

POCAHONTAS COMMUNITY HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION  
YEARS ENDED JUNE 30, 2015 AND 2014

POCAHONTAS COMMUNITY HOSPITAL

CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
HOSPITAL FINANCIAL STATEMENTS:	
Statements of Net Position	4
Statements of Revenues, Expenses and Changes in Net Position	5
Statements of Cash Flows	6
FOUNDATION FINANCIAL STATEMENTS:	
Balance Sheets	8
Statements of Activities and Changes in Net Assets	9
Statements of Cash Flows	10
NOTES TO FINANCIAL STATEMENTS	11
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	29
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability	30
Schedule of Hospital IPERS Pension Contributions	31
Notes to Required Supplementary Information - Pension Liability	32
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	34
Schedule of Findings and Responses	36

POCAHONTAS COMMUNITY HOSPITAL  
 Officials  
 June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>CITY COUNCIL</b>		
Richard Gruber	Mayor	December, 2015
Gus Holzmueller	Member	December, 2015
Brian Stover	Member	December, 2015
John DeWall	Member	December, 2017
Brooke McCartan	Member	December, 2017
Rod Stoulil	Member	December, 2017
Jeffrey A. Johnson	City Treasurer	Appointed Annually
<b>HOSPITAL BOARD OF TRUSTEES</b>		
Rick Winegarten	President	December, 2015
Greg White	Vice-President	December, 2015
Jody Lyon	Secretary-Treasurer	December, 2017
Don Beneke	Member	December, 2015
Kim Wood	Member	December, 2015
<b>HOSPITAL OFFICIALS</b>		
James Roetman	Chief Executive Officer	
Lynne Raveling	Chief Financial Officer	
Susie Aden	Director of Patient Care	
Jenny Benna	Director of Outpatient Services	

# Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Pocahontas Community Hospital  
Pocahontas, Iowa

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

We have audited the accompanying financial statements of Pocahontas Community Hospital (Hospital) and its discretely presented component unit, Pocahontas Community Healthcare Foundation (Foundation) as of June 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Hospital's 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 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 of 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 Hospital'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 Hospital'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.

To the Board of Trustees  
Pocahontas Community Hospital

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

#### **Basis for Qualified Opinion - Hospital**

The financial statements do not include an estimate of an Other Post Employment Benefits (OPEB) liability for an implicit health insurance premium rate subsidy resulting from the legal requirement to allow employees retiring after age 55 to remain on the Hospital's healthcare plan until age 65. Accounting principles generally accepted in the United States of America require that any material liability resulting from this OPEB requirement be included in the financial statements (Note L).

#### **Qualified Opinion - Hospital**

In our opinion, except for the effect of not including an estimated OPEB liability for the implicit health insurance premium rate subsidy referred to in the previous paragraph, the financial statements referred to above present fairly in all material respects, the financial position of Pocahontas Community Hospital as of June 30, 2015 and 2014 and the results of its operations, changes in financial position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

#### **Unmodified Opinion - Foundation**

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

#### **Emphasis of a Matter**

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

#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 3d and on pages 29 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the 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 U.S. generally accepted auditing standards, 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

To the Board of Trustees  
Pocahontas Community Hospital

**Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2015 on our consideration of Pocahontas Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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 and important for assessing the results of our audit.

*Gronewold, Bell, Kuhn + Co. P. C.*

Atlantic, Iowa  
August 18, 2015



Pocahontas Community Hospital  
Management's Discussion and Analysis

Our discussion and analysis of Pocahontas Community Hospital's (Hospital) financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2015, 2014, and 2013. Please read it in conjunction with the Hospital's financial statements. The financial information of the discretely presented Pocahontas Community Hospital is not a part of this discussion and analysis.

#### FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2015 and 2014 with a \$322,056 or 5.9% decrease in 2015 and a \$534,115 or 6.3% decrease in 2014. See 3a for explanation of July 1, 2014 decrease.

The Hospital reported an operating loss of \$239,523 in 2015 and \$443,671 in 2014.

Non-operating revenues, net increased by \$5,885 in 2015 as a result of a \$12,763 decrease in interest expense. The nonoperating revenues, net decreased by \$140,468 in 2014.

#### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

#### THE STATEMENTS OF NET POSITION AND STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between the combined assets and deferred outflows of resources and the combined liabilities and deferred inflows of resources - is one way to measure the Hospital's financial health, or financial position. Other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors need to be considered in assessing the overall health of the Hospital.

#### THE STATEMENTS OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities.

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets and combined liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4 as you can see from Table 1.

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

	<u>2015</u>	<u>Not Restated</u>	
		<u>2014</u>	<u>2013</u>
<b>Assets:</b>			
Current assets	\$ 3,259,625	\$ 3,421,808	\$ 3,623,918
Capital assets, net	9,126,248	9,991,495	10,813,986
Other assets, net	467,287	180,466	89,078
Deferred outflows of resources	<u>421,623</u>	<u>--</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 13,274,783</u>	<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>
<b>Liabilities:</b>			
Long-term liabilities, net	\$ 5,534,842	\$ 3,835,212	\$ 4,142,287
Other current and noncurrent liabilities	1,847,279	1,837,552	1,929,575
Deferred inflows of resources	<u>765,432</u>	<u>--</u>	<u>--</u>
Total liabilities and deferred inflows of resources	8,147,553	5,672,764	6,071,862
Net Position	<u>5,127,230</u>	<u>7,921,005</u>	<u>8,455,120</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 13,274,783</u>	<u>\$ 13,593,769</u>	<u>\$ 14,526,982</u>

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2015, the Hospital's net position decreased by \$322,056 or 5.9%, as shown in Table 2. This compares with the 6.3% decrease in net position of \$534,115 for 2014.

