

AKRON CARE CENTER, INC.

INDEPENDENT AUDITORS' REPORT  
BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND SCHEDULE OF FINDINGS

JUNE 30, 2015 AND 2014

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AKRON CARE CENTER, INC.

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Brad Britton	President	Dec 2015
Bob Watson	Vice President	Dec 2015
Margaret Correia	Member	Dec 2018
Crystal Manley	Member	Dec 2018
Karen Schroeder	Member	Dec 2018
Brandon Verros	Administrator	Resigned Aug 11, 2015
Alan Bruinsma	Administrator	Started Sep 29, 2015
Sharon Frerichs	Representative, City of Akron	Appointed by City
Sue Gabel	Secretary	Indefinite



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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Akron Care Center, Inc.  
Akron, Iowa

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

We have audited the accompanying financial statements of Akron Care Center, Inc., a component unit of the City of Akron, Iowa, as of June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Care Center's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 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 opinions.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Akron Care Center, Inc. as of June 30, 2015 and 2014, and the respective changes in 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 16 to the financial statements, Akron Care Center, Inc. adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of the Care Center's Proportionate Share of the Net Pension Liability, and the Schedule of Care Center Contributions on pages 21 through 24 be presented to supplement the basic financial statements. Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information. We have applied certain limited procedures to the remaining required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Akron Care Center, Inc.'s basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2015, on our consideration of Akron Care Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 Akron Care Center, Inc.'s internal control over financial reporting and compliance.

*William J. Company PC*  
Certified Public Accountants

Onawa, Iowa  
November 11, 2015

AKRON CARE CENTER, INC.  
STATEMENTS OF NET POSITION  
JUNE 30, 2015 AND 2014  
ASSETS

	2015	2014 (Not Restated)
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$ 773,888	\$ 631,625
Board Designated Cash	67,159	53,578
Accounts Receivable (Less Allowance for Doubtful Accounts \$12,263 and \$34,206 for 2015 and 2014)	154,074	218,026
Promises to Give (Less Allowance for Uncollectible Promises \$8,260 for both 2015 and 2014)	84,059	122,129
Prepaid Expenses	5,728	6,725
Total Current Assets	1,084,908	1,032,083
<u>NONCURRENT ASSETS</u>		
Restricted Cash - Construction - Note 6	73,981	302,125
Restricted Cash - USDA Reserve Funds - Note 7	233,928	34,211
Promises to Give	21,334	101,828
Other Capital Assets, Net of Depreciation - Note 8	6,802,987	7,107,827
Total Noncurrent Assets	7,132,230	7,545,991
Total Assets	8,217,138	8,578,074
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related Deferred Outflows - Note 14	224,899	-
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	64,797	112,128
Accrued Salaries and Payroll Taxes Payable	61,162	68,353
Accrued Compensated Absences Payable - Current	10,870	10,849
Accrued Interest Payable	2,394	28,472
Current Portion of Peoples Bank Note Payable - Note 10	24,072	23,087
Current Portion of City of Akron GO Bonds - Note 11	60,000	55,000
Current Portion of USDA Note Payable - Note 12	49,907	48,193
Total Current Liabilities	273,202	346,082
<u>NONCURRENT LIABILITIES</u>		
Accrued Compensated Absences Payable - Long-Term	32,611	32,548
Net Pension Liability - Note 14	817,666	-
City of Akron Notes Payable - Long-Term - Note 9	80,000	140,000
City of Akron GO Bonds Payable - Long-Term - Note 11	1,025,000	1,085,000
USDA Note Payable - Long-Term - Note 12	3,866,473	3,917,950
Peoples Bank Note Payable - Long-Term - Note 10	209,623	238,603
Total Noncurrent Liabilities	6,031,373	5,414,101
Total Liabilities	6,304,575	5,760,183
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related Deferred Inflows - Note 14	311,834	-
<u>NET POSITION</u>		
Net Investment in Capital Assets	1,641,893	2,042,119
Restricted:		
USDA Reserve Funds	233,928	34,211
Unrestricted	(50,193)	741,561
Total Net Position	\$ 1,825,628	\$ 2,817,891

