook	Chief Financial Officer	

Wayne County Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2015 and 2014

	2015	2014
Patient Days		
Acute and ICU	1,327	1,221
Swing-bed	741	644
	2,068	1,865
Admissions (Acute and ICU)	420	397
Discharges (Acute and ICU)	418	396
Average Length of Stay in Days (Acute and ICU)	3.2	3.1
Beds	25	25
Occupancy Percentage (Acute, ICU and Swing-bed)	22.66%	20.44%

BKD LLP
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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
Wayne County Hospital
Corydon, 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 Wayne County Hospital (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 January 20, 2016, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles and change in reporting entity.

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.

Travel Expense

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

Business Transactions

We noted no transactions between 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 noncompliance 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.

Publication of Bills Allowed

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed..." We noted no instances where Hospital management failed to publish the quarterly bills allowed paid as required by the Code of Iowa.

Other Matters

We noted certain matters that we reported to the Hospital's management in a separate letter dated January 20, 2016.

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
January 20, 2016

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

Reference Number	Finding
	No matters are reportable.

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Board of Trustees and Management
Wayne County Hospital
Corydon, Iowa

In planning and performing our audit of the financial statements of Wayne County Hospital (Hospital) as of and for the year ended June 30, 2015, 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, 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 may be 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. To the extent that conflicting duties cannot be fully segregated, management review and oversight becomes the only effective means to mitigate the risk of material misstatement due to fraud or error that results from the conflicts. During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases and Cash Outflows

- The Accountant can record a payable, access signed checks, adjust vendor accounts and adjust vendor master files.

Payroll

- The Human Resources Director has the ability to change employee payroll information, upload time from payroll system, has access to payroll checks and is responsible to reconcile certain payroll information.

Inventory Cycle

- The Materials Management Director can both receive and record inventory.

Clinics Revenue Cycle

- The receptionists at the Dental clinics have access to assets and recording responsibility.

Audit Journal Entries

During the course of performing the audit, we identified an adjustment and proposed a journal entry to the financial statements affecting the Hospital's net position. This item was not previously identified by management's internal controls.

We observed matters that are considered deficiencies that are 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 accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Medicare Reimbursement

The provisions of the *Federal Government's Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2025. The estimated annual impact of sequestration for the Hospital is approximately $119,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

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 began in February 2012 and may include closer scrutiny of nonprofit hospital contracts to provide indigent care and verification that certain outpatient facilities are included as reimbursable departments on the Hospital's cost report.

We recommend the Hospital ensure that compliance with the program requirements are monitored.

Electronic Health Records Meaningful Use Audits

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests, we recommend all EHR payment audits be handled separately from other cost report reviews.

- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.

- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

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. 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 confidentially, 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.

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. 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

Documentation of Accounting Policies

The Hospital has no formal documentation of standard accounting procedures. We recommend documenting accounting procedures, such as general ledger maintenance, payroll processing, cash disbursement processing and so forth, should an unforeseen emergency occur with accounting personnel. This would enable the accounting function to continue with a minimum of interruption to daily activities.

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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
January 20, 2016