Net patient service revenue increased \$292,698 or 3.1% in 2015 compared to a decrease of \$4,093 or .04% in 2014.

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$2,471,719 decrease), long-term liabilities (\$2,767,832 increase), and created a deferred outflow of resources (\$296,113) as of July 1, 2014. See Notes I and M for an explanation of the change. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

Table 2: Operating Results and Changes in Net Position

	2015	Not Restated	
		2014	2013
<b>Operating Revenues:</b>			
Net patient service revenues	\$ 9,745,167	\$ 9,452,469	\$ 9,456,562
Other operating revenues	<u>188,332</u>	<u>182,523</u>	<u>130,671</u>
Total operating revenues	<u>9,933,499</u>	<u>9,634,992</u>	<u>9,587,233</u>
<b>Operating Expenses:</b>			
Nursing service	1,883,923	1,758,004	1,614,649
Other professional service	4,230,075	4,119,253	4,202,245
General service	784,831	824,900	793,422
Fiscal and administrative service	2,143,190	2,188,841	2,132,426
Provision for depreciation	<u>1,131,003</u>	<u>1,187,665</u>	<u>895,233</u>
Total operating expenses	<u>10,173,022</u>	<u>10,078,663</u>	<u>9,637,975</u>
Operating loss	( 239,523)	( 443,671)	( 50,742)
<b>Non-Operating Revenues (Expenses):</b>			
Noncapital gifts, grants and bequests	33,724	53,981	70,766
Investment income	3,686	3,242	4,430
Ambulance subsidy	7,436	7,436	7,082
Interest expense	( 151,670)	( 164,433)	( 50,039)
Clinic operations, net	--	( 1,053)	5,520
Loss on disposal of equipment	<u>10,000</u>	<u>( 1,882)</u>	<u>--</u>
Non-operating revenues (expenses), net	<u>( 96,824)</u>	<u>( 102,709)</u>	<u>37,759</u>
Excess of Expenses Over Revenues Before Capital Grants and Contributions	( 336,347)	( 546,380)	( 12,983)
Capital Grants and Contributions	<u>14,291</u>	<u>12,265</u>	<u>21,036</u>
Increase (Decrease) in Net Position	( 322,056)	( 534,115)	8,053
Net Position Beginning of Year as Restated in 2015	<u>5,449,286</u>	<u>8,455,120</u>	<u>8,447,067</u>
Net Position End of Year	<u>\$ 5,127,230</u>	<u>\$ 7,921,005</u>	<u>\$ 8,455,120</u>

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

## OPERATING LOSS

The first component of the overall change in the Hospital's net position is its operating loss, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. Operating loss changed from an operating loss of \$443,671 in 2014 to an operating loss of \$239,523 in 2015.

The primary components of this decrease in operating loss are:

Net patient revenue increased \$292,698. Contributing to this increase in net patient revenue is a 49.2% increase in skilled patient days and a 1% increase in outpatient visits in 2015 over 2014.

Depreciation expense was \$1,131,003 in 2015 compared to \$1,187,665 in 2014 a 4.7% decrease

## NONOPERATING REVENUES AND EXPENSES

Nonoperating revenues consist primarily of contributions, interest revenue and investment earnings and a county subsidy for providing ambulance services. Interest revenue increased from \$3,242 in 2014 to \$3,686 in 2015. This slight increase in interest income reflects an increased cash flow and increase in cash in interest bearing accounts. The hospital also realized a \$10,000 gain on the disposal of equipment.

The major nonoperating expense is interest on debt. Interest expense decreased by \$12,763 in 2015.

## GRANTS AND CONTRIBUTIONS

The Hospital received \$1,247 in grant funds through the SHIP grant program in 2015.

The Pocahontas Community Hospital Healthcare Foundation was formed for the purpose of raising funds for the benefit of the Hospital. The Foundation conducts an annual campaign to raise funds for specified equipment for the hospital. The Foundation is also the conduit for the funds from the annual Hospice fund drive.

## THE HOSPITAL'S CASH FLOWS

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

## BUDGETARY HIGHLIGHTS

The official budget of the Hospital for the year ended June 30, 2015 was prepared on an accrual basis. Actual expenditures were lower than the budget by \$1,675,308 due to lower than expected patient services costs, related supply costs and contracted services costs.

Pocahontas Community Hospital  
Management's Discussion and Analysis - Continued

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2015, the Hospital had \$22,190 invested in non-depreciable capital assets. In 2015, the Hospital purchased new equipment costing \$289,756 including new laboratory equipment, radiology equipment, respiratory therapy equipment and ambulance equipment.