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Not Restated)
<u>OPERATING REVENUES</u>		
Patient and Resident Revenue	\$ 2,823,169	\$ 2,673,985
Meals	4,949	3,663
Vehicle Income	3,574	4,279
Social Services Reimbursement	7,244	7,434
Reimbursements	7,604	3,384
Miscellaneous Income	4,016	4,388
	<hr/>	<hr/>
Total Operating Revenues	2,850,556	2,697,133
<u>OPERATING EXPENSES</u>		
Administrative Expense	357,831	360,732
Dietary Services Expense	318,212	316,979
General Services Expense	301,991	270,833
Patient Care Services Expense	1,451,487	1,392,395
Depreciation Expense - Retirement Home	277,092	238,055
Interest Expense - Retirement Home	166,265	103,947
Debt Issuance Cost	-	104,875
Apartments - Village South Expenses	26,442	17,650
Apartments - Village North Expenses	54,410	58,388
	<hr/>	<hr/>
Total Operating Expenses	2,953,730	2,863,854
<u>OPERATING (LOSS)</u>	(103,174)	(166,721)
<u>NON-OPERATING REVENUES</u>		
Donations and Memorials	65,419	822,084
Interest Income	2,138	2,996
Gain on Sale of Equipment	350	702
	<hr/>	<hr/>
Total Non-Operating Revenues	67,907	825,782
Loss on Abandonment of Building & Equipment	-	(102,824)
	<hr/>	<hr/>
Changes in Net Position	(35,267)	556,237
	<hr/>	<hr/>
Net Position at Beginning of Year	2,817,891	2,261,654
Restatement - Note 16	(956,996)	-
	<hr/>	<hr/>
Net Position at Beginning of Year, as Restated	1,860,895	2,261,654
	<hr/>	<hr/>
Net Position at End of Year	<u>\$ 1,825,628</u>	<u>\$ 2,817,891</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Not Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Cash Received from Patient and Resident Services	\$ 2,882,713	\$ 2,615,660
Cash Paid to Suppliers for Goods and Services	(922,327)	(800,299)
Cash Paid to Employees for Services	(1,655,842)	(1,581,404)
Donations Received	183,983	696,425
Other Operating Revenues	27,387	23,148
	<u>515,914</u>	<u>953,530</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Acquisition and Construction of Capital Assets	-	(6,006,926)
Contribution from the City of Akron	-	755,558
Principal Paid on Peoples Bank Note	(27,995)	(22,816)
Interest Paid	(198,227)	(103,947)
Proceeds from Sale of Equipment	350	7,769
Proceeds from Sale of City of Akron GO Bonds	-	1,250,000
Proceeds from USDA Loan	-	4,000,000
Payment of Debt Issuance Costs	-	(104,875)
Principal Payments made on City of Akron Notes	(60,000)	-
Principal Payments made on USDA Loan	(49,763)	(33,857)
Principal Payments made on City of Akron GO Bonds	(55,000)	(110,000)
	<u>(390,635)</u>	<u>(369,094)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	2,138	2,996
	<u>2,138</u>	<u>2,996</u>
Net Cash Provided By Investing Activities	<u>2,138</u>	<u>2,996</u>
Net Increase in Cash and Cash Equivalents	127,417	587,432
Cash and Cash Equivalents at Beginning of Year	<u>1,021,539</u>	<u>434,107</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,148,956</u>	<u>\$ 1,021,539</u>
<u>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</u>		
Cash and Cash Equivalents	\$ 773,888	\$ 631,625
Board Designated Cash	67,159	53,578
Restricted Cash - Construction	73,981	302,125
Restricted Cash - USDA Reserve Funds	233,928	34,211
Total Cash and Cash Equivalents	<u>\$ 1,148,956</u>	<u>\$ 1,021,539</u>

(Continued)

AKRON CARE CENTER, INC.  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2015 AND 2014

(Continued)

	<u>2015</u>	<u>2014</u> (Not Restated)
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Operating (Loss)	\$ (103,174)	\$ (166,721)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided By Operating Activities:		
Donations and Memorials	65,419	822,084
Interest Expense	172,149	112,581
Bad Debt Expense	4,408	291
Depreciation Expense	304,840	266,653
(Increase) Decrease in Assets:		
Accounts Receivable	59,544	(58,325)
Promises to Give	118,564	(125,659)
Prepaid Expenses	997	7,276
Deferred Outflows of Resources	(224,899)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(47,331)	61,453
Accrued Salaries and Payroll Taxes Payable	(7,191)	23,756
Accrued Compensated Absences Payable	84	10,141
Net Pension Liability	(139,330)	-
Deferred Inflows of Resources	311,834	-
	<u>619,088</u>	<u>1,120,251</u>
Total Adjustments		
Net Cash Provided By Operating Activities	<u>\$ 515,914</u>	<u>\$ 953,530</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Organization is a component unit of the City of Akron, Iowa established to provide and maintain health care facilities, and to promote the general health of the community. The Care Center is governed by a Board of Trustees in accordance with Chapter 392 of the Code of Iowa and Akron City Ordinance. Prior to July 1, 1986, the Care Center operated as Akron City Hospital.

