

**Orange City Area Health System,
an Administrative Agency of the
City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa**

FINANCIAL REPORT

June 30, 2015

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**Orange City Area Health System
OFFICIALS
June 30, 2015**

Before January 2015

Board of Trustees

Randy Jacobsma, Chairman
Tim Zeutenhorst, Vice Chairman
Brenda Richardson, Secretary
Jerry Henrich
Chris Immecker
Shirley Van Wechel
Russ Adams

Expiration of term

January, 2016
January, 2016
January, 2018
January, 2016
January, 2018
January, 2016
January, 2018

Chief Executive Officer

Martin W. Guthmiller

Director, Financial Services

Dina A. Baas

After January 2015

Board of Trustees

Randy Jacobsma, Chairman
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Chief Executive Officer

Martin W. Guthmiller

Director, Financial Services

Dina A. Baas



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Orange City Area Health System,
an Administrative Agency of the City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, Iowa

We have audited the accompanying financial statements of Orange City Area Health System, an Administrative Agency of the City of Orange City, Iowa, d/b/a Orange City Area Health System (Hospital), a component unit of the City of Orange City, Iowa, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. We have audited the accompanying financial statements of Orange City Area Health Foundation (Foundation), a component unit of Orange City Area Health System, which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Emphasis of Matter

As discussed in Note 19 to the financial statements, the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Opinion

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Area Health System, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2015 and 2014, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11, schedule of funding progress for the retiree health plan on page 40, budgetary comparison schedule on page 41, and the schedule of the Hospital's proportionate share of the net pension liability on page 42, and the schedule of Hospital pension contributions on pages 43-44, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of 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 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 Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Orange City Area Health System and Orange City Area Health Foundation's basic financial statements. Other supplementary information included on pages 47-60 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary 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, except for the portion marked "unaudited", 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 combining and individual nonmajor fund financial statements are 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 October 19, 2015 on our consideration of Orange City Area Health System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Orange City Area Health System's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 19, 2015

Orange City Area Health System Management's Discussion and Analysis

As management of Orange City Area Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2015, 2014 and 2013. Please read it in conjunction with the Health System's financial statements, which follow this section.

Financial Highlights

- Total assets increased by \$358,979 to \$64,249,021.
- Total assets whose use is limited increased by \$278,199.
- Total net position, as restated, increased by \$2,458,230.
- Total long-term debt decreased by \$1,894,045.
- Net patient service revenue increased by \$1,960,739, due to an increase in outpatient services.
- Expenses increased by \$666,851, which is due to a net increase in other professional services, depreciation, and financing costs.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Area Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of Orange City Area Health System report information of the Health System using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The statement of net position includes all of the Health System's assets, liabilities, deferred outflows and inflows, and provides information about the nature and amounts of investments in resources (assets) and the obligations to Health System's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Health System and assessing the liquidity and financial flexibility of the Health System.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Health System operations over the past year and can be used to determine whether the Health System has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

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

Orange City Area Health System's Net Position

The statements of net position and the statement of revenues, expenses, and changes in net position report the net position of Orange City Area Health System and the changes in them. Orange City Area Health System's net position – the difference between assets and liabilities – is a way to measure financial health or financial position. Over time, sustained increases or decreases in net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, population growth and new or changed governmental legislation should also be considered.

A summary of Orange City Area Health System's statements of net position is presented in Table 1.

Table 1: Condensed Statements of Net Position (in Thousands)

	June 30		
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2013</u> (Not restated)
Assets:			
Current assets	\$17,400	\$15,402	\$13,007
Assets whose use is limited, net of current	7,644	7,366	4,866
Capital assets, net	38,384	40,992	41,296
Other assets	<u>821</u>	<u>130</u>	<u>113</u>
Total assets	<u>64,249</u>	<u>63,890</u>	<u>59,282</u>
Deferred outflows of resources	<u>2,549</u>	—	—
Liabilities:			
Long-term debt outstanding	25,396	27,368	22,607
Other current and noncurrent liabilities	<u>16,940</u>	<u>6,324</u>	<u>6,804</u>
Total liabilities	<u>42,336</u>	<u>33,692</u>	<u>29,411</u>
Deferred inflows of resources	<u>3,886</u>	—	—
Net position:			
Net investment in capital assets	12,028	12,742	17,934
Restricted	2,965	3,129	2,932
Unrestricted	<u>5,583</u>	<u>14,327</u>	<u>9,005</u>
Total net position	<u>\$20,576</u>	<u>\$30,198</u>	<u>\$29,871</u>

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$(12,080,128) to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Operating Results and Changes in Orange City Area Health System's Net position

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2015, 2014 and 2013. In 2015, net position increased by \$2,458,230 over the prior year. As you can see, this increase was attributable to contributions. Operating income was down due, in part, to increase costs incurred operating Prairie Ridge Care Center and related increased depreciation expense.

Table 2: Operating Results and Changes in Net position (in Thousands)

	<u>2015</u>	<u>2014</u> (Not restated)	<u>2013</u> (Not restated)
Operating Revenues:			
Net patient service revenue	\$41,519	\$39,559	\$38,515
Other operating revenue	<u>3,285</u>	<u>2,427</u>	<u>2,171</u>
Total operating revenue	<u>44,804</u>	<u>41,986</u>	<u>40,686</u>
Operating Expenses:			
Salaries and benefits	23,367	23,168	22,549
Provision for depreciation and amortization	3,589	3,185	2,661
Other operating expenses	<u>14,398</u>	<u>14,335</u>	<u>13,498</u>
Total operating expenses	<u>41,354</u>	<u>40,688</u>	<u>38,708</u>
Operating income	3,450	1,298	1,978
Nonoperating gains (losses):			
Investment income	160	128	136
Interest expense	(1,353)	(1,331)	(1,256)
Other nonoperating gains (losses), net	<u>-</u>	<u>(96)</u>	<u>(31)</u>
Total nonoperating gains (losses)	<u>(1,193)</u>	<u>(1,299)</u>	<u>(1,151)</u>
Excess (deficit) of revenues over expenses before contributions	2,257	(1)	827
Contributions	<u>201</u>	<u>328</u>	<u>2,001</u>
Change in net position	2,458	327	2,828
Total net position, beginning	<u>18,118</u>	<u>29,871</u>	<u>27,043</u>
Total net position, ending	<u>\$20,576</u>	<u>\$30,198</u>	<u>\$29,871</u>

Operating and Financial Performance

The following summarizes Orange City Area Health System's statement of revenue, expenses and changes in net position between June 30, 2015, 2014 and 2013.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Hospital discharges for fiscal year 2015 were 915 compared to 936 in fiscal year 2014. Average length of stay increased slightly. Patient days increased from 4,436 to 4,437 in 2015. In 2015, gross inpatient charges decreased from \$6,998,436 to \$6,721,947 in 2015. Gross outpatient charges increased from \$39,763,569 to \$41,837,401 in 2015.

Price Increase: As is customary, the Hospital did review its charge structure and incorporated certain price increases in 2015, primarily related to room rates.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$13,740,853 in 2015 compared to \$13,263,716 in 2014. This represents 25% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payor for the years ended June 30, 2015, 2014 and 2013.

Table 3: Payor Mix

	<u>Year ended June 30</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Medicare	51.8%	50.6%	49.4%
Wellmark	26.7%	24.7%	19.0%
Medicaid	6.8%	7.8%	6.8%
Commercial Insurance	10.4%	13.8%	21.9%
Self Pay	<u>4.3%</u>	<u>3.1%</u>	<u>2.9%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, decreased from 21,088 resident days in 2014 to 20,451 resident days in 2015. In addition, the Hospital leases office space located in the downtown campus to various organizations.

Expenses

Fifty-seven percent of Orange City Area Health System's expenses are attributed to salaries and benefits. Total salaries and benefits increased from \$23.2 million to \$23.4 million.

Capital Assets and Debt Administration

Capital Assets

At the end of 2015, Orange City Area Health System had approximately \$38 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment.

The following table summarizes Orange City Area Health System's capital assets as of June 30, 2015, 2014 and 2013.

