

**Adair County Memorial Hospital**  
Greenfield, Iowa

**Basic Financial Statements and  
Supplementary Information  
June 30, 2016 and 2015**

**Together with Independent Auditor's Report**

# Adair County Memorial Hospital

## Table of Contents

---

	<u>Page</u>
Officials – June 30, 2016 .....	1
Independent Auditor's Report .....	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis .....	4-7
Basic Financial Statements:	
Statements of Net Position June 30, 2016 and 2015 .....	8
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2016 and 2015 .....	9
Statements of Cash Flows For the Years Ended June 30, 2016 and 2015 .....	10 – 11
Notes to Financial Statements June 30, 2016 and 2015 .....	12 – 29
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) .....	30
Schedule of the Hospital's Proportionate Share of the Net Pension Liability .....	31
Schedule of Hospital Contributions .....	32
Notes to Required Supplementary Information – Pension Liability .....	33
Supplementary Information:	
Exhibit 1 - Net Patient Service Revenue For the Years Ended June 30, 2016 and 2015 .....	34
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2016 and 2015 .....	35
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2016 and 2015 .....	36
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts June 30, 2016 and 2015 .....	37
Exhibit 5 - Inventories/Prepaid Expenses June 30, 2016 and 2015 .....	38
Exhibit 6 - Financial and Statistical Highlights For the Years Ended June 30, 2016 and 2015 .....	39
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 <i>Government Auditing Standards</i> .....	40 – 41
Schedule of Findings and Responses .....	42 – 43
Summary Schedule of Prior Year Audit Findings .....	44
Audit Staff .....	45

# Adair County Memorial Hospital

Officials  
June 30, 2016

---

<b>Board of Trustees</b>	<b>Title</b>	<b>Term Expires</b>
Willard Olesen	Chairperson	January 2021
Tad Day	Vice Chairperson	January 2019
Paul Nelson	Treasurer	January 2017
Dolch Clark	Member	January 2021
Rochelle Gilman	Member	January 2019
Marilyn Dolan	Member	January 2017
Lois Houghtaling	Member	January 2021

<b>Hospital Officials</b>	<b>Title</b>	<b>Term Expires</b>
Marcia Hendricks	Chief Executive Officer	Indefinite
Heather Shaul	Chief Financial Officer	Indefinite

## Independent Auditor's Report

To the Board of Trustees of  
Adair County Memorial Hospital  
Greenfield, Iowa:

### Report on the Financial Statements

We have audited the accompanying financial statements of Adair County Memorial Hospital (Hospital) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express 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 from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2016 and 2015, and the results of its operations, its changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the Hospital's proportionate share of the net pension liability, and the schedule of the Hospital contributions on pages 4 through 7 and pages 30 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our 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.

### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information (Exhibits 1 – 6) is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information (Exhibits 1 – 6) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2016 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Seim Johnson, LLP

Omaha, Nebraska,  
October 24, 2016.

# Adair County Memorial Hospital

## Management's Discussion and Analysis June 30, 2016 and 2015

---

### Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2016 and 2015. It should be read in conjunction with the accompanying financial statements of the Hospital.

### Financial Highlights

- The Hospital's operating loss decreased from \$998,136 in fiscal year 2015 to \$685,788 in fiscal year 2016 primarily due to a 10% increase in gross patient services revenue that increased net patient service revenue \$1,402,574 in 2016.
- The Hospital's operating loss increased from \$15,616 in fiscal year 2014 to \$998,136 in fiscal year 2015 primarily due operating revenue being flat between years; \$705,000 of EMR incentive payments received in fiscal year 2014 compared to zero in fiscal year 2015; and an increase in operating expenses due to increased depreciation expense, contract services, software maintenance fees, and 340B drug pricing program costs.
- Operating expenses increased by \$987,439 from fiscal year 2015 to fiscal year 2016 due to a \$598,354 increase in contract labor. Contract labor increases were due in part to the addition of a hospitalist, the opening of a new outpatient mental health department, and the replacement of employed staff during the year.
- During 2016, the Hospital completed a nearly \$3,000,000 project that renovated the surgery department and added approximately 1,400 square feet to the Hospital for a new admissions department. The project was funded entirely with Hospital reserves.

### Using This Annual Report

The Hospital's financial statements consist of three statements: a statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

### ***Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position***

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred inflows and outflows of resources, and liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. The Hospital's total net position – the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

### ***Statement of Cash Flows***

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

# Adair County Memorial Hospital

## Management's Discussion and Analysis June 30, 2016 and 2015

### The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred inflows and outflows of resources, and liabilities reported in the statement of net position. The Hospital's net position increased by \$691,714 in 2016 compared to 2015 and increased by \$267,420 in 2015 compared to 2014 (excluding GASB 68 restatement) as shown in Table 1.