Debt:

At year-end, the Hospital had \$3,817,273 in debt outstanding. The debt included a non-interest bearing note through the City of Pocahontas (who received a \$360,000 USDA grant as funding) and a \$4,000,000 promissory note for the recent construction project. At year end, the outstanding balances on the loans were \$261,428 and \$3,555,845 respectively.

OTHER ECONOMIC FACTORS

Although the number of patients with insurance has increased, the deductibles and out of pocket maximum expenses on insurance policies have also risen, leaving insured patients with larger self-pay balances that in previous year. However, though many may qualify for financial assistance, even though they are insured, the return rate for completed financial assistance applications continues to be low.

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. If you have questions about this report or need additional financial information, contact the Chief Financial Officer, Pocahontas Community Hospital, 606 NW 7<sup>th</sup> St., Pocahontas, Iowa 50574.

POCAHONTAS COMMUNITY HOSPITAL  
Statements of Net Position  
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>2015</u>	<u>Not Restated 2014</u>
<b>Current Assets:</b>		
Cash	\$ 1,481,835	\$ 1,422,779
Patient receivables, less allowances for doubtful accounts and for contractual adjustments (\$335,000 in 2015, \$199,000 in 2014)	1,294,289	1,379,058
Other receivables	2,375	12,781
Inventory	105,284	108,128
Prepaid expense	125,716	101,400
Internally designated assets	<u>250,126</u>	<u>397,662</u>
Total current assets	3,259,625	3,421,808
<b>Designated and Restricted Assets:</b>		
Internally designated assets	599,462	455,666
Restricted assets	<u>--</u>	<u>12,265</u>
	599,462	467,931
Less amounts required to meet current liabilities	<u>250,126</u>	<u>397,662</u>
	349,336	70,269
<b>Capital Assets:</b>		
Depreciable capital assets, net	9,104,058	9,945,305
Non-depreciable capital assets	<u>22,190</u>	<u>46,190</u>
	9,126,248	9,991,495
<b>Other Assets</b>	<u>117,951</u>	<u>110,197</u>
Total assets	12,853,160	13,593,769
<b>Deferred Outflows of Resources - Pension</b>	<u>421,623</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 13,274,783</u>	<u>\$ 13,593,769</u>

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2015	Not Restated 2014
Current Liabilities:		
Current maturities of long-term debt	\$ 250,126	\$ 294,485
Accounts payable	168,384	304,197
Accrued employee compensation	341,358	310,190
Other accrued expenses	100,411	90,680
Estimated third-party payor settlements	987,000	838,000
Total current liabilities	1,847,279	1,837,552
Long-Term Liabilities:		
Long-term debt, less current maturities	3,567,147	3,835,212
Net pension liability	1,967,695	--
Total long-term liabilities	5,534,842	3,835,212
Total liabilities	7,382,121	5,672,764
Deferred Inflow of Resources - Pension	765,432	--
Net Position:		
Invested in capital assets, net of related debt	5,308,975	5,758,621
Restricted - expendable	--	12,265
Unrestricted	( 181,745)	2,150,119
Total net position	5,127,230	7,921,005
Total liabilities, deferred inflows of resources, and net position	\$ 13,274,783	\$ 13,593,769

POCAHONTAS COMMUNITY HOSPITAL  
 Statements of Revenues, Expenses and Changes in Net Position  
 Year ended June 30,

	2015	Not Restated 2014
Revenue:		
Net patient service revenue	\$ 9,745,167	\$ 9,452,469
Other revenue	188,332	182,523
Total revenue	9,933,499	9,634,992
Expenses:		
Nursing service	1,883,923	1,758,004
Other professional service	4,230,075	4,119,253
General service	784,831	824,900
Fiscal and administrative service	2,143,190	2,188,841
Provision for depreciation	1,131,003	1,187,665
Total expenses	10,173,022	10,078,663
Operating Loss	( 239,523)	( 443,671)
Non-Operating Revenues (Expenses):		
Noncapital gifts, grants and bequests	33,724	53,981
Investment income	3,686	3,242
Ambulance subsidy	7,436	7,436
Interest expense	( 151,670)	( 164,433)
Clinic operations, net	--	( 1,053)
Gain (Loss) on disposal of equipment	10,000	( 1,882)
Non-operating expenses, net	( 96,824)	( 102,709)
Excess of Expenses Over Revenues Before Capital Grants and Contributions	( 336,347)	( 546,380)
Restricted Revenue:		
Capital grants and contributions	14,291	12,265
Decrease in Net Position	( 322,056)	( 534,115)
Net Position Beginning of Year, as Restated (Note N)	5,449,286	8,455,120
Net Position End of Year	\$ 5,127,230	\$ 7,921,005