Akron Care Center, Inc. is licensed as a nursing facility with a 45 bed capacity. Substantially all of the Care Center's patients and residents are local residents. Akron Care Center, Inc. also operates two senior living apartment complexes separate from the licensed facility. For the years ended June 30, 2015 and 2014, Title XVIII and Title XIX revenue, as a percentage of total revenue, was 48% and 55%, respectively.

Akron Care Center, Inc.'s financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Akron Care Center, Inc. has included all funds, organizations, agencies, boards, commissions and authorities. The Care Center has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Care Center are such that exclusion would cause the Care Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Akron Care Center, Inc. to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Akron Care Center, Inc. Akron Care Center, Inc. has no component units which meet the Governmental Accounting Standards Board criteria. Akron Care Center, Inc. is a component unit of the City of Akron, Iowa.

B. Basis of Presentation

The Statement of Net Position displays the Care Center's assets and liabilities, with the difference reported as net position. Net position is reported in the following categories/components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balance for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted Net Position – Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. These assets will be released from restrictions when expended in accordance with the donors' specifications.

Unrestricted Net Position – Consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted net position is available for use, generally it is the Care Center's policy to use restricted net position first.

C. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 1 - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.)

D. Use of Estimates

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

E. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

The following accounting policies are followed in preparing the Statement of Net Position:

Cash and Cash Equivalents – Akron Care Center, Inc. considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months.

Accounts Receivable – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all individual patient balances.

Capital Assets – Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations. Donated fixed assets are recorded at their estimated fair value at the time received.

Reportable capital assets are defined by Akron Care Center, Inc. as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Buildings and Improvements	\$ 3,000
Equipment and Vehicles	3,000

Capital assets of Akron Care Center, Inc. are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings and Improvements	10 - 50
Equipment and Vehicles	3 - 25

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applied 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.

Promises to Give – Promises to give, less a provision for uncollectible amounts, are recorded as a receivable in the year made.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 1 – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Cont.)

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

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 resource (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

F. Statement of Revenues, Expenses and Changes in Net Position

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

G. Net Patient Service Revenue

Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers and a provision for uncollectable accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Revenue from services provided to Medicaid (Title XIX) nursing care patients under an agreement with the Iowa Department of Human Services is recorded at reimbursement rates determined by the Department. These rates are below the Care Center's established rates.

H. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements exceeded the amount budgeted.

Note 2 – CASH AND CASH EQUIVALENTS

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

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

Custodial Credit Risk – The Care Center has no policy in place regarding custodial credit risk and deposits with financial institutions, however, deposits are insured by the state sinking fund, which provides for additional assessments against depositories to avoid loss on public funds.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 3 – REIMBURSEMENT AGREEMENTS WITH CONTRACTING AGENCIES

The Care Center has entered into reimbursement agreements for nursing services rendered to Medicare and Medicaid patients. The Medicare and Medicaid programs have adopted a prospective per diem reimbursement method which represents full payment on submitted claims.

Note 4 – OPERATING LEASES

The Care Center leases various equipment under operating leases. Rental expense under these leases was \$4,997 and \$6,952 for the years ended June 30, 2015 and 2014, respectively.

Note 5 – RELATED PARTY TRANSACTIONS

The Care Center purchases its electricity, water, sewer and garbage services from the City of Akron's municipal utility. The total amounts purchased for the years ended June 30, 2015 and 2014 were \$64,099 and \$58,571, respectively.

Note 6 – RESTRICTED CASH - CONSTRUCTION

This is the remainder of the USDA Loan Proceeds at June 30, 2015. These funds can be used for any remaining work to be done on building, land improvements, or approved equipment. Any remaining balance will need to be paid down on the USDA debt. In October, 2015, the Care Center closed this account which had an accumulated balance of \$84,606 and applied it to principal on the USDA note.