Table 4: Capital Assets (in Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Land	\$ 862	\$ 862	\$ 912
Land improvements	3,483	3,455	2,298
Buildings	19,152	19,152	17,297
Fixed equipment	36,693	36,593	23,183
Major moveable equipment	10,732	10,094	8,288
Construction in progress	<u>265</u>	<u>50</u>	<u>15,476</u>
Total	<u>71,187</u>	<u>70,206</u>	<u>67,454</u>
Less accumulated depreciation and amortization	<u>(32,803)</u>	<u>(29,214)</u>	<u>(26,158)</u>
Net capital assets	<u>\$38,384</u>	<u>\$40,992</u>	<u>\$41,296</u>

Long -Term Debt

At June 30, 2015, Orange City Area Health System had \$26,355,337 in long-term debt related primarily to hospital revenue capital loan notes. More detailed information is presented in Note 9 to the Financial Statements.

Performance Compared to Budget

The following table compares fiscal year 2015 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Dollar Variance</u>
Gross patient service revenue	\$55,406	\$55,483	\$ 77
Contractual adjustments	(14,266)	(13,509)	757
Provision for bad debts	(600)	(233)	367
Charity care	<u>(325)</u>	<u>(222)</u>	<u>103</u>
Net patient service revenue	40,215	41,519	1,304
Other operating revenue	<u>1,996</u>	<u>3,285</u>	<u>1,289</u>
Total operating revenue	42,211	44,804	2,593
Operating expenses	<u>42,987</u>	<u>41,354</u>	<u>1,633</u>
Operating income (loss)	(776)	3,450	4,226
Income from investments	114	160	46
Other nonoperating, including contributions	<u>796</u>	<u>(1,152)</u>	<u>(1,948)</u>
Excess of revenues over expenses	\$ <u>134</u>	\$ <u>2,458</u>	\$ <u>2,324</u>

Economic and Other Factors and Next Year's Budget

Orange City Area Health System's Board and management considered many factors when setting the fiscal year 2016 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- Commercial insurance and health network reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Contribution receivable collections
- Rising costs of employee benefits

Contacting Orange City Area Health System's Finance Department

Orange City Area Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Area Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Area Health System, 1000 Lincoln Circle SE, Orange City, IA 51041.

**Orange City Area Health System
STATEMENTS OF NET POSITION**

	June 30	
	<u>2015</u>	<u>2014</u> (Not restated)
CURRENT ASSETS		
Cash and cash equivalents	\$10,762,526	\$ 8,927,328
Assets whose use is limited, required for current liabilities	1,033,827	1,197,352
Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2015 \$2,090,000; 2014 \$2,275,000	4,763,646	4,624,431
Estimated third-party payor settlements	300,000	200,000
Inventories	470,299	434,406
Prepaid expenses	70,119	18,434
Total current assets	<u>17,400,417</u>	<u>15,401,951</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	2,518	4,948
Certificates of deposit	4,542,094	4,464,364
U.S. Government agency securities	6,172	6,943
Accrued interest receivable	19,617	15,779
	<u>4,570,401</u>	<u>4,492,034</u>
Designated by board for deferred compensation		
Mutual funds	<u>1,142,811</u>	<u>942,322</u>
Restricted for payment of revenue notes and interest		
Cash and cash equivalents	1,033,827	1,197,352
Certificates of deposit	<u>1,925,500</u>	<u>1,925,500</u>
	<u>2,959,327</u>	<u>3,122,852</u>
Restricted by donors for specific purpose		
Cash	<u>5,468</u>	<u>6,125</u>
Total assets whose use is limited	<u>8,678,077</u>	<u>8,563,333</u>
Less assets whose use is limited and that are required for current liabilities	<u>1,033,827</u>	<u>1,197,352</u>
Noncurrent assets whose use is limited	<u>7,644,180</u>	<u>7,365,981</u>
CAPITAL ASSETS	71,186,987	70,205,810
Less accumulated depreciation	<u>32,803,355</u>	<u>29,214,019</u>
Total capital assets	<u>38,383,632</u>	<u>40,991,791</u>
OTHER ASSETS	<u>820,792</u>	<u>130,319</u>
Total assets	<u>64,249,021</u>	<u>63,890,042</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>2,549,162</u>	<u>—</u>

See Notes to Financial Statements.

	June 30	
	<u>2015</u>	<u>2014</u> (Not restated)
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 959,803	\$ 881,842
Accounts payable	892,750	782,982
Accrued payroll and benefits	2,921,491	2,597,732
Payroll taxes	128,089	318,549
Accrued interest payable	443,910	468,444
Estimated third-party payor settlements	275,000	225,000
Deposits	64,500	57,000
Total current liabilities	<u>5,685,543</u>	<u>5,331,549</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	25,395,534	27,367,540
Net pension liability	10,045,417	—
Total long-term liabilities	<u>35,440,951</u>	<u>27,367,540</u>
OTHER LIABILITIES		
Deferred compensation liability	1,142,811	942,322
Other post-employment benefits	66,500	50,500
Total other liabilities	<u>1,209,311</u>	<u>992,822</u>
Total liabilities	42,335,805	33,691,911
DEFERRED INFLOWS OF RESOURCES		
Pension related deferred inflows	<u>3,886,145</u>	—
COMMITMENTS AND CONTINGENCIES		
NET POSITION		
Net investment in capital assets	12,028,295	12,742,409
Restricted	2,964,795	3,128,977
Unrestricted	<u>5,583,143</u>	<u>14,326,745</u>
Total net position	<u>\$20,576,233</u>	<u>\$30,198,131</u>

Orange City Area Health System
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2015	2014
		(Not restated)
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2015 \$233,080; 2014 \$492,306	\$41,519,428	\$39,558,689
OTHER REVENUE	<u>3,284,847</u>	<u>2,427,040</u>
Total revenue	<u>44,804,275</u>	<u>41,985,729</u>
EXPENSES		
Nursing service	10,405,076	10,510,829
Other professional service	17,311,642	16,752,161
General service	1,986,027	2,011,942
Fiscal and administrative service and unassigned expenses	8,062,303	8,227,801
Provision for depreciation	<u>3,589,336</u>	<u>3,184,800</u>
Total expenses	<u>41,354,384</u>	<u>40,687,533</u>
Operating income	<u>3,449,891</u>	<u>1,298,196</u>
NONOPERATING GAINS (LOSSES)		
Investment income	159,981	128,017
Interest and amortization expense	(1,352,346)	(1,330,993)
Nonoperating income (loss) from auxiliary activity, net	(657)	(477)
Loss on disposal of capital assets	—	(96,181)
Total nonoperating gains (losses)	<u>(1,193,022)</u>	<u>(1,299,634)</u>
Excess (deficit) of revenues over expenses before contributions	2,256,869	(1,438)
RESTRICTED CONTRIBUTIONS	<u>201,361</u>	<u>328,132</u>
Change in net position	2,458,230	326,694
TOTAL NET POSITION		
Beginning, as restated	<u>18,118,003</u>	<u>29,871,437</u>
Ending	<u>\$20,576,233</u>	<u>\$30,198,131</u>

**Orange City Area Health System
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2015	2014
		(Not restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$41,330,213	\$39,429,382
Cash paid to suppliers for goods and services	(15,836,817)	(14,316,832)
Cash paid to employees for services	(23,144,943)	(22,918,885)
Other operating revenue received	<u>3,292,347</u>	<u>2,445,232</u>
Net cash provided by operating activities	<u>5,640,800</u>	<u>4,638,897</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Nonoperating income (loss) from auxiliary activities, net	<u>(657)</u>	<u>(477)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(981,177)	(4,168,541)
Proceeds from sale of capital assets	-	148,909
Proceeds from issuance of long-term debt	-	5,699,999
Principal paid on long-term debt	(1,904,467)	(822,811)
Restricted contributions	201,361	328,132
Interest paid on long-term debt	<u>(1,366,458)</u>	<u>(1,290,024)</u>
Net cash (used in) capital and related financing activities	<u>(4,050,741)</u>	<u>(104,336)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(3,732,845)	(3,292,755)
Proceeds from maturities of certificates of deposit	3,654,136	781,455
Proceeds from maturity of U.S. Government Securities	1,750	860
Interest received	<u>156,143</u>	<u>124,034</u>
Net cash provided by (used in) investing activities	<u>79,184</u>	<u>(2,386,406)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,668,586	2,147,678
CASH AND CASH EQUIVALENTS		
Beginning	<u>10,135,753</u>	<u>7,988,075</u>
Ending	<u>\$11,804,339</u>	<u>\$10,135,753</u>

See Notes to Financial Statements.