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	2015	Not Restated 2014
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 9,989,342	\$ 10,806,830
Cash paid to suppliers	( 5,713,752)	( 5,590,448)
Cash paid to employees	( 3,487,558)	( 3,337,640)
Other operating revenue	188,332	182,523
Net cash provided by operating activities	976,364	2,061,265
Cash flows from non-capital financing activities:		
Gifts, grants and bequests	21,606	37,315
Ambulance subsidy	7,436	7,436
Net cash provided by non-capital financing activities	29,042	44,751
Cash flows from capital and related financing activities:		
Capital expenditures	( 368,933)	( 1,228,472)
Proceeds from disposal of assets	10,000	--
Capital grants and contributions	14,291	12,265
Principal paid on long-term debt	( 312,424)	( 316,566)
Interest paid	( 139,552)	( 160,215)
Net cash used in capital and related financing activities	( 796,618)	( 1,692,988)
Cash flows from investing activities:		
Change in designated and restricted assets	( 13,356)	( 36)
Investment income	3,686	3,242
Clinic operations, net	--	( 1,053)
Other asset changes	( 21,887)	( 35,826)
Net cash used in investing activities	( 31,557)	( 33,673)
Net increase in cash and cash equivalents	177,231	379,355
Cash and cash equivalents beginning of year	1,503,832	1,124,477
Cash and cash equivalents end of year	\$ 1,681,063	\$ 1,503,832
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,481,835	\$ 1,422,779
Cash and cash equivalents in designated and restricted assets	199,228	81,053
Total cash and cash equivalents	\$ 1,681,063	\$ 1,503,832

(continued next page)

POCAHONTAS COMMUNITY HOSPITAL  
 Statements of Cash Flows - Continued  
 Year ended June 30,

	2015	Not Restated 2014
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$( 239,523)	\$( 443,671)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	1,131,003	1,187,665
Amortization	14,133	14,707
Change in assets, liabilities, and deferred resources		
Accounts receivable	95,175	43,361
Inventory	2,844	2,298
Prepaid expense	( 24,316)	( 7,427)
Deferred outflows of resources	( 125,510)	--
Accounts payable - trade	( 32,636)	( 54,784)
Accrued employee compensation	31,168	5,384
Other accrued expenses	9,731	2,732
Estimated third-party payor settlements	149,000	1,311,000
Net pension liability	( 800,137)	--
Deferred inflows of resources	765,432	--
Total adjustments	1,215,887	2,504,936
Net cash provided by operating activities	\$ 976,364	\$ 2,061,265

The Hospital also incurred the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating loss to net cash provided by operating activities:

	2015	2014
Interest imputed on loans and recorded as a gift	\$ 12,118	\$ 16,666

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION  
Balance Sheets  
June 30,

ASSETS

	2015	2014
Assets:		
Cash	\$ 47,800	\$ 49,876
Certificate of deposit	45,112	45,078
Total assets	\$ 92,912	\$ 94,954

NET ASSETS

Net Assets:		
Restricted	\$ 37,741	\$ 57,779
Unrestricted	55,171	37,175
Total net assets	\$ 92,912	\$ 94,954

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION  
 Statements of Activities and Changes in Net Assets  
 Year ended June 30,

	2015	2014
Revenues and Other Support:		
Unrestricted contributions	\$ 35,901	\$ 37,888
Restricted contributions	83,688	95,830
Investment income	252	214
Total revenues and other support	119,841	133,932
Expenses:		
Supplies and other expense	31,111	39,619
Administration and fundraising	8,082	10,283
Scholarships	4,667	6,600
Transfers to Pocahontas Community Hospital	34,690	41,169
Physician recruiting	43,333	43,333
Total expenses	121,883	141,004
Operating Loss and Change in Net Assets	( 2,042)	( 7,072)
Net Assets Beginning of Year	94,954	102,026
Net Assets End of Year	\$ 92,912	\$ 94,954

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HEALTHCARE FOUNDATION  
 Statements of Cash Flows  
 Year ended June 30,

	2015	2014
Cash flows from operating activities:		
Cash received through contributions	\$ 119,589	\$ 133,718
Cash paid to suppliers and Hospital	<u>( 121,883)</u>	<u>( 141,004)</u>
Net cash used in operating activities	( 2,294)	( 7,286)
Cash flows from investing activities:		
Purchase of certificate of deposit	( 45,112)	( 45,078)
Redemption of certificate of deposit	45,078	46,827
Interest income	<u>252</u>	<u>214</u>
Net cash provided by investing activities	<u>218</u>	<u>1,963</u>
Net decrease in cash and cash equivalents	( 2,076)	( 5,323)
Cash and cash equivalents beginning of year	<u>49,876</u>	<u>55,199</u>
Cash and cash equivalents end of year	<u>\$ 47,800</u>	<u>\$ 49,876</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$( 2,042)	\$( 7,072)
Adjustments to reconcile operating loss to net cash used in operating activities		
Interest income	<u>( 252)</u>	<u>( 214)</u>
Net cash used in operating activities	<u>\$( 2,294)</u>	<u>\$( 7,286)</u>

The accompanying notes are an integral part of these statements.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

The organization includes a hospital foundation and a 25 bed critical access acute care municipal hospital with related healthcare ancillary and outpatient services. Pocahontas Community Hospital (Hospital) is organized under Chapter 392 of the Code of Iowa; accordingly, it is a political subdivision of the State of Iowa and is therefore exempt from federal and state income taxes. It is governed by a five member board of trustees, elected for four year terms. In addition, the City Treasurer is considered to be a Co-Treasurer of the Board. The Hospital, a component unit of the City of Pocahontas, has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Pocahontas Community Healthcare Foundation (Foundation) has been identified as a legally separate component unit of the Hospital, and accordingly, the financial statements of the Foundation have been included as a discretely presented component unit on pages 8 through 10. It was established to provide financial support to the Hospital. The Foundation is a not-for-profit corporation exempt from income tax under Section 501 of the Internal Revenue Code. The Foundation's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending June 30, 2012, 2013, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

Separate financial statements of the Hospital have been issued which do not include the discretely presented financial statements of the Foundation.