Note 7 – RESTRICTED CASH USDA RESERVE FUNDS

The USDA Loan required the Care Center to establish two separate accounts. The first account is a 10 year reserve fund with transfers of \$1,552 per month up to a maximum of \$186,240. The second account is for Funded Depreciation with transfers monthly of \$2,250 up to a maximum of \$270,000.

The following are the accounts and respective balance at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
10 Year Reserve Fund	\$ 186,634	\$ 13,963
Funded Depreciation	47,294	20,248
	<hr/>	<hr/>
Total USDA Reserve Funds	<u>\$ 233,928</u>	<u>\$ 34,211</u>

The Akron Care Center was in compliance with the reserve requirements of the USDA Loan Documents at June 30, 2015.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 8 – CAPITAL ASSETS

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

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance End of Year</u>
Fiscal year ended June 30, 2015:				
Capital assets not being depreciated:				
Land	\$ 95,004	\$ -	\$ -	\$ 95,004
Total capital assets not being depreciated	<u>95,004</u>	<u>-</u>	<u>-</u>	<u>95,004</u>
Capital assets being depreciated:				
Building and improvements	7,105,614	-	-	7,105,614
Equipment and furnishings	651,816	-	(16,064)	635,752
Total capital assets being depreciated	<u>7,757,430</u>	<u>-</u>	<u>(16,064)</u>	<u>7,741,366</u>
Less accumulated depreciation for:				
Building and improvements	587,268	232,924	-	820,192
Equipment and furnishings	157,339	71,916	(16,064)	213,191
Total accumulated depreciation	<u>744,607</u>	<u>304,840</u>	<u>(16,064)</u>	<u>1,033,383</u>
Total capital assets being depreciated, net	<u>7,012,823</u>	<u>304,840</u>	<u>-</u>	<u>6,707,983</u>
Total capital assets, net	<u>\$ 7,107,827</u>	<u>\$ 304,840</u>	<u>\$ -</u>	<u>\$ 6,802,987</u>
Fiscal year ended June 30, 2014:				
Capital assets not being depreciated:				
Land	\$ 23,004	\$ 75,000	\$ (3,000)	\$ 95,004
Construction in progress	406,793	-	(406,793)	-
Total capital assets not being depreciated	<u>429,797</u>	<u>75,000</u>	<u>(409,793)</u>	<u>95,004</u>
Capital assets being depreciated:				
Building and improvements	1,838,198	6,264,186	(996,770)	7,105,614
Equipment and furnishings	291,082	533,326	(172,592)	651,816
Total capital assets being depreciated	<u>2,129,280</u>	<u>6,797,512</u>	<u>(1,169,362)</u>	<u>7,757,430</u>
Less accumulated depreciation for:				
Building and improvements	1,178,374	39,475	(630,581)	587,268
Equipment and furnishings	257,176	11,958	(111,795)	157,339
Total accumulated depreciation	<u>1,435,550</u>	<u>51,433</u>	<u>(742,376)</u>	<u>744,607</u>
Total capital assets being depreciated, net	<u>693,730</u>	<u>6,746,079</u>	<u>(426,986)</u>	<u>7,012,823</u>
Total capital assets, net	<u>\$ 1,123,527</u>	<u>\$ 6,821,079</u>	<u>\$ (836,779)</u>	<u>\$ 7,107,827</u>

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 8 – CAPITAL ASSETS (Cont.)

Reconciliation of Net Investment in Capital Assets:

	<u>2015</u>	<u>2014</u>
Restricted Cash - Construction	\$ 73,981	\$ 302,125
Other Capital Assets, Net of Depreciation	6,802,987	7,107,827
Peoples Bank Note Payable	(233,695)	(261,690)
City of Akron – USDA Note Payable	(3,916,380)	(3,966,143)
City of Akron – GO Bond Payable	<u>(1,085,000)</u>	<u>(1,140,000)</u>
Net Investment in Capital Assets	<u>\$ 1,641,893</u>	<u>\$ 2,042,119</u>

Note 9– CITY OF AKRON NOTES PAYABLE

In February 2009, Akron Care Center had a \$40,000 long-term note with a maturity date of August 2013, interest rate of 0.00% and no set payment schedule determined. In July 2011, the note was extended for 20 years. No principal or interest is due for the first 11 years of the note, and principal payments will be required at least annually beginning July 2023. This note was paid off during the fiscal year.