**Orange City Area Health System
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2015	2014
		<small>(Not restated)</small>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 3,449,891	\$ 1,298,196
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	3,589,336	3,184,800
Physician advances, net of refunds	(142,000)	(81,000)
Physician advances forgiven	84,167	44,583
Changes in assets, liabilities, deferred outflows and deferred inflows		
Patient receivables	(139,215)	(154,307)
Estimated third-party payor settlements	(50,000)	25,000
Other assets	(632,640)	16,192
Inventories	(35,893)	(32,276)
Prepaid expenses	(51,685)	37,870
Accounts payable, net of amounts for capital assets	109,768	48,215
Other post-employment benefits	16,000	500
Accrued payroll and benefits	323,759	58,176
Payroll taxes	(190,460)	190,948
Deposits	7,500	2,000
Pension related deferred outflows	(1,046,330)	-
Pension related deferred inflows	3,886,145	-
Net pension liability	<u>(3,537,543)</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 5,640,800</u>	<u>\$ 4,638,897</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE STATEMENTS OF NET POSITION		
Per statements of net position		
Current assets, cash and cash equivalents	\$10,762,526	\$ 8,927,328
Assets whose use is limited		
Designated by board for plant replacement and expansion	2,518	4,948
Restricted for payment of revenue notes and interest	1,033,827	1,197,352
Restricted by donors for specific purpose	<u>5,468</u>	<u>6,125</u>
Total per statements of cash flows	<u>\$11,804,339</u>	<u>\$10,135,753</u>

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF FINANCIAL POSITION

	June 30	
ASSETS	2015	2014
Cash	\$ 489,799	\$ 238,492
Capital campaign contributions receivable, net of discount 2015 \$-0-; 2014 \$22,000 and allowance 2015 \$50,000; 2014 \$85,000	123,282	293,320
Land	232,391	232,391
Construction in progress	161,821	-
Other	42,698	50,000
Total assets	\$1,049,991	\$ 814,203
LIABILITIES AND NET ASSETS		
LIABILITIES		
Lease deposit	\$ 411,000	\$ -
NET ASSETS		
Unrestricted	469,256	386,837
Temporarily restricted	169,735	427,366
Total net assets	638,991	814,203
Total liabilities and net assets	\$1,049,991	\$ 814,203

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF ACTIVITIES

	<u>Year ended June 30, 2015</u>			<u>Year ended June 30, 2014</u>		
	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
SUPPORT AND REVENUE						
Contributions	\$ 60,040	\$ 19,070	\$ 79,110	\$ 51,234	\$ 25,665	\$ 76,899
Special events	24,015	-	24,015	24,420	-	24,420
Interest income	84	-	84	161	-	161
Net assets released from restrictions	<u>276,701</u>	<u>(276,701)</u>	<u>-</u>	<u>427,108</u>	<u>(427,108)</u>	<u>-</u>
Total support and revenue	<u>360,840</u>	<u>(257,631)</u>	<u>103,209</u>	<u>502,923</u>	<u>(401,443)</u>	<u>101,480</u>
EXPENSES						
Contributions and scholarship	<u>264,770</u>	<u>-</u>	<u>264,770</u>	<u>347,914</u>	<u>-</u>	<u>347,914</u>
Fundraising event	6,350	-	6,350	7,702	-	7,702
Other	<u>7,301</u>	<u>-</u>	<u>7,301</u>	<u>20</u>	<u>-</u>	<u>20</u>
Total expenses	<u>278,421</u>	<u>-</u>	<u>278,421</u>	<u>355,636</u>	<u>-</u>	<u>355,636</u>
CHANGE IN NET ASSETS	<u>82,419</u>	<u>(257,631)</u>	<u>(175,212)</u>	<u>147,287</u>	<u>(401,443)</u>	<u>(254,156)</u>
NET ASSETS , beginning of year	<u>386,837</u>	<u>427,366</u>	<u>814,203</u>	<u>239,550</u>	<u>828,809</u>	<u>1,068,359</u>
NET ASSETS , end of year	<u>\$ 469,256</u>	<u>\$ 169,735</u>	<u>\$ 638,991</u>	<u>\$ 386,837</u>	<u>\$ 427,366</u>	<u>\$ 814,203</u>

See Notes to Financial Statements.

Orange City Area Health Foundation
(A Component Unit of Orange City Area Health System)
STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (175,212)	\$ (254,156)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Decrease in capital campaign contributions receivable	170,038	340,707
Decline in value of other asset	7,302	-
Lease deposit received from Hospital	<u>411,000</u>	<u>-</u>
Net cash provided by operating activities	<u>413,128</u>	<u>86,551</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in process	(161,821)	-
Proceeds from sale of certificates of deposit	-	20,998
Purchase of other asset	<u>-</u>	<u>(50,000)</u>
Net cash (used in) investing activities	<u>(161,821)</u>	<u>(29,002)</u>
NET INCREASE IN CASH	251,307	57,549
CASH		
Beginning	<u>238,492</u>	<u>180,943</u>
Ending	<u>\$ 489,799</u>	<u>\$ 238,492</u>

See Notes to Financial Statements.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Hospital is an administrative agency of the City of Orange City, Iowa, d/b/a Orange City Area Health System, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Area Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital 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 Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal years ended June 30, 2015 and 2014, the Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation (Foundation). The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

Measurement Focus and Basis of Accounting

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

Accounting Standards

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Not-for-Profit Entities Topic of the *Financial Accounting Standards Board Accounting Standards Codification*. Under this Topic, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had \$169,735 of temporarily restricted net assets at June 30, 2015. These net assets are to be used for the benefit of the Hospital, primarily for the Prairie Ridge Care Center campaign, hospice services, or scholarships for eligible Hospital employees.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2015.

Accounting Estimates and Assumptions

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

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Open-end mutual funds Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company) Publicly traded mutual funds	Amortized cost Fair value based on quoted market prices
Debt securities Negotiable certificates of deposit and U.S. Government Agency Securities Maturity of one year or less when purchased Maturity of more than one year when purchased	Amortized cost Fair value based on quoted market prices

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

Capital Assets

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded as additions at fair value at the date of receipt.

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Depreciation is computed using these asset lives:

Land improvements	5 to 20 years
Buildings and fixed equipment	5 to 40 years
Major movable equipment	5 to 25 years

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Contributions Receivable

Unconditional contributions receivable are recorded as receivables and revenues in the year received.

Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Foundation's Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Net Pension Liability

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 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.

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.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the revenue notes that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net position

Restricted net position consists of funds restricted on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted net position

Unrestricted net position has no externally imposed restrictions on use.

When the Hospital has both restricted and unrestricted resources available to finance a particular program or project, it is the Hospital's policy to use restricted resources before unrestricted resources.

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT account to be cash equivalents.

Statements 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 revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

Net Patient Service Revenue

Patient service revenue is reported at the Hospital's established rates. 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.

Credit Policy

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Risk

The Foundation had amounts on deposit with a financial institution in excess of FDIC insurance limits at various times throughout the year.