**Table 1 - Condensed Statements of Net Position**

	<u>2016</u>	<u>2015</u>	<u>(not restated) 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Patient accounts receivable, net	\$ 1,364,125	1,557,527	1,160,077	(193,402)	-12%
Other current assets	7,292,679	8,774,247	7,383,588	(1,481,568)	-17%
Capital assets, net	9,967,996	7,908,046	8,695,161	2,059,950	26%
Other noncurrent assets	1,427,240	2,241,337	2,234,008	(814,097)	-36%
<b>Total assets</b>	<b>20,052,040</b>	<b>20,481,157</b>	<b>19,472,834</b>	<b>(429,117)</b>	<b>-2%</b>
<b>Deferred Outflows of Resources</b>					
	1,013,593	587,731	--	425,862	72%
<b>Total assets and deferred outflows of resources</b>	<b>\$ 21,065,633</b>	<b>21,068,888</b>	<b>19,472,834</b>	<b>(3,255)</b>	<b>0%</b>
<b>Liabilities:</b>					
Current liabilities	\$ 1,295,694	2,292,803	1,147,160	(997,109)	-43%
Long-term debt	8,005,949	7,959,127	8,268,896	46,822	1%
Net pension liability	2,892,438	2,343,057	--	549,381	23%
<b>Total liabilities</b>	<b>12,194,081</b>	<b>12,594,987</b>	<b>9,416,056</b>	<b>(400,906)</b>	<b>-3%</b>
<b>Deferred Inflows of Resources:</b>					
Unavailable property tax revenue	1,570,000	1,612,000	1,520,217	(42,000)	-3%
Pension related deferred inflows	729,524	981,587	--	(252,063)	-26%
<b>Total deferred inflows</b>	<b>2,299,524</b>	<b>2,593,587</b>	<b>1,520,217</b>	<b>(294,063)</b>	<b>-11%</b>
<b>Net Position:</b>					
Net investment in capital assets	2,205,225	230,644	692,367	1,974,581	856%
Restricted	19,889	8,299	6,521	11,590	140%
Unrestricted	4,346,914	5,641,371	7,837,673	(1,294,457)	-23%
<b>Total net position</b>	<b>6,572,028</b>	<b>5,880,314</b>	<b>8,536,561</b>	<b>691,714</b>	<b>12%</b>
<b>Total liabilities, deferred inflows of resources, and net position</b>	<b>\$ 21,065,633</b>	<b>21,068,888</b>	<b>19,472,834</b>	<b>(3,255)</b>	<b>0%</b>

Year ended June 30, 2016 - In fiscal year 2016 the total assets and deferred outflows of resources decreased by \$3,255. Capital assets, net, increased \$2,059,950 due in part to the completion of the renovation project. The project was funded with cash and cash equivalents, short-term investments and assets limited as to use or restricted which caused current and noncurrent assets to decrease \$1,481,568 and \$814,097, respectively.

Year ended June 30, 2015 - In fiscal year 2015 the total assets and deferred outflows of resources increased by \$1,596,054, or 8%. This was primarily caused by the recording of pension related deferred outflows, an increase in cash and cash equivalents of \$2,620,997 due to collection of prior year EHR incentive receivable of \$1,325,000 and an increase of net patient receivables of \$397,450. In fiscal year 2015 the total liabilities increased by \$3,178,931, or 34%, mainly due to the recording of the Hospital's net pension liability and an increase in the estimated third-party payor settlements.

# Adair County Memorial Hospital

## Management's Discussion and Analysis June 30, 2016 and 2015

### Operating Results and Changes in the Hospital's Net Position

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 \$2,923,667 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