In February 2009, the City of Akron advanced to Akron Care Center, Inc. \$100,000 to cover operating expenses. The note was originally due in September 2013, an interest rate of 4.50% and no set payment schedule determined. In July 2011, the note was extended for 20 years. Only interest payments are to be made for the first 11 years. Beginning in July 2023, the Care Center will be required to make principal payments at least annually. The facility made a \$20,000 principal payment, however, made no interest payments during the fiscal year. The note is secured by the buildings and assets of the organization. The following are the maturities for the note over the future fiscal years ending June 30:

Year Ending June 30,	Principal	Interest @ 4.50%
2016	\$ -	\$ 3,600
2017	-	3,600
2018	-	3,600
2019	-	3,600
2020	-	3,600
2021 - 2025	23,621	17,056
2026 - 2030	56,379	5,673
	<u>\$ 80,000</u>	<u>\$ 40,729</u>

In August 2015, the Care Center paid off this note, while the City of Akron forgave the remaining interest.

Note 10 – PEOPLES BANK NOTE PAYABLE

Akron Care Center, Inc. financed through Peoples Bank \$625,000 for the construction of the Village North Apartment Complex, an 8-unit senior living facility completed in December 2003. The note is payable in 120 equal monthly installments of \$6,122 including interest at 3.30%. The note shall be payable solely and only out of the net revenue of the Care Center and shall be a first lien on the future net revenues of the Care Center. The note was refinanced on November 24, 2008 for \$375,000 which is payable in 180 equal monthly installments of \$2,823 including interest at 4.25%. The note is secured by the buildings and assets of the organization.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 10 – PEOPLES BANK NOTE PAYABLE (Cont.)

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Interest Rate	Principal	Interest	Total
2016	4.25%	\$ 24,072	\$ 9,807	\$ 33,879
2017	4.25%	25,145	8,734	33,879
2018	4.25%	26,220	7,659	33,879
2019	4.25%	27,356	6,523	33,879
2020	4.25%	28,534	5,345	33,879
2021 – 2024	4.25%	102,368	8,575	110,943
Total		<u>\$ 233,695</u>	<u>\$ 46,643</u>	<u>\$ 280,338</u>

Note 11 – CITY OF AKRON – GO BOND PAYABLE

Akron Care Center, Inc. borrowed \$1,250,000 from the City of Akron through a GO Bond, Series 2012A in order to attain the necessary capital to qualify for the \$4,000,000 USDA Rural Development loan needed to finance the construction of their new 45-bed Akron Care Center facility, which opened in August 2013. The bond principal is payable in 19 payments, with the first payment made on June 1, 2013 and the final payment scheduled for September 1, 2031. The bonds have a principal payment ranging from \$55,000 to \$85,000 per year. The bonds interest payments occur on December 1 and June 1, beginning on December 1, 2012, with the final payment schedule for June 1, 2031. The bonds have a variable interest rate, ranging from 1.00% to 3.75%, with an average of 2.40%. The city has pledged the full faith and credit of the City of Akron behind them.

The following are the maturities over the future fiscal years ending June 30:

Year Ending June 30,	Principal	Coupon	Interest	Total
2016	\$ 60,000	1.00%	\$ 29,092	\$ 89,092
2017	60,000	1.40%	28,493	88,493
2018	60,000	1.40%	27,652	87,652
2019	60,000	1.85%	26,813	86,813
2020	60,000	1.85%	25,703	85,703
2021 – 2025	325,000	2.52%	108,323	433,323
2026 – 2030	375,000	3.50%	57,812	432,812
2031	85,000	3.75%	3,187	88,187
Total	<u>\$1,085,000</u>		<u>\$307,075</u>	<u>\$1,392,075</u>

Note 12 – CITY OF AKRON – USDA NOTE PAYABLE

Akron Care Center, Inc. borrowed \$4,000,000 from the City of Akron through a loan with USDA Rural Development. The loan is a 40-year loan payable in monthly payment of \$15,520, with one final payment of \$10,426.10. The payments began on October 26, 2013 and the loan matures September 26, 2053. The loan has an interest rate of 3.50%. This note is payable solely and only out of the net revenues of the Care Center. The note is secured by the buildings and assets of the organization.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 12 – CITY OF AKRON – USDA NOTE PAYABLE (Cont.)