Income Taxes

The Foundation's management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation's federal income tax returns, for tax years 2011 and after, which are open by statute, are subject to examination by the tax authorities. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through October 19, 2015, which was the date the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2015, which include bank balances, negotiable and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2015, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

	<u>Maturities</u>	
Investments		
Edward D. Jones & Co., money market funds	Daily	\$ 1,878
Negotiable certificates of deposit	07/15/15 - 11/06/17	6,467,593
U.S. Government agency securities	11/15/28 - 11/01/31	6,172
Mutual funds	Daily	1,142,811
Iowa Public Agency Investment Trust	Daily	<u>1,033,827</u>
Totals		<u>\$8,652,281</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. However, this does not apply to the Series 2012 Capital loan note. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of \$1,925,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

	<u>Year ended June 30, 2015</u>			<u>Year ended June 30, 2014</u>		
	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>	<u>Reserve Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
BALANCE , beginning	\$1,925,500	\$1,197,352	\$3,122,852	\$1,925,500	\$1,000,418	\$2,925,918
Transfers from current assets						
cash and cash equivalents	-	1,762,981	1,762,981	-	2,124,756	2,124,756
Interest income	-	67	67	-	66	66
Payment of notes and interest	-	(1,926,573)	(1,926,573)	-	(1,927,888)	(1,927,888)
BALANCE , ending	<u>\$1,925,500</u>	<u>\$1,033,827</u>	<u>\$2,959,327</u>	<u>\$1,925,500</u>	<u>\$1,197,352</u>	<u>\$3,122,852</u>

NOTE 4 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2015</u>	<u>2014</u>
Receivable from patients	\$1,801,651	\$1,753,534
Receivable from insurance carriers	2,783,340	2,731,097
Receivable from Medicare	1,767,039	1,862,846
Receivable from Medicaid	<u>501,616</u>	<u>551,954</u>
Total patient receivables	6,853,646	6,899,431
Less allowances for contractual and other adjustments	<u>(2,090,000)</u>	<u>(2,275,000)</u>
Totals	<u>\$4,763,646</u>	<u>\$4,624,431</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS

A summary of changes in the Hospital's capital assets for the year ended June 30, 2015 and 2014 follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2015</u>
Land	\$ 862,036	\$ -	\$ -	\$ -	\$ 862,036
Land improvements	3,454,600	28,000	-	-	3,482,600
Buildings	19,152,042	-	-	-	19,152,042
Fixed equipment	36,593,309	94,089	-	5,978	36,693,376
Major movable equipment	10,093,597	588,037	-	50,225	10,731,859
Construction in progress	<u>50,226</u>	<u>271,051</u>	<u>-</u>	<u>(56,203)</u>	<u>265,074</u>
Totals	70,205,810	981,177	-	-	71,186,987
Less accumulated depreciation and amortization	<u>(29,214,019)</u>	<u>(3,589,336)</u>	<u>-</u>	<u>-</u>	<u>(32,803,355)</u>
Net capital assets	<u>\$40,991,791</u>	<u>\$(2,608,159)</u>	<u>\$-</u>	<u>\$-</u>	<u>\$38,383,632</u>

Construction in progress at June 30, 2015 consists of amounts spent to remodel behavioral health space at the Hospital and drainage improvements at Landsmeer Ridge Retirement Community. Total estimated costs of these projects is approximately \$300,000.

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2014</u>
Land	\$ 912,036	\$ -	\$ (50,000)	\$ -	\$ 862,036
Land improvements	2,297,809	36,166	-	1,120,625	3,454,600
Buildings	17,296,892	86,600	(380,969)	2,149,519	19,152,042
Fixed equipment	23,182,897	162,297	-	13,248,115	36,593,309
Major movable equipment	8,288,424	363,894	-	1,441,279	10,093,597
Construction in progress	<u>15,475,992</u>	<u>2,533,772</u>	<u>-</u>	<u>(17,959,538)</u>	<u>50,226</u>
Totals	67,454,050	3,182,729	(430,969)	-	70,205,810
Less accumulated depreciation and amortization	<u>(26,158,098)</u>	<u>(3,184,800)</u>	<u>128,879</u>	<u>-</u>	<u>(29,214,019)</u>
Net capital assets	<u>\$41,295,952</u>	<u>\$(2,071)</u>	<u>\$(302,090)</u>	<u>\$-</u>	<u>\$40,991,791</u>

A summary of changes in the Foundation's property and equipment for the year ended June 30, 2015 and 2014 follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2015</u>
Land	\$ 232,391	\$ -	\$ -	\$ 232,391
Construction in progress	<u>-</u>	<u>161,821</u>	<u>-</u>	<u>161,821</u>
	<u>\$ 232,391</u>	<u>\$ 161,821</u>	<u>\$ -</u>	<u>\$ 394,212</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 CAPITAL ASSETS (continued)

	Balance July 1, 2013	Additions	Deletions	Balance June 30, 2014
Land	\$ <u>232,391</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>232,391</u>

Construction in progress at June 30, 2015 consisted primarily of costs incurred for the design and construction costs associated with the building of a twelve-unit independent living addition at Landsmeer Ridge Retirement Community. The total cost of this addition is estimated at approximately \$2,400,000 and is expected to be substantially completed during the next fiscal year. This project is being funded through a combination of bank financing and reserves of the Foundation. As of June 30, 2015, an outstanding obligation of approximately \$2,238,000 remains on the related signed construction contract.

NOTE 6 CONTRIBUTIONS RECEIVABLE

At June 30, 2015 the Foundation's contributions receivable consisted of contributions pledged for the replacement nursing home facility.

A summary of the activity in contributions receivable for the year ended June 30, 2015 is as follows:

Beginning contributions receivable	\$ 293,320
Contributions made during the year	7,600
Payments received	(234,638)
Decrease in discount of future payments receivable and allowance for uncollectible pledges	<u>57,000</u>
Ending contributions receivable	<u>\$ 123,282</u>

Contributions receivable at June 30, 2015, are expected to be received during the year ending June 30, 2016.

NOTE 7 OTHER ASSET

The Foundation invested \$50,000 in a limited liability company (LLC) during the year ended June 30, 2014, which represents an approximately 1.9% ownership in the LLC. This LLC was established to invest in a new hotel that has been built adjacent to the Health System's hospital campus. This asset declined in book value to \$42,698 at June 30, 2015.

NOTE 8 LEASE AGREEMENT

During May 2015, the Hospital entered into a lease with the Foundation in order to occupy as a tenant and for the use of twelve independent living units currently being constructed at Landsmeer Ridge Retirement Community. The term of the lease covers the period from June 1, 2015 through May 31, 2025, and calls for annual payments of \$205,500 due on the first day of June, beginning June 2017 through the end of the lease. In connection with the execution of the lease, the Hospital remitted to the Foundation \$411,000, or two annual payments, as a deposit on this lease. The tenant will also be required for certain ongoing operating expenses, as defined in the lease, through the lease term. The lease contains an option to purchase aforementioned living units, and related land, on May 31, 2025 for \$2,260,000.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 LONG-TERM DEBT

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,800,000 of Hospital Revenue Capital Loan Notes Series 2007 dated December 13, 2007, to refinance existing indebtedness. The notes mature serially through September 1, 2021, with interest payable on March 1 and September 1 at annual rates varying from 4.00% - 4.65%. Notes maturing after September 1, 2016 may be called for redemption, by the issuer and paid before maturity on said date or any date thereafter. The balance outstanding at June 30, 2015 is \$4,015,000.

The City Council of Orange City adopted a resolution authorizing the issuance of \$19,255,000 of Hospital Revenue Capital Loan Notes Series 2008 dated January 8, 2008, to refinance existing indebtedness. The notes mature serially through September 1, 2032, with interest payable on March 1 and September 1 at annual rates varying from 5.50% to 5.60%. Notes maturing after September 1, 2017, may be called for redemption by the issuer and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole from time to time in part, in any order at maturity and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to the date of call. The balance outstanding at June 30, 2015 is \$18,060,000.

The City Council of Orange City adopted a resolution on April 6, 2015 authorizing the issuance of Hospital Revenue Refunding Capital Loan Notes Series 2015 and 2016. The 2015 Note Series proceeds are not to exceed \$17,000,000, and are to be used by the Hospital to advance refund the outstanding 2008 Note Series bonds and pay certain costs related to the issuance. The 2016 Note Series proceeds are not to exceed \$3,000,000, and are to be used by the Hospital to advance refund the outstanding 2007 Note Series bonds and pay certain costs related to the issuance. The anticipated issuance dates for the 2015 Note Series and 2016 Note Series are December 22, 2015 and September 1, 2016, respectively. The interest rates for the 2015 Note Series and 2016 Note Series are 2.8524% and 2.7740%, respectively. In addition, the Hospital incurred initial related financing costs totaling \$195,700 during the year ended June 30, 2015 related to this upcoming issuance.