**Table 2 - Condensed Statements of Revenue, Expenses, and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>(not restated) 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Operating Revenue:</b>					
Net patient service revenue	\$ 11,752,657	10,350,083	9,833,075	1,402,574	14%
Other operating revenue	698,898	801,685	1,328,298	(102,787)	-13%
Total operating revenue	<u>12,451,555</u>	<u>11,151,768</u>	<u>11,161,373</u>	<u>1,299,787</u>	<u>12%</u>
<b>Operating Expenses:</b>					
Salaries, wages and employee benefits	5,931,107	5,836,768	5,827,649	94,339	2%
Contract labor	3,229,672	2,631,318	2,221,354	598,354	23%
Depreciation and amortization	1,268,588	1,151,173	900,869	117,415	10%
Other operating	2,707,976	2,530,645	2,227,117	177,331	7%
Total operating expenses	<u>13,137,343</u>	<u>12,149,904</u>	<u>11,176,989</u>	<u>987,439</u>	<u>8%</u>
Operating Loss	<u>(685,788)</u>	<u>(998,136)</u>	<u>(15,616)</u>	<u>312,348</u>	<u>-31%</u>
<b>Nonoperating Revenue (Expense), Net:</b>					
Interest expense	(360,372)	(367,609)	(381,104)	7,237	-2%
Property taxes	1,608,453	1,532,397	1,485,978	76,056	5%
Investment income	24,690	22,435	36,482	2,255	10%
Noncapital gains and contributions	104,731	72,254	61,960	32,477	45%
Total nonoperating revenue, net	<u>1,377,502</u>	<u>1,259,477</u>	<u>1,203,316</u>	<u>118,025</u>	<u>9%</u>
Excess of revenue over expenses before capital grants and contributions	691,714	261,341	1,187,700	430,373	165%
Capital grants and contributions	--	6,079	4,725	(6,079)	-100%
Increase in net position	691,714	267,420	1,192,425	424,294	159%
Net position, beginning of year, as restated	<u>5,880,314</u>	<u>5,612,894</u>	<u>7,344,136</u>	<u>267,420</u>	<u>5%</u>
Net position, end of year	<u>\$ 6,572,028</u>	<u>5,880,314</u>	<u>8,536,561</u>	<u>691,714</u>	<u>12%</u>

### Operating Loss

The first component of the overall change in the Hospital's net position is its operating loss, generally the difference between net patient service and other operating revenue and the expenses incurred to perform those services. In 2016 the Hospital reported an operating loss of \$685,788 and in 2015 and 2014 the Hospital reported operating losses of \$998,136 and \$15,616, respectively. The decrease in the operating loss for 2016 is primarily due to a 10% increase in gross patient services revenue that increased net patient service revenue \$1,402,574 for the year.



## **Adair County Memorial Hospital**

### **Management's Discussion and Analysis June 30, 2016 and 2015**

---

The primary components impacting operating loss are as follows:

- In fiscal year 2016 net patient service revenue grew by \$1,402,574, due to increased outpatient volumes as well as a reduction in the provision for bad debt activity for the year. Other operating revenue decreased by \$102,787 in 2016 compared to 2015 due to a reduction in 340B drug pricing program volumes. Operating expenses increased by \$987,439 from fiscal year 2015 to fiscal year 2016 due to a \$598,354 increase in contract labor. Contract labor increases were due in part to the addition of a hospitalist, the opening of a new outpatient mental health department, and the replacement of employed staff during the year.
- In fiscal year 2015 net patient service revenue grew by \$517,008, due to increased outpatient volumes. Other operating revenue decreased by \$526,613 year-over-year, while overall operating expenses increased by \$972,915, principally due to increased depreciation expense and drug costs.

#### **Nonoperating Revenue (Expense), Net**

Nonoperating revenue includes county tax subsidies, investment income and noncapital grants and contributions while nonoperating expense includes interest expense. Net nonoperating revenue increased \$118,025 in 2016 due to a \$76,056 increase in tax receipts and a \$32,477 increase in noncapital grants and contributions.

#### **Cash Flows, Capital Assets, and Long-Term Debt**

Cash Flows - Hospital cash and cash equivalents decreased by \$2,375,105 in 2016 as compared to 2015 due to costs incurred for the renovation project as well as \$1,222,523 in changes in the estimated third-party payor settlements. Hospital cash and cash equivalents increased by \$2,620,997 in 2015 as compared to 2014 due to the collection of prior year EHR incentive receivable of \$1,325,000 and changes in the estimated third-party payor settlements.

Capital Assets - At the end of fiscal year 2016, the hospital had \$9,967,996 invested in capital assets, net of accumulated depreciation. During 2016 the Hospital completed its renovation project and entered into a capital lease for the purchase of a CT scanner. At the end of fiscal year 2015, the hospital had \$7,908,046 invested in capital assets, net of accumulated depreciation. In fiscal year 2015, the hospital had \$1,151,173 in depreciation expense and purchased \$381,655 in new fixed assets. See Note 7 for a detailed summary of capital assets.

Long-Term Debt (including Capital Leases) - At June 30, 2016, the Hospital had \$8,354,238 in cumulative long-term debt. During 2016, the Hospital entered into a capital lease of \$434,804 for the purchase of a CT scanner. At June 30, 2015, the Hospital had \$8,268,869 in cumulative long-term debt. The Hospital incurred no new debt during 2015. See Note 8 for a detailed summary of long-term debt.