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

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

*Restricted net position:*

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable 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. Enabling legislation did not result in any restricted net position.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

3. Measurement Focus and Basis of Accounting

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

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

4. Use of Estimates

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

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less including designated and restricted assets.

6. 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 the individual patient balances.

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

9. Designated and Restricted Assets

Internally designated assets consist primarily of funds designated by the Board of Trustees for capital acquisitions and related debt payments. The Board retains control over these funds, and may, at its discretion, subsequently use them for other purposes. Restricted assets include donor restricted gifts, and funds whose use is limited by law or contractual agreements.

10. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

11. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital did not capitalize any interest cost in 2015 or 2014.

12. 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.

13. Compensated Absences

Hospital policies permit most employees to accumulate vacation, holiday, and sick time benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensation 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.

14. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the Statement of Net Position consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

15. 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. Property tax levied to finance the current year is included as non-operating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

16. Net Patient Service Revenue

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

17. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

18. Charity Care

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

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

Medicare and Medicaid - Inpatient acute services, inpatient nonacute services, and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2012. The Medicaid cost reports have been finalized through June 30, 2011. However, finalized cost reports are subject to re-opening by the intermediary within three years after the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

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

NOTE C - RESTRICTED NET POSITION/NET ASSETS

Restricted expendable assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
<u>Hospital</u>		
Capital items	\$ --	\$ 12,265
<u>Foundation</u>		
Capital items	\$ 4,514	\$ 13,096
Hospice services	31,821	38,116
Scholarships	1,333	2,500
Physician recruitment	73	3,248
Other	--	819
Total restricted expendable net assets	<u>\$ 37,741</u>	<u>\$ 57,779</u>

Restricted nonexpendable net position/net assets represents the principal amounts of permanent endowments, restricted to investment in perpetuity. The Organization had no permanent endowments as of June 30, 2015 and 2014.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE D - DONOR RESTRICTIONS RELEASED

Restricted assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors:

	2015	2014
<u>Hospital</u>		
Capital items	\$ 26,556	\$ --
<u>Foundation</u>		
Purpose of Restrictions Accomplished:		
Capital items	\$ 12,138	\$ 17,788
Hospice costs	41,597	31,510
Scholarships	4,667	6,600
Physician recruitment	43,333	43,334
Other	1,991	900
	\$ 103,726	\$ 100,132

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2015 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 ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2015	2014
Hospital:		
Internally Designated Assets:		
Capital Improvements and Debt Payments:		
Cash and cash equivalents	\$ 199,228	\$ 68,788
Interest receivable	234	393
Due to City	--	( 13,515)
Hospital designated endowments:		
Certificates of deposit	400,000	400,000
	\$ 599,462	\$ 455,666
Restricted Assets:		
Cash	\$ --	\$ 12,265
Foundation:		
Restricted Assets:		
Cash	\$ 37,741	\$ 38,747
Certificate of deposit	--	19,032
	\$ 37,741	\$ 57,779

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE F - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Receivable From:		
Patients	\$ 656,291	\$ 542,422
Medicare	410,677	408,587
Medicaid	68,386	62,472
Blue Cross	286,723	380,469
Workers Compensation	41,513	27,659
Others	<u>165,699</u>	<u>156,449</u>
	1,629,289	1,578,058
Less allowances for doubtful accounts and contractual adjustments	<u>335,000</u>	<u>199,000</u>
	<u>\$ 1,294,289</u>	<u>\$ 1,379,058</u>

NOTE G - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 213,837	\$ 84,048	\$ --	\$ 297,885
Buildings	12,751,793	--	--	12,751,793
Fixed Equipment	693,480	26,615	--	720,095
Major Movable Equipment	<u>4,616,760</u>	<u>179,093</u>	<u>339,969</u>	<u>4,455,884</u>
	18,275,870	289,756	339,969	18,225,657
<u>Depreciation</u>				
Land Improvements	150,021	11,125	--	161,146
Buildings	4,493,960	511,116	--	5,005,076
Fixed Equipment	443,703	43,901	--	487,604
Major Movable Equipment	<u>3,242,881</u>	<u>564,861</u>	<u>339,969</u>	<u>3,467,773</u>
Total Depreciation	<u>8,330,565</u>	<u>1,131,003</u>	<u>339,969</u>	<u>9,121,599</u>
Depreciable Capital Assets, Net	<u>\$ 9,945,305</u>	<u>\$ ( 841,247)</u>	<u>\$ --</u>	<u>\$ 9,104,058</u>
Non-Depreciable Capital Assets:				
Land	\$ 22,190	\$ --	\$ --	\$ 22,190
Construction in Progress	<u>24,000</u>	<u>--</u>	<u>24,000</u>	<u>--</u>
	<u>\$ 46,190</u>	<u>\$ --</u>	<u>\$ 24,000</u>	<u>\$ 22,190</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE G - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 213,837	\$ --	\$ --	\$ 213,837
Buildings	12,608,054	143,739	--	12,751,793
Fixed Equipment	686,880	6,600	--	693,480
Major Movable Equipment	<u>4,572,992</u>	<u>183,027</u>	<u>139,259</u>	<u>4,616,760</u>
	18,081,763	333,366	139,259	18,275,870
<u>Depreciation</u>				
Land Improvements	144,032	5,989	--	150,021
Buildings	3,975,141	518,819	--	4,493,960
Fixed Equipment	400,199	43,504	--	443,703
Major Movable Equipment	<u>2,760,905</u>	<u>619,353</u>	<u>137,377</u>	<u>3,242,881</u>
Total Depreciation	<u>7,280,277</u>	<u>1,187,665</u>	<u>137,377</u>	<u>8,330,565</u>
Depreciable Capital Assets, Net	<u>\$ 10,801,486</u>	<u>\$ ( 854,299)</u>	<u>\$ ( 1,882)</u>	<u>\$ 9,945,305</u>
Non-Depreciable Capital Assets:				
Land	\$ 12,500	\$ 9,690	\$ --	\$ 22,190
Construction in Progress	<u>--</u>	<u>24,000</u>	<u>--</u>	<u>24,000</u>
	<u>\$ 12,500</u>	<u>\$ 33,690</u>	<u>\$ --</u>	<u>\$ 46,190</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE H - NON-CURRENT LIABILITIES