The City Council of Orange City adopted a resolution authorizing the issuance of \$6,000,000 of Hospital Revenue Capital Loan Notes Series 2012 dated June 13, 2012, to finance the constructing and equipping Prairie Ridge Care Center. The notes contain an interest reset provision beginning on June 1, 2019, and on June 1 every five years subsequent thereto, in which the interest rate will be adjusted to a product of 3% above the constant maturity of the United States 5-year Treasury Note as published by the Wall Street Journal, multiplied by .65%, subject to an interest rate cap of 9.5% and a floor of 3.5%. The interest rate at June 30, 2015 is 3.5%. The notes may be called for redemption by the issuer and paid before maturity on any date, in whole or in part, and within an annual maturity by lot. The terms of redemption shall be par, plus accrued interest to date of call. The balance outstanding at June 30, 2015 is \$4,462,722.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 LONG-TERM DEBT (continued)

As to the capital loan notes, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest and do not constitute an indebtedness of the City. The net revenues are pledged through September, 2033. As of June 30, 2015 the remaining principal and interest on the Series 2012, 2008 and 2007 was \$40,518,564, net of unamortized discount of \$182,385. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Capital Loan Notes for the years ended June 30, 2015 and 2014:

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Change in net position	\$2,458,230	\$ 326,694
Provision for depreciation	3,589,336	3,184,800
Interest and amortization expense	<u>1,352,346</u>	<u>1,330,993</u>
 Pledged net revenues	 <u>\$7,399,912</u>	 <u>\$4,842,487</u>
 Principal and interest requirements		
Capital Loan Notes, Series 2007	\$ 698,807	\$ 693,160
Capital Loan Notes, Series 2008	1,227,765	1,234,727
Capital Loans Notes, Series 2012	<u>1,344,353</u>	<u>184,948</u>
 Totals	 <u>\$3,270,925</u>	 <u>\$2,112,835</u>

The following summarizes the maturities of long-term debt:

Year ending June 30	<u>Revenue notes payable</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2016	\$ 959,803	\$ 1,312,867	\$ 2,272,670
2017	1,001,504	1,270,786	2,272,290
2018	1,048,442	1,226,163	2,274,605
2019	1,095,625	1,178,682	2,274,307
2020	1,143,061	1,128,312	2,271,373
2021 - 2025	6,616,373	4,739,910	11,356,283
2026 - 2030	8,550,862	2,806,757	11,357,619
2031 - 2033	<u>6,122,052</u>	<u>499,750</u>	<u>6,621,802</u>
Total	26,537,722	14,163,227	40,700,949
Less unamortized discount	<u>(182,385)</u>	—	<u>(182,385)</u>
 Totals	 <u>\$26,355,337</u>	 <u>\$14,163,227</u>	 <u>\$40,518,564</u>

Long-term debt activity for the years ended June 30, 2015 and 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
2015					
Hospital revenue notes	\$ <u>28,442,189</u>	\$ <u>—</u>	\$ <u>1,904,467</u>	\$ <u>26,537,722</u>	\$ <u>959,803</u>
2014					
Hospital revenue notes	\$ <u>23,565,001</u>	\$ <u>5,699,999</u>	\$ <u>822,811</u>	\$ <u>28,442,189</u>	\$ <u>881,842</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN

Plan Description

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

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

Pension Benefits

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

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

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment.

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

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

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

Contributions

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.76 percent of pay and the hospital contributed 10.14 percent for a total rate of 16.90 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$1,558,945 and \$1,502,832, respectively.

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

At June 30, 2015, the Hospital reported a liability of \$10,045,417 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. The following table summarizes the change in the Hospital's proportionate share:

	June 30		Change
	2014	2013	
Hospital's proportionate share	0.253294%	0.236568%	0.016727%

For the year ended June 30, 2015, the Hospital recognized pension expense of \$697,727. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 105,974	\$ —
Change in assumptions	445,023	—
Net difference between projected and actual earnings on pension plan investments	—	3,886,145
Change in proportion and difference between Hospital contributions and proportionate share of contributions	439,220	—
Hospital contributions subsequent to the measurement date	<u>1,558,945</u>	<u>—</u>
Totals	<u>\$2,549,162</u>	<u>\$3,886,145</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 PENSION PLAN (continued)

\$1,558,945 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Regular Members</u>	<u>Protection Occupation Members</u>	<u>Total</u>
2016	\$ (729,558)	\$ (10,619)	\$ (740,177)
2017	(729,558)	(10,619)	(740,177)
2018	(729,558)	(10,619)	(740,177)
2019	(729,558)	(10,619)	(740,177)
2020	<u>64,973</u>	<u>(196)</u>	<u>64,777</u>
Totals	<u>\$ (2,853,258)</u>	<u>\$ (42,670)</u>	<u>\$ (2,895,928)</u>

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
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 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 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	<u>1</u>	-
Total	<u>100%</u>	

Discount Rate

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$19,099,451</u>	<u>\$10,045,417</u>	<u>\$2,402,997</u>

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of approximately \$62,564 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.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$50,000 per person and approximately \$3,320,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2015 and 2014 was \$2,730,898 and \$2,926,718, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of \$1,142,811 and \$942,322 to reflect the fair value of these program assets as of June 30, 2015 and 2014, respectively, and related liability to participants.

NOTE 12 OTHER POST EMPLOYMENT BENEFITS

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 264 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plan is self-insured and is administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, (ARC), of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2015, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 29,386
Interest on net OPEB obligation	1,886
Adjustment to annual required contribution	<u>(15,272)</u>
Annual OPEB cost	16,000
Contributions made	<u>—</u>
Increase in net OPEB obligation	16,000
Net OPEB obligation, beginning of year	<u>50,500</u>
Net OPEB obligation, end of year	<u>\$ 66,500</u>

The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2015.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 12 OTHER POST EMPLOYMENT BENEFITS (continued)

For the year ended June 30, 2015, the Hospital contributed \$-0- to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2015, 2014 and 2012 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2015	\$ <u>16,000</u>	<u>0%</u>	\$ <u>66,500</u>
June 30, 2014	\$ <u>500</u>	<u>0%</u>	\$ <u>50,500</u>
June 30, 2013	\$ <u>2,000</u>	<u>0%</u>	\$ <u>50,000</u>

As of July 1, 2015, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2016, the actuarial accrued liability was approximately \$261,600 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, (UAAL), of \$261,600. As of June 30, 2015, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the July 1, 2015 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75% discount rate. The projected annual medical trend rate is 7%. The ultimate medical trend rate is 4%. The medical trend rate is reduced each year until reaching the ultimate trend rate.

Mortality rates are based on the RP-2000 Mortality Rates, applied on a gender-specific basis. The mortality assumptions are generational, meaning that future mortality improvements are applied using Projection Scale AA. Termination rates used in the actuarial valuation are based upon national termination studies performed by the Society of Actuaries. They were adjusted to reflect the recent lower termination rates experienced by the Hospital. Retirement rates used in the actuarial valuation were developed based upon recent Hospital experience.

Projected weighted average claim costs of the medical plan are approximately \$1,055 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 13 MALPRACTICE CLAIMS

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. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate for institutional claims and \$1,000,000 per claim and \$3,000,000 in the aggregate for physician claims.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2015 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 14 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. A summary of the payment arrangements with major third-party payors follows.

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2013.

Other

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

NOTE 15 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2015 and 2014.

	2015	2014
Charges foregone, based on established rates	\$ <u>222,469</u>	\$ <u>240,021</u>
Equivalent percentage of charity care patients to all patients served	<u>0.4%</u>	<u>0.5%</u>

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 16 HOSPITAL RISK MANAGEMENT

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Hospital 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.

NOTE 17 LEASE COMMITMENTS AND SPACE LEASED TO OTHERS

The Hospital leases MRI medical equipment under a non-cancelable lease. The lease calls for forty-four monthly payments of \$11,773, beginning in December 2013, through the end of the lease.

The Hospital leases a vehicle under a cancelable lease. The current lease calls for forty-eight monthly payments of \$469, beginning in May 2013, with a final payment of \$30,942 at the end of the lease.