#### ***Contacting Hospital's Chief Executive Officer***

This financial report is designed to provide our citizens, customers, and creditors with a general overview of Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Marcia Hendricks, CEO  
Adair County Memorial Hospital  
641-743-7234

# Adair County Memorial Hospital

## Statements of Net Position June 30, 2016 and 2015

<b>ASSETS</b>	<b>2016</b>	<b>2015</b>
Current assets:		
Cash and cash equivalents	\$ 2,478,075	4,853,180
Short-term investments	2,222,441	1,425,030
Assets limited as to use or restricted, current portion	371,142	333,230
Receivables -		
Patients, net of estimated allowance for doubtful accounts of \$251,052 in 2016 and \$238,000 in 2015	1,364,125	1,557,527
Succeeding year property taxes receivable	1,570,000	1,612,000
Other	153,813	113,718
Inventories	226,041	248,240
Prepaid expenses	150,321	188,849
Estimated third-party payor settlements	120,846	--
Total current assets	<u>8,656,804</u>	<u>10,331,774</u>
Noncurrent assets:		
Assets limited as to use or restricted, net of current portion	1,427,240	2,241,337
Capital assets, net	<u>9,967,996</u>	<u>7,908,046</u>
Total assets	<u>20,052,040</u>	<u>20,481,157</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	<u>1,013,593</u>	<u>587,731</u>
Total assets and deferred outflows of resources	<u>\$ 21,065,633</u>	<u>21,068,888</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 348,289	309,742
Accounts payable	378,064	324,275
Accrued salaries, vacation and benefits payable	546,488	533,621
Accrued interest payable	22,853	23,488
Estimated third-party payor settlements	--	1,101,677
Total current liabilities	<u>1,295,694</u>	<u>2,292,803</u>
Long-term liabilities:		
Long-term debt, net of current portion	8,005,949	7,959,127
Net pension liability	<u>2,892,438</u>	<u>2,343,057</u>
Total liabilities	<u>12,194,081</u>	<u>12,594,987</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	1,570,000	1,612,000
Pension related deferred inflows	<u>729,524</u>	<u>981,587</u>
Total deferred inflows of resources	<u>2,299,524</u>	<u>2,593,587</u>
<b>NET POSITION</b>		
Net investment in capital assets	2,205,225	230,644
Restricted - expendable for specific operating activities	19,889	8,299
Unrestricted	<u>4,346,914</u>	<u>5,641,371</u>
Total net position	<u>6,572,028</u>	<u>5,880,314</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 21,065,633</u>	<u>21,068,888</u>

See notes to financial statements

## Adair County Memorial Hospital

### Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 11,971,350	10,751,060
Provision for bad debt	<u>(218,693)</u>	<u>(400,977)</u>
Net patient service revenue	11,752,657	10,350,083
Other operating revenue	<u>698,898</u>	<u>801,685</u>
Total operating revenue	<u>12,451,555</u>	<u>11,151,768</u>
OPERATING EXPENSES:		
Salaries and wages	4,527,364	4,483,368
Employee benefits	1,403,743	1,353,400
Contract labor	3,229,672	2,631,318
Supplies	940,105	830,928
Facility costs	253,275	224,981
Repairs and maintenance	728,434	645,615
Insurance	78,877	67,958
Depreciation and amortization	1,268,588	1,151,173
Other	<u>707,285</u>	<u>761,163</u>
Total operating expenses	<u>13,137,343</u>	<u>12,149,904</u>
OPERATING LOSS	<u>(685,788)</u>	<u>(998,136)</u>
NONOPERATING REVENUE (EXPENSE), NET:		
Interest expense	(360,372)	(367,609)
County tax revenue	1,608,453	1,532,397
Investment income	24,690	22,435
Noncapital grants and contributions	<u>104,731</u>	<u>72,254</u>
Total nonoperating revenue, net	<u>1,377,502</u>	<u>1,259,477</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	691,714	261,341
CAPITAL GRANTS AND CONTRIBUTIONS	<u>--</u>	<u>6,079</u>
INCREASE IN NET POSITION	691,714	267,420
NET POSITION, beginning of year	<u>5,880,314</u>	<u>5,612,894</u>
NET POSITION, end of year	<u>\$ 6,572,028</u>	<u>5,880,314</u>

See notes to financial statements

## Adair County Memorial Hospital

### Statements of Cash Flows For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 10,723,536	12,524,119
Cash paid for employee salaries and benefits	(6,046,784)	(6,012,440)
Cash paid to suppliers and contractors	(5,863,227)	(5,098,917)
Other receipts and payments, net	703,539	801,685
	<u>(482,936)</u>	<u>2,214,447</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	104,731	72,254
County tax receipts	1,608,453	1,532,397
	<u>1,713,184</u>	<u>1,604,651</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(2,898,375)	(381,658)
Capital grants and contributions	--	6,079
Principal payments on long-term debt	(349,435)	(325,392)
Interest paid on