A schedule of non-current liabilities for the years ended June 30, 2015 and 2014 follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$ 51,428	\$ --	\$ 51,428	\$ --	\$ --
Note B	3,765,412	--	209,567	3,555,845	198,697
Note C	<u>312,857</u>	<u>--</u>	<u>51,429</u>	<u>261,428</u>	<u>51,429</u>
Total long-term debt	4,129,697	--	312,424	3,817,273	250,126
Net pension liability	<u>--</u>	<u>1,967,695</u>	<u>--</u>	<u>1,967,695</u>	<u>--</u>
Total long-term liabilities	<u>\$4,129,697</u>	<u>\$1,967,695</u>	<u>\$ 312,424</u>	<u>\$5,784,968</u>	<u>\$ 250,126</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-term debt:					
Note A	\$ 102,856	\$ --	\$ 51,428	\$ 51,428	\$ 51,428
Note B	3,983,407	--	217,995	3,765,412	191,628
Note C	<u>360,000</u>	<u>--</u>	<u>47,143</u>	<u>312,857</u>	<u>51,429</u>
	<u>\$4,446,263</u>	<u>\$ --</u>	<u>\$ 316,566</u>	<u>\$4,129,697</u>	<u>\$ 294,485</u>

Note A - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified equipment items. The note with the City was non-interest bearing, however, interest had been imputed at a rate of 5.25%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 were being made to the City through June, 2015. The note was collateralized by the equipment purchased (with a net book value of \$11,089).

Note B - In April of 2012, the City of Pocahontas incurred a promissory note payable to a local bank, for up to \$4,000,000. The note was issued to pay for a renovation and expansion project. Although the debt is in the name of the City of Pocahontas, the Hospital is responsible for all loan principal and interest payments, therefore, as the funds were drawn, the note was being recorded as a liability on the Hospital's financial statements. As of June 30, 2013, all of the note proceeds had been drawn by the Hospital. Under terms of the note, monthly interest payments were due through May, 2013. Combined principal and interest payments are being made beginning in June, 2013 and ending in May, 2028. The interest rate on the note is 3.75%, with an adjustment based on the Wall Street Journal prime rate plus .50% after 5 years and 10 years. The note is collateralized by all assets and revenues of the Hospital.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE H - NON-CURRENT LIABILITIES - Continued

Note C - The City of Pocahontas obtained a \$360,000 Rural Economic Development Grant through the United States Department of Agriculture. The proceeds were then loaned to the Hospital to cover the cost of specified renovation and expansion costs. The note with the City is non-interest bearing, however, interest has been imputed at a rate of 3.75%, and recorded as a donation on the Hospital's financial statements. Monthly principal payments of \$4,286 are being made to the City through July, 2020. The note is collateralized by the Hospital revenues.

The annual debt service on the notes is expected to require approximately 46% of cash flow available for debt service. For the current year, debt service and cash flow available for debt service were approximately \$452,000 and \$974,800 respectively.

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

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 250,126	\$ 121,327	\$ 371,453
2017	276,793	123,753	400,546
2018	285,512	115,034	400,546
2019	294,569	105,977	400,546
2020	303,714	96,831	400,545
2021 - 2025	1,416,883	328,703	1,745,586
2026 - 2028	989,676	58,610	1,048,286
	<u>\$ 3,817,273</u>	<u>\$ 950,235</u>	<u>\$ 4,767,508</u>

The pension liability, as further described in Note I, represents an actuarial estimate of the Hospital's share of the Iowa Public Employee Retirement System (IPERS) unfunded pension liability.