Operating expenses incurred on the above equipment leases totaled \$172,152 and \$247,936 for the years ended June 30, 2015 and 2014, respectively.

Lease agreement with the Foundation, See Note 8.

The minimum future rentals under the leases as of June 30, 2015, are as follows:

Year ending June 30

2016	\$ 146,901
2017	382,874
2018	217,273
2019	205,500
2020	205,500
Thereafter	<u>822,000</u>
Total	<u>\$1,980,048</u>

The Hospital, through various agreements, leases office space within the downtown campus to various organizations. The leases, which are for various terms, each call for lease rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2015 and 2014 included \$195,049 and \$147,772, respectively, of aggregate rental income under the lease agreements.

NOTE 18 ORANGE CITY AREA HEALTH FOUNDATION

The Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured contribution commitments in a capital campaign to benefit the Hospital's construction of a replacement nursing home facility. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made restricted contributions of \$201,361 and \$326,581 to the Hospital for the years ended June 30, 2015 and 2014, respectively. The Foundation's audited statements of financial position as of June 30, 2015 and 2014, and audited statement of activities and cash flows for the years then ended, are included on pages 17 - 19.

**Orange City Area Health System
and Orange City Area Health Foundation
NOTES TO FINANCIAL STATEMENTS**

NOTE 19 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 for the fiscal year ended June 30, 2015 was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net position</u>
Net position June 30, 2014, as previously reported	\$30,198,131
Net pension liability at June 30, 2014	(13,582,960)
Deferred outflows of resources related to contributions made After the June 30, 2013 measurement date	<u>1,502,832</u>
Net position July 1, 2014, as restated	<u>\$18,118,003</u>

REQUIRED SUPPLEMENTARY INFORMATION

Orange City Area Health System
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)

Required Supplementary Information

<u>Year ended June 30</u>	<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b - a)/c)</u>
2015	July 1, 2014	\$ <u>—</u>	\$ <u>261.6</u>	\$ <u>261.6</u>	<u>0.0%</u>	\$ <u>17,815</u>	<u>1.6%</u>
2014	July 1, 2013	\$ <u>—</u>	\$ <u>173.5</u>	\$ <u>173.5</u>	<u>0.0%</u>	\$ <u>17,561</u>	<u>1.0%</u>
2013	July 1, 2013	\$ <u>—</u>	\$ <u>173.5</u>	\$ <u>173.5</u>	<u>0.0%</u>	\$ <u>17,220</u>	<u>1.0%</u>

See Note 10 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

**Orange City Area Health System
BUDGETARY COMPARISON SCHEDULE
Required Supplementary Information
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 of Orange City 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>Budgeted Amount</u>	<u>Amount Over (Under) Budget</u>
Total expenses including interest and amortization expense	<u>\$42,706,730</u>	<u>\$42,986,763</u>	<u>\$ (280,038)</u>

Orange City Area Health System
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	June 30, <u>2015</u>
Hospital's proportion of the net pension liability	0.253294%
Hospital's proportionate share of the net pension liability	\$10,045
Hospital's total payroll	\$17,815
Hospital's proportionate share of the net pension liability as a percentage of its total payroll	57%
Plan fiduciary net position as a percentage of the total pension liability	88%

See accompanying notes to required supplementary information – pension liability.

Orange City Area Health System
SCHEDULE OF HOSPITAL PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	Year ended June 30			
	2015	2014	2013	2012
Statutorily required contribution	\$ 1,559	\$ 1,505	\$ 1,416	\$ 1,263
Contributions in relation to the statutorily required contribution	<u>1,559</u>	<u>1,505</u>	<u>1,416</u>	<u>1,263</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Hospital's total payroll	\$17,815	\$17,561	\$16,778	\$16,443
Contributions as a percentage of total payroll	8.8%	8.6%	8.4%	7.7%

See accompanying notes to required supplementary information – pension liability.

Year ended June 30

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,064	\$ 985	\$ 941	\$ 848	\$ 785	\$ 697
<u>—</u>	<u>985</u>	<u>941</u>	<u>848</u>	<u>785</u>	<u>697</u>
<u>\$ 1,064</u>	<u>\$ —</u>				
\$ 15,383	\$ 14,843	\$ 15,080	\$ 14,541	\$ 13,478	\$ 12,610
6.9%	6.6%	6.2%	5.8%	5.8%	5.5%

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

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

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

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

SUPPLEMENTARY INFORMATION

**Orange City Area Health System
AGE ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
0 - 30 days	\$3,725,590	\$3,594,314	54.36%	52.10%
31 - 60 days	1,038,911	1,369,194	15.16	19.85
61 - 90 days	506,117	479,862	7.38	6.96
91 - 180 days	774,882	708,551	11.31	10.27
Over 6 months	<u>808,146</u>	<u>747,510</u>	<u>11.79</u>	<u>10.82</u>
Totals	<u>6,853,646</u>	<u>6,899,431</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Uncollectible accounts	915,000	900,000		
Contractual adjustments	<u>1,175,000</u>	<u>1,375,000</u>		
Total allowances	<u>2,090,000</u>	<u>2,275,000</u>		
Totals	<u>\$4,763,646</u>	<u>\$4,624,431</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
BALANCE , beginning	\$ 900,000	\$ 850,000
Provision for bad debts	233,080	492,306
Recoveries of accounts written off previously	400,546	388,886
Accounts written off	<u>(618,626)</u>	<u>(831,192)</u>
BALANCE , ending	<u>\$ 915,000</u>	<u>\$ 900,000</u>

See accompanying independent auditor's report.

**Orange City Area Health System
INVENTORIES**

	June 30	
	2015	2014
General stores	\$ 280,618	\$ 273,553
Central supply	32,313	32,177
Operating room	78,329	85,385
Radiology	3,951	4,077
Medical clinics	75,088	39,214
 Totals	 \$ 470,299	 \$ 434,406

**Orange City Area Health System
INSURANCE COVERAGE
June 30, 2015**

Cincinnati Insurance Company (policy expiration June 30, 2016)	
Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value, and special causes of loss)	\$75,050,000
Downtown Campus (80% Co-insurance, actual cash value, and special clauses)	\$6,083,000 \$5,000 deductible
Blanket earnings and expense	\$28,747,702
Owned automobiles	
Liability	\$1,000,000
Collision and comprehensive	\$1,000 deductible
Uninsured/underinsured motorist	\$1,000,000
Medical payments	\$5,000
Blanket fidelity bond	
Employees	\$150,000 \$2,500 deductible
Accounts receivable records	\$1,000,000 \$5,000 deductible
Equipment floater	\$167,500
Cincinnati Insurance Company (policy expiration July 1, 2016)	
Directors, officers and hospital staff liability	\$1,000,000 \$15,000 deductible
Employment practices liability	\$1,000,000 \$25,000 deductible
PIC Wisconsin Insurance Company (policy expiration July 1, 2016)	
Employee benefit liability	\$1,000,000
Professional liability—hospital	\$1,000,000/3,000,000
Professional liability—physicians	\$1,000,000/3,000,000
General liability	\$1,000,000/3,000,000
Excess professional liability	\$2,000,000
Excess liability hospital	\$2,000,000
Accident Fund Insurance Company of America (policy expiration April 1, 2016)	
Workers' compensation	\$500,000

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Orange City Area Health System
PATIENT SERVICE REVENUE**