The following are the maturities over the future fiscal years ending June 30:

<u>Year Ending June 30,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	3.50%	\$ 49,907	\$ 136,333	\$ 186,240
2017	3.50%	51,682	134,558	186,240
2018	3.50%	53,521	132,719	186,240
2019	3.50%	55,424	130,816	186,240
2020	3.50%	57,395	128,845	186,240
2021 – 2025	3.50%	319,089	612,111	931,200
2026 – 2030	3.50%	380,017	551,183	931,200
2031 – 2035	3.50%	452,578	478,622	931,200
2036 – 2040	3.50%	538,995	392,205	931,200
2041 – 2045	3.50%	641,912	289,288	931,200
2046 – 2050	3.50%	764,480	166,720	931,200
2051 – 2054	3.50%	551,380	31,746	583,126
Total		<u>\$3,916,380</u>	<u>\$3,185,146</u>	<u>\$7,101,526</u>

Note 13 – LONG-TERM LIABILITIES

Long-Term liability activity for the years ended was as follows:

June 30, 2015	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 43,397	\$ 67,255	\$ 67,171	\$ 43,481	\$ 10,870
Net Pension Liability	1,077,472	-	259,806	817,666	-
City of Akron Notes Payable	140,000	-	60,000	80,000	-
Peoples Bank Notes Payable	261,690	-	27,995	233,695	24,072
City of Akron - GO Bonds	1,140,000	-	55,000	1,085,000	60,000
USDA Note Payable	3,966,143	-	49,763	3,916,380	49,907
Long-Term Liabilities	<u>\$6,628,702</u>	<u>\$ 67,255</u>	<u>\$ 519,735</u>	<u>\$6,176,222</u>	<u>\$144,849</u>

June 30, 2014	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 33,256	\$ 64,093	\$ 53,952	\$ 43,397	\$ 10,849
City of Akron Notes Payable	140,000	-	-	140,000	-
Peoples Bank Notes Payable	284,506	-	22,816	261,690	23,087
City of Akron – GO Bonds	-	1,250,000	110,000	1,140,000	55,000
USDA Note Payable	-	4,000,000	33,857	3,966,143	48,193
Long-Term Liabilities	<u>\$457,762</u>	<u>\$5,314,093</u>	<u>\$ 220,625</u>	<u>\$5,551,230</u>	<u>\$137,129</u>

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 14 – PENSION PLAN

Plan Description – IPERS membership is mandatory for employees of the Care Center, except for those covered by another retirement system. Employees of the Care Center are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime 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 the date will be used if it is greater than the highest five-year average salary.)

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

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

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

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

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 14 – PENSION PLAN (Cont.)

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

The Care Center's contributions to IPERS for the year ended June 30, 2015 were \$126,157.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the Care Center reported a liability of \$817,666 for its proportionate share of the net pension liability. The Care Center 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 Care Center's proportion of the net pension liability was based on the Care Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Care Center's collective proportion was 0.0206174 percent, which was an increase of 0.001852 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2014, the Care Center recognized pension expense of \$73,763. At June 30, 2015, the Care Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,886	\$ -
Changes of assumptions	36,085	-
Net difference between projected and actual earnings on pension plan investments	-	311,834
Changes in proportion and differences between County contributions and proportionate share of contributions	53,771	-
Care Center contributions subsequent to the measurement date	126,157	-
Total	<u>\$ 224,899</u>	<u>\$ 311,834</u>

\$126,157 reported as deferred outflows of resources related to pensions resulting from the Care Center contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (54,888)
2017	(54,888)
2018	(54,888)
2019	(54,888)
2020	6,460
	<u>\$ (213,092)</u>

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 14 – PENSION PLAN (Cont.)

There were no non-employer contributing entities at IPERS.

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

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

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

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

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

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

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 14 – PENSION PLAN (Cont.)

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

Sensitivity of the Care Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Care Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Care Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1 % Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Care Center's proportionate share of the net pension liability:	\$ 1,544,956	\$ 817,666	\$ 203,757

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

Payables to the Pension Plan – At June 30, 2015, the Care Center reported payables to the defined benefit pension plan of \$9,724 for legally required employer contributions and \$6,478 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 15 – RISK MANAGEMENT

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

The Care Center's workers' compensation insurance coverage is purchased from an association of Iowa long-term care providers. The program includes a minimum contribution to cover projected claims and administration costs as well as a potential maximum contribution level. If a member's actual claims for any policy year exceed the claim fund amount included in the minimum contribution, after adjustment for actual payrolls, the member is required to contribute the excess, up to the stated maximum contribution.