NOTE I - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital 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 to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE I - PENSION PLAN - Continued

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% 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 year 2015, 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%.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE I - PENSION PLAN - Continued

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$310,165.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Hospital reported a liability of \$1,967,695 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's collective proportion was 0.048233%, which was an increase of 0.000384% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$160,215. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,514	\$ --
Changes of assumptions	87,300	--
Net difference between projected and actual earnings on pension plan investments	--	765,432
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	3,644	--
Hospital contributions subsequent to the measurement date	<u>310,165</u>	<u>--</u>
	<u>\$ 421,623</u>	<u>\$ 765,432</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE I - PENSION PLAN - Continued

The \$310,165, 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	\$( 165,316)
2017	( 165,316)
2018	( 165,317)
2019	( 165,317)
2020	7,292
	\$( 653,974)

There were no non-employer contribution 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%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE I - PENSION PLAN - Continued

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

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

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. 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.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$ 3,750,294</u>	<u>\$ 1,967,695</u>	<u>\$ 463,031</u>

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE I - PENSION PLAN - Continued

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

Payables to the Pension Plan - At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$13,600 for legally required employer contributions and \$ - 0 - for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE J - AFFILIATED ORGANIZATION

Trinity Health Systems (Trinity)

The Hospital has an operating agreement with Trinity Health Systems. Under the agreement, the Hospital's Chief Executive Officer is an employee of Trinity and the Hospital reimburses Trinity for the cost of the Chief Executive Officer's salary and benefits. The Hospital also pays Trinity a monthly fee. Under the agreement, Trinity exercises joint authority over the Hospital's operations with the Hospital's board. Trinity consults and works with the Hospital's board in formulating management strategies and recommendations regarding operations. Below is a list of transactions between the Hospital and this affiliate for the years ended June 30, 2015 and 2014:

	2015	2014
Fees to Trinity for personnel and services	\$ 289,079	\$ 272,711

Pocahontas Community Healthcare Foundation (Foundation)

As indicated in Note A1, the Hospital works closely with the Foundation in its operations. Below is a list of transactions with the Foundation during the years ended June 30, 2015 and 2014:

	2015	2014
Contributions received from Foundation:		
Restricted	\$ 14,291	\$ 12,265
Unrestricted	20,399	28,904
	\$ 34,690	\$ 41,169

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE K - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The fully insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are 72 active employees and no retirees currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management of the Hospital considers any OPEB obligation, which may exist, to be immaterial. Therefore the Hospital has elected to not obtain an actuarial evaluation of the OPEB liability.

Generally accepted accounting principles, established under GASB Statement No. 45, require that an actuarial or alternative computation of a liability be completed. The independent auditor's report regarding the financial statements has been qualified as a result of not obtaining the required evaluation and not recording any potential material OPEB liability.

NOTE L - COMMITMENTS AND CONTINGENCIES

Rental Obligation

The Hospital has agreed to rent building space from the City of Pocahontas for approximately \$15,000 per year. This rented space is currently used for specialty clinic reception and for the home health/hospice offices.

Other Assets

The other assets represent funds advanced under agreements with healthcare professionals now practicing in the community. The agreements include commitments by the healthcare professionals to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the term of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Pocahontas Community Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Financial Statements  
June 30, 2015 and 2014

NOTE L - COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Events

The Hospital has evaluated all subsequent events through August 18, 2015, the date the financial statements were available to be issued.

NOTE M - DEFICIT UNRESTRICTED NET POSITION

The Hospital had a deficit unrestricted net position at June 30, 2015, entirely due to the net pension liability and related deferrals of resources. Total net position remained positive.

NOTE N - ACCOUNTING CHANGE/RESTATEMENT

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

	Net Position
Net position June 30, 2014, as previously reported	\$ 7,921,005
Net pension liability at June 30, 2014	( 2,767,832)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	296,113
Net position July 1, 2014, as restated	\$ 5,449,286

\* \* \*

REQUIRED SUPPLEMENTARY INFORMATION

POCAHONTAS COMMUNITY HOSPITAL  
 Budgetary Comparison Schedule  
 Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget which is filed with the City Clerk to be included in the official city budget. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a comparison of reported amounts to the accrual basis budget for the year ended June 30, 2015 (Hospital only, excluding Foundation).

	<u>Total Per Hospital Statements</u>	<u>Budget</u>	<u>Amount Under Budget</u>
Expenses	<u>\$ 10,324,692</u>	<u>\$ 12,000,000</u>	<u>\$ 1,675,308</u>

See Independent Auditor's Report.

POCAHONTAS COMMUNITY HOSPITAL  
 Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability  
 June 30, 2015

Hospital's proportion of the net pension liability	.048233%
Hospital's proportionate share of the net pension liability	\$ 1,968,000
Hospital's covered-employee payroll	\$ 3,310,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	59.46%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Note - GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Hospital IPERS Pension Contributions  
Year Ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 310,200	\$ 296,100	\$ 280,400	\$ 254,500
Contributions in relation to the statutorily required contribution	<u>( 310,200)</u>	<u>( 296,100)</u>	<u>( 280,400)</u>	<u>( 254,500)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 3,453,000	\$ 3,310,000	\$ 3,203,000	\$ 3,098,000
Contributions as a percentage of covered-employee payroll	8.98%	8.95%	8.75%	8.21%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 202,500	\$ 181,800	\$ 157,400	\$ 143,800	\$ 131,000	\$ 125,000
<u>( 202,500)</u>	<u>( 181,800)</u>	<u>( 157,400)</u>	<u>( 143,800)</u>	<u>( 131,000)</u>	<u>( 125,000)</u>
<u>\$ --</u>					
\$ 2,867,000	\$ 2,657,000	\$ 2,448,000	\$ 2,357,000	\$ 2,288,000	\$ 2,223,000
7.06%	6.84%	6.43%	6.10%	5.73%	5.62%