	<u>Total</u>		<u>Inpatient</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetric	\$ 4,624,807	\$ 4,332,515	\$2,542,880	\$2,466,745
Special care	40,000	49,815	40,000	49,815
Long term care	6,050,688	5,453,642	-	-
Nursery	412,277	439,917	412,277	439,917
	<u>11,127,772</u>	<u>10,275,889</u>	<u>2,995,157</u>	<u>2,956,477</u>
OTHER NURSING SERVICES				
Operating and recovery room	4,857,169	4,885,532	714,919	931,828
Central service and supply	921,245	1,047,235	387,928	506,918
Emergency service	1,941,469	1,855,405	59,855	51,898
Ambulance	454,037	435,345	62,087	64,631
Home Health	1,014,621	1,063,984	-	-
Hospice	516,697	421,900	77,958	-
	<u>9,705,238</u>	<u>9,709,401</u>	<u>1,302,747</u>	<u>1,555,275</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	4,530,080	4,167,172	449,694	452,138
Radiology	6,023,531	5,642,147	188,428	176,011
Pharmacy	4,705,313	4,550,721	918,551	938,280
Anesthesiology	1,937,927	1,998,845	459,390	529,537
Respiratory therapy and oxygen	394,982	360,492	212,524	205,245
Physical therapy	2,450,330	2,184,394	142,187	135,756
Cardio pulmonary	943,138	789,199	46,600	45,269
Pulmonary rehabilitation	8,624	12,012	-	-
Speech therapy	51,896	44,175	4,464	4,133
Audiology	58,584	46,781	-	-
Orange City medical clinic	10,311,096	10,083,281	-	-
Hospers medical clinic	399,686	391,523	-	-
Paullina medical clinic	713,994	737,829	-	-
Specialty clinics	479,226	413,787	2,205	315
Surgery	1,641,333	1,654,778	-	-
	<u>34,649,740</u>	<u>33,077,136</u>	<u>2,424,043</u>	<u>2,486,684</u>
	55,482,750	53,062,426	<u>\$6,721,947</u>	<u>\$6,998,436</u>
Charity care charges foregone, based on established rates	<u>222,469</u>	<u>240,021</u>		
Total gross patient service revenue	55,260,281	52,822,405		
Provisions for contractual and other adjustments	<u>13,740,853</u>	<u>13,263,716</u>		
Net patient service revenue	<u>\$41,519,428</u>	<u>\$39,558,689</u>		

See accompanying independent auditor's report.

<u>Outpatient</u>		<u>Swing bed</u>		<u>Intermediate care unit</u>	
<u>Year ended June 30</u>		<u>Year ended June 30</u>		<u>Year ended June 30</u>	
<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
\$ 2,080,137	\$ 1,864,018	\$ 1,790	\$ 1,752	\$ -	\$ -
-	-	-	-	-	-
-	-	650,810	639,375	5,399,878	4,814,267
-	-	-	-	-	-
<u>2,080,137</u>	<u>1,864,018</u>	<u>652,600</u>	<u>641,127</u>	<u>5,399,878</u>	<u>4,814,267</u>
4,133,162	3,947,318	9,088	6,386	-	-
524,882	529,967	8,372	10,320	63	30
1,881,614	1,803,507	-	-	-	-
391,950	370,714	-	-	-	-
1,014,621	1,063,984	-	-	-	-
438,739	421,900	-	-	-	-
<u>8,384,968</u>	<u>8,137,390</u>	<u>17,460</u>	<u>16,706</u>	<u>63</u>	<u>30</u>
4,014,978	3,650,171	65,408	64,863	-	-
5,812,177	5,453,612	22,926	12,524	-	-
3,391,191	3,196,932	284,309	324,718	111,262	90,791
1,475,787	1,467,808	2,750	1,500	-	-
112,731	84,877	69,727	70,370	-	-
2,030,987	1,792,059	277,156	256,579	-	-
882,963	738,510	13,575	5,420	-	-
8,624	12,012	-	-	-	-
41,144	38,516	6,288	1,526	-	-
58,584	46,781	-	-	-	-
10,311,096	10,083,281	-	-	-	-
399,686	391,523	-	-	-	-
713,994	737,829	-	-	-	-
477,021	413,472	-	-	-	-
1,641,333	1,654,778	-	-	-	-
<u>31,372,296</u>	<u>29,762,161</u>	<u>742,139</u>	<u>737,500</u>	<u>111,262</u>	<u>90,791</u>
<u>\$41,837,401</u>	<u>\$39,763,569</u>	<u>\$1,412,199</u>	<u>\$1,395,333</u>	<u>\$5,511,203</u>	<u>\$4,905,088</u>

See accompanying independent auditor's report.

**Orange City Area Health System
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	Year ended June 30	
	2015	2014
Contractual adjustments and discounts	\$13,507,773	\$12,771,410
Provision for bad debts	233,080	492,306
 Totals	 \$13,740,853	 \$13,263,716

OTHER REVENUE

	Year ended June 30	
	2015	2014
Cafeteria	\$ 220,217	\$ 229,224
Other	810,557	747,835
Lifeline	41,500	44,106
Landsmeer Ridge	1,477,090	1,405,875
340B Program	735,483	—
 Totals	 \$3,284,847	 \$2,427,040

**Orange City Area Health System
NURSING SERVICE EXPENSES**

	Year ended June 30	
	<u>2015</u>	<u>2014</u>
NURSING ADMINISTRATION		
Salaries	\$ 95,884	\$ 134,407
Supplies and expenses	<u>4,165</u>	<u>39,053</u>
	<u>100,049</u>	<u>173,460</u>
MEDICAL, SURGICAL AND OBSTETRIC		
Salaries	1,670,618	1,608,386
Supplies and expenses	<u>316,365</u>	<u>344,059</u>
	<u>1,986,983</u>	<u>1,952,445</u>
SPECIAL CARE		
Salaries	7,930	12,392
Supplies and expenses	<u>49</u>	<u>28</u>
	<u>7,979</u>	<u>12,420</u>
SWING BED		
Salaries	<u>4,181</u>	<u>4,608</u>
INTERMEDIATE CARE		
Salaries	2,930,408	2,882,543
Purchased services	8,211	82,517
Supplies and expenses	<u>1,325,296</u>	<u>1,233,387</u>
	<u>4,263,915</u>	<u>4,198,447</u>
NURSERY		
Salaries	72,934	91,557
Supplies and expenses	<u>10,598</u>	<u>10,865</u>
	<u>83,532</u>	<u>102,422</u>
OPERATING AND RECOVERY ROOMS		
Salaries	697,525	672,586
Supplies and expenses	<u>259,296</u>	<u>234,204</u>
	<u>956,821</u>	<u>906,790</u>
CENTRAL SERVICE AND SUPPLY		
Billable supplies	468,960	583,494
Supplies and expenses	<u>—</u>	<u>7,098</u>
	<u>468,960</u>	<u>590,592</u>

**Orange City Area Health System
NURSING SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
EMERGENCY SERVICE		
Salaries	\$ 1,370,129	\$ 1,319,393
Purchased services	55,324	125,654
Supplies and expenses	33,156	44,746
	<u>1,458,609</u>	<u>1,489,793</u>
AMBULANCE		
Salaries	83,022	65,570
Supplies and expenses	30,287	37,899
	<u>113,309</u>	<u>103,469</u>
HOME HEALTH		
Salaries	430,651	427,851
Purchased services	65,159	58,427
Supplies and expenses	97,492	112,842
	<u>593,302</u>	<u>599,120</u>
HOSPICE		
Salaries	247,403	251,307
Supplies and expenses	120,033	125,956
	<u>367,436</u>	<u>377,263</u>
 Totals	 <u>\$10,405,076</u>	 <u>\$10,510,829</u>

**Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
LABORATORY		
Salaries	\$ 523,710	\$ 522,490
Professional fees	319,123	352,441
Supplies and expenses	439,561	425,678
	<u>1,282,394</u>	<u>1,300,609</u>
RADIOLOGY		
Salaries	936,394	1,027,302
Professional fees	276,903	200,504
Purchased services	345,179	426,274
Supplies and expenses	191,809	250,562
	<u>1,750,285</u>	<u>1,904,642</u>
ONCOLOGY		
Salaries	31,218	36,951
Supplies and expenses	457	-
	<u>31,675</u>	<u>36,951</u>
PHARMACY		
Salaries	64,652	64,863
Purchased services	2,175,646	2,114,252
Supplies and expenses	11,463	11,609
	<u>2,251,761</u>	<u>2,190,724</u>
ANESTHESIOLOGY		
Salaries	139,972	284,200
Professional fees	621,082	539,720
Supplies and expenses	22,038	44,530
	<u>783,092</u>	<u>868,450</u>
RESPIRATORY THERAPY		
Salaries	121,933	116,153
Oxygen	36,809	6,347
Supplies and expenses	10,955	31,768
	<u>169,697</u>	<u>154,268</u>
PHYSICAL THERAPY		
Salaries	54,264	57,647
Purchased services	1,183,027	1,086,443
Supplies and expenses	27,107	21,652
	<u>1,264,398</u>	<u>1,165,742</u>
CARDIO PULMONARY		
Purchased services	207,909	168,658
Supplies and expenses	8	366
	<u>207,917</u>	<u>169,024</u>

**Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
SPEECH THERAPY		
Purchased services	\$ 24,179	\$ 27,928
AUDIOLOGY		
Purchased services	31,130	30,520
Supplies and expenses	180	14
	<u>31,310</u>	<u>30,534</u>
OCCUPATIONAL HEALTH SERVICES		
Salaries	88,748	87,210
Purchased services	679	1,038
Supplies and expenses	24,678	21,871
	<u>114,105</u>	<u>110,119</u>
ORANGE CITY MEDICAL CLINIC		
Salaries	3,814,554	3,553,406
Purchased services	609,239	621,231
Medical supplies	694,574	627,220
Supplies and expenses	50,148	46,776
Utilities	51,890	61,260
Telephone	16,751	10,729
Insurance	77,793	79,267
Employee benefits	1,038,837	940,867
	<u>6,353,786</u>	<u>5,940,756</u>
HOSPERS MEDICAL CLINIC		
Salaries	161,715	138,763
Purchased service	30,829	33,735
Medical supplies	11,871	14,937
Supplies and expenses	22,932	22,589
Utilities	2,442	1,949
Telephone	2,458	2,341
Employee benefits	65,785	47,969
	<u>298,032</u>	<u>262,283</u>
PAULLINA MEDICAL CLINIC		
Salaries	282,895	273,794
Purchased service	67,824	66,723
Medical supplies	28,777	25,975
Supplies and expenses	27,071	28,013
Utilities	6,385	5,274
Telephone	5,805	8,073
Employee benefits	89,291	86,886
	<u>508,048</u>	<u>494,738</u>
SPECIALTY CLINICS		
Salaries	161,414	122,570
Supplies and expenses	6,838	5,155
	<u>168,252</u>	<u>127,725</u>

**Orange City Area Health System
OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
SURGERY		
Salaries	\$ 679,441	\$ 695,910
Purchased services	2,550	-
Supplies and expenses	51,419	64,754
Utilities	<u>2,275</u>	<u>2,915</u>
	<u>735,685</u>	<u>763,579</u>
LANDSMEER RIDGE		
Salaries	481,163	461,510
Purchased services	8,678	8,044
Medical supplies	1,408	1,526
Supplies and expenses	253,563	180,313
Utilities	86,297	94,262
Telephone	11,482	12,065
Insurance	<u>6,264</u>	<u>4,828</u>
	<u>848,855</u>	<u>762,548</u>
SOCIAL SERVICE		
Salaries	<u>141,855</u>	<u>119,989</u>
MEDICAL RECORDS		
Salaries	328,905	302,541
Supplies and expenses	<u>17,411</u>	<u>19,011</u>
	<u>346,316</u>	<u>321,552</u>
Totals	<u>\$17,311,642</u>	<u>\$16,752,161</u>

**Orange City Area Health System
GENERAL SERVICE EXPENSES**

	Year ended June 30	
	2015	2014
DIETARY		
Salaries	\$ 286,687	\$ 278,450
Food	294,085	328,341
Supplies and expenses	68,864	73,770
	<u>649,636</u>	<u>680,561</u>
PLANT OPERATION AND MAINTENANCE		
Salaries	275,704	255,124
Utilities	498,375	540,455
Purchased services	53,540	56,134
Supplies and expenses	204,568	146,008
	<u>1,032,184</u>	<u>997,721</u>
HOUSEKEEPING		
Salaries	212,938	223,516
Supplies and expenses	60,262	67,962
	<u>273,200</u>	<u>291,478</u>
LAUNDRY AND LINEN		
Salaries	29,313	27,321
Supplies and expenses	1,694	14,861
	<u>31,007</u>	<u>42,182</u>
 Totals	 <u>\$1,986,027</u>	 <u>\$2,011,942</u>

**Orange City Area Health System
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
FISCAL AND ADMINISTRATIVE SERVICE		
Administrative and general		
Salaries	\$ 770,727	\$ 752,303
Management fees	440,411	404,614
Professional services	58,932	42,884
Collection	57,641	43,612
Telephone	60,227	73,262
Supplies and expenses	<u>1,354,743</u>	<u>786,898</u>
	<u>2,742,681</u>	<u>2,103,573</u>
Human resources		
Salaries	168,044	179,069
Supplies and expenses	<u>146,832</u>	<u>139,420</u>
	<u>314,876</u>	<u>318,489</u>
Regulatory affairs		
Salaries	52,397	74,727
Supplies and expenses	<u>1,824</u>	<u>1,767</u>
	<u>54,221</u>	<u>76,494</u>
Community relations		
Salaries	66,635	74,178
Supplies and expenses	<u>121,324</u>	<u>98,241</u>
	<u>187,959</u>	<u>172,419</u>
Receiving and stores		
Salaries	132,330	129,035
Supplies and expenses	<u>37,555</u>	<u>29,234</u>
	<u>169,885</u>	<u>158,269</u>
Admissions		
Salaries	247,202	231,011
Supplies and expenses	<u>8,490</u>	<u>9,333</u>
	<u>255,692</u>	<u>240,344</u>
Total fiscal and administrative expenses	<u>3,725,314</u>	<u>3,069,588</u>
UNASSIGNED EXPENSES		
Employee benefits		
Payroll taxes	1,424,841	2,110,879
Group health insurance	2,162,265	2,420,775
Other	183,092	177,729
Insurance	<u>566,791</u>	<u>448,830</u>
Total unassigned expenses	<u>4,336,989</u>	<u>5,158,213</u>
Totals	<u>\$8,062,303</u>	<u>\$8,227,801</u>

See accompanying independent auditor's report.

**Orange City Area Health System
COMPARATIVE STATISTICS
(Unaudited)**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
PATIENT DAYS		
Adult and pediatric	2,517	2,471
Nursery	547	600
Swing bed		
Skilled nursing care	1,324	1,324
Intermediate care	49	41
Intermediate care	<u>29,708</u>	<u>29,459</u>
Totals	<u>34,145</u>	<u>33,895</u>
ADMISSIONS		
Adult and pediatric	779	801
Swing bed		
Skilled nursing care	125	127
Intermediate care	11	14
Intermediate care	<u>27</u>	<u>32</u>
Total admissions	<u>942</u>	<u>974</u>
DISCHARGES		
Adult and pediatric	779	794
Swing bed		
Skilled nursing care	125	128
Intermediate care	11	14
Intermediate care	<u>29</u>	<u>27</u>
Total discharges	<u>944</u>	<u>963</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.23	3.11
Swing bed		
Skilled nursing care	10.59	10.34
Intermediate care	4.45	2.93
Intermediate care	1,024.41	1,091.07
BEDS		
Adult, pediatric and swing bed	25	25
Intermediate care	83	83
OCCUPANCY PERCENT		
Adult, pediatric and swing bed	48.62%	48.61%
Intermediate care	98.06%	97.24%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$113,752	\$108,380
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR	42.10	42.44

See accompanying independent auditor's report.



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

Board of Trustees
Orange City Area Health System,
an Administrative Agency of the City of Orange City, Iowa
d/b/a Orange City Area Health System
and Orange City Area Health Foundation
Orange City, 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 Orange City Area Health System (Hospital), and its component unit, Orange City Area Health System Foundation (Foundation), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital and Foundation's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and Foundation. 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

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 Hospital and Foundation'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 Hospital and Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
October 19, 2015

**Orange City Municipal Hospital
d/b/a Orange City Area Health System
SCHEDULE OF FINDINGS
Year ended June 30, 2015**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

Part II—Findings Related to Required Statutory Reporting

15-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

15-II-B TRAVEL EXPENSES

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

15-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and a Hospital official were noted.

15-II-D BOARD MINUTES

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

15-II-E DEPOSITS AND INVESTMENTS

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

15-II-F CERTIFIED BUDGET

Based on a comparison of actual and budgeted expenditures, it appears the Hospital did not exceed its budget for the year ended June 30, 2015.