Losses for claims in excess of the minimum contributions to the claim fund are accrued when information provided by the Association indicates an assessment is probable and can be reasonably estimated. At June 30, 2015, there were no claims in excess of the minimum contributions to the claim fund.

AKRON CARE CENTER, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2015 AND 2014

Note 16 – ACCOUNTING CHANGE/RESTATEMENT

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

	Net Position
Net position June 30, 2014, as previously reported	\$ 2,817,891
Net pension liability at June 30, 2014	(1,077,472)
Change outflows of resources related contributions made after the June 30, 2013 measurement date	120,476
Net position July 1, 2014, as restated	\$ 1,860,895

Note 17 – SUBSEQUENT EVENT

In October 2015, the Care Center closed the construction account that had an accumulated balance of \$84,606 and applied it to principal on the USDA note.

REQUIRED SUPPLEMENTARY INFORMATION

AKRON CARE CENTER, INC.  
SCHEDULE OF THE CARE CENTER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST FISCAL YEAR\*

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>
Care Center's proportion of the net pension liability (asset)	0.0206174%
Care Center's proportionate share of the net pension liability	\$ 817,666
Care Center's covered-employee payroll	\$ 1,412,731
Care Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.88%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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

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

See accompanying independent auditors' report.

AKRON CARE CENTER, INC.  
SCHEDULE OF CARE CENTER CONTRIBUTIONS  
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
LAST 10 FISCAL YEARS

REQUIRED SUPPLEMENTARY INFORMATION

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 126,157	\$ 120,476	\$ 106,709	\$ 99,821
Contributions in relation to the statutorily required contribution	<u>(126,157)</u>	<u>(120,476)</u>	<u>(106,709)</u>	<u>(99,821)</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Care Center's covered-employee payroll	\$1,412,731	\$1,349,115	\$1,230,784	\$1,236,939
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

See accompanying independent auditors' report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 76,508	\$ 61,978	\$ 68,995	\$ 67,633	\$ 61,853	\$ 56,668
<u>(76,508)</u>	<u>(61,978)</u>	<u>(68,995)</u>	<u>(67,633)</u>	<u>(61,853)</u>	<u>(56,668)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$1,100,835	\$ 932,000	\$1,086,535	\$1,117,901	\$1,075,704	\$ 985,530
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

AKRON CARE CENTER, INC.  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY  
YEAR ENDED JUNE 30, 2015

Changes of Benefit Terms:

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

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

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

Changes of Assumptions:

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

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

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

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

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

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

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

OTHER INFORMATION

AKRON CARE CENTER, INC.  
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (CASH BASIS)  
OTHER INFORMATION  
YEAR ENDED JUNE 30, 2015

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts		Final to Actual Cash Basis Variance
				Original	Final	
<u>OPERATING REVENUES</u>						
Charges for Fees, Services and Loans	\$ 2,850,556	\$ 61,682	\$ 2,912,238	\$ 2,327,923	\$ 2,327,923	\$ 584,315
<u>OPERATING EXPENSES</u>						
Business Type Expenditures and Principal Payments	2,953,730	15,424	2,969,154	2,228,857	2,228,857	(740,297)
<u>NON-OPERATING REVENUES</u>	<u>67,907</u>	<u>116,426</u>	<u>184,333</u>	<u>-</u>	<u>-</u>	<u>184,333</u>
<u>NET CHANGE IN NET POSITION</u>	<u>(35,267)</u>	<u>162,684</u>	<u>127,417</u>	<u>99,066</u>	<u>99,066</u>	<u>28,351</u>
<u>BALANCE BEGINNING OF YEAR</u>	<u>1,860,895</u>	<u>(839,356)</u>	<u>1,021,539</u>	<u>1,021,539</u>	<u>1,021,539</u>	<u>-</u>
<u>BALANCE END OF YEAR</u>	<u>\$ 1,825,628</u>	<u>\$ (676,672)</u>	<u>\$ 1,148,956</u>	<u>\$ 1,120,605</u>	<u>\$ 1,120,605</u>	<u>\$ 28,351</u>

See Accompanying Notes to Financial Statements

AKRON CARE CENTER, INC.  
NOTES TO OTHER INFORMATION-  
BUDGETARY REPORTING

JUNE 30, 2015

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Care Center on the cash basis of accounting. The Akron Care Center submits the adopted budget to the City of Akron where it is incorporated within the City of Akron's certified budget. The City of Akron is responsible for following the requirements of public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The City of Akron's Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total disbursements.