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Required Supplementary Information - Pension Liability  
Year Ended June 30, 2015

Changes of benefit terms:

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

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

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

Changes of assumptions:

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

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

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

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

POCAHONTAS COMMUNITY HOSPITAL  
Notes to Required Supplementary Information - Pension Liability  
Year Ended June 30, 2015

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

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

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

\* \* \*

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

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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 Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees of  
Pocahontas Community Hospital  
Pocahontas, Iowa

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pocahontas Community Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pocahontas Community Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pocahontas Community 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees of  
Pocahontas Community Hospital

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pocahontas Community Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items: 15-II-B through 15-II-H.

### Responses to Findings

Pocahontas Community Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Pocahontas Community Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### Purpose of this Report

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

*Gronewold, Bell, Kehlman + Co. P.C.*

Atlantic, Iowa  
August 18, 2015

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings and Responses  
Year ended June 30, 2015

PART I - SIGNIFICANT DEFICIENCIES

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. However, this situation is common in rural hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

POCAHONTAS COMMUNITY HOSPITAL  
 Schedule of Findings and Responses - Continued  
 Year ended June 30, 2015

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

15-II-A Certified Budget: As a component unit of the City of Pocahontas, the Hospital is required to annually (in February) provide a copy of its summary budget to the City, to allow its inclusion in the official City budget documents. The Hospital complied with its requirement and provided a copy of its budget to the City by February, 2014.

Recommendation: We recommend that the Hospital continue to file its summary budget with the City of Pocahontas by February and retain documentation that it has done so.

Response: We will continue to meet our obligation of filing our original budget with the City in future years.

Conclusion: Response accepted.

15-II-B Questionable Expenditures: During the audit, we noted a certain expenditure approved in the Board minutes that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979. The expenditure was as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Wild Rose	Employee Recognition Dinner	\$ 3,199

According to the opinion, it is possible for certain expenses to meet the test of serving a public purpose under certain circumstances, although such expenses will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: We recommend that the Board continue to document the public purpose of expenditures for employee recognition dinners before authorization is given.

Response: The recognition dinner expenditure is considered part of the employee benefit package and the Board feels they meet the requirements of public purpose as defined by the Attorney General’s opinion dated April 25, 1979.

Conclusion: Response accepted.

POCAHONTAS COMMUNITY HOSPITAL  
 Schedule of Findings and Responses - Continued  
 Year ended June 30, 2015

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -  
 Continued

15-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted, except as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Pocahontas Travel	Board member spouse to accompany Board member for hospital Medicare proceedings	\$ 465

The Board considered and approved the payment for travel expense of the spouse of a Hospital official as a proper cost of Hospital operations.

Recommendation: The Board should always review and document the proper public purpose of paying for travel expense of anyone other than Hospital officials and employees.

Response: The Board will continue to monitor and document the public purpose of and approval of travel expenses for spouses of Hospital officials and/or employees, when special conditions so warrant.

Conclusion: Response accepted.

15-II-D Business Transactions: Business transactions between the Hospital and Hospital officials and/or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Description</u>	<u>Amount</u>
Pocahontas Ford Gustave Holzmueller is the owner of the business, a City Council Member	Miscellaneous repairs	\$ 3,436
Wood's Supermarket Kim Wood is a Board member and a part owner of the store	Grocery items	\$ 12,961

The transactions with Pocahontas Ford and Wood's Supermarket both equal or exceed \$2,500 (Code Section 362.5(3)(k)), however, purchases from local businesses are necessary for the operation of the Hospital in Pocahontas, Iowa. The Board considered and approved the purchase of services, equipment, and supplies from these local merchants.

POCAHONTAS COMMUNITY HOSPITAL  
Schedule of Findings and Responses - Continued  
Year ended June 30, 2015

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING -  
Continued

Recommendation: The Board should continue to monitor purchases from board member owned businesses and assure that conflicts of interest are limited to required transactions. Reasons for and approval of such transactions should be documented.

Response: The Board will continue to monitor and document reasons for and approval of transactions that appear to represent any conflict of interest.

Conclusion: Response accepted.

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

15-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

15-II-G Economic Development: During the year ended June 30, 2015, the Hospital paid \$500 to the Pocahontas County Economic Development Commission. The Hospital Board has documented the public benefits received from this expenditure, however, it is disclosed here for public information.

According to Chapter 15A of the Code of Iowa and an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body to evaluate the public benefits to be obtained and discusses the specific criteria to be considered in documenting public purpose.

Recommendation: The Board should continue to evaluate and document the public purpose served by these expenditures before authorizing further payments.

Response: We will continue to evaluate and document the public purpose in the future.

Conclusion: Response accepted.

15-II-H Financial Condition: The Hospital has a deficit in unrestricted net position of \$181,745 at June 30, 2015 as a result of recording its share of the IPERS net unfunded pension liability.

Recommendation: The Hospital management should remain aware of this deficit, and its cause, and comply with IPERS plan to reduce the deficit over a period of years.

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

Conclusion: Response accepted.

\* \* \*