For the year ended June 30, 2015, the Care Center's disbursements exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual disbursements for the entire City of Akron to the total business-type activities budget.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

**INDEPENDENT AUDITORS' 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**

To the Board of Trustees of  
Akron Care Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Akron Care Center, Inc. as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated November 11, 2015.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

*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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items II-A-15 through II-D-15 to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Akron Care Center, Inc.'s financial statements are free from 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*.

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

## **Akron Care Center, Inc.'s Response to Findings**

Akron Care Center, Inc.'s responses to findings identified in our audit are described in the accompanying schedule of findings. Akron Care Center, Inc.'s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Akron Care Center, Inc. during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Williams & Company P.C.*  
Certified Public Accountants

Onawa, Iowa  
November 11, 2015

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS

YEAR ENDED JUNE 30, 2015

Part I: Summary of the Independent Auditors' Results

- A. An unmodified opinion was issued on the financial statements.
- B. Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- C. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

- II-A-15 Financial Accounting - Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of cash receipts to the cash receipts journal are all done by the same person.

Recommendation – An individual who does not have access to the accounting records should prepare the initial cash receipts listing at the time of opening the mail. This listing should be compared to the cash receipts journal and the bank deposits on a periodic basis by the Administrator or a different accountant.

Response – Due to the limited number of office employees, segregation of duties is very difficult. However, we will have the manager review receipts, posting, and payroll on a test basis.

Conclusion – Response accepted.

- II-B-15 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions not adjusted in the Care Center's financial statements. Adjustments were subsequently made by the Care Center to properly include these amounts in the financial statements.

Recommendation – The Care Center should implement procedures to ensure all receivables, payables and capital asset additions are identified and included in the Care Center's financial statements.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.

- II-C-15 Financial Accounting – Bed & Breakfast – During the audit, we identified weaknesses in internal control related to the accounting for the bed and breakfast income. We noted inconsistencies that some stays may not be getting accounted and recorded for appropriately.

Recommendation – The Care Center should implement procedures to ensure all reservations are properly reported and all cash receipts are accounted for.

Response – We will revise our current procedures to ensure all reservations are properly reported and all cash receipts are recorded in the financial statements in the future.

Conclusion – Response accepted.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Cont.)

JUNE 30, 2015

Part II: Findings Related to the Financial Statements (Cont.)

MATERIAL WEAKNESSES:

II-D-15 Carryover of Paid Time Off (PTO) – During the audit, we identified multiple employees with Paid Time Off (PTO) being carried over in excess of the current employee policy.

Recommendation – The Care Center should implement procedures to ensure paid time off is carried over according to the current policy, which states that an employee may maintain and carryover from year to year a maximum PTO balance equal to ½ times the number of their maximum number of PTO hours.

Response – We will revise our current procedures to ensure PTO is being carried over properly.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (A) Questionable Expenses – No questionable expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (B) Official Depositories – A resolution naming official depositories has been adopted by the Care Center. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2015.
- (C) Travel Expense – No disbursements of money for travel expenses of spouses of Care Center officials or employees were noted.
- (D) Board Minutes – No transactions were found that we believe should have been approved in the Care Center's minutes but were not.
- (E) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Care Center's investment policy were noted.
- (F) Business Transactions – There were no business transactions that occurred between the Care Center and Care Center officials.
- (G) Budget – Expenditures during the year ended June 30, 2015 exceeded the amount budgeted; however, it is part of the business-type activities budget and for budgeting purposes we compare the actual expenditures for the entire City of Akron to the total business-type activities budget.

AKRON CARE CENTER, INC.

SCHEDULE OF FINDINGS (Cont.)

JUNE 30, 2015

Other Findings Related to Required Statutory Reporting (Cont.):

- (H) Publication of Salaries – In fiscal year 2015, actual gross salaries were not published as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Recommendation – The Care Center should publish actual gross salaries as required for all employees in accordance with Chapter 372.13 of the Code of Iowa and an Attorney General's opinion dated April 12, 1978.

Response – We will seek legal counsel for further guidance on this requirement.

Conclusion – Response accepted.

- (G) USDA Loan – No violations of USDA Note resolutions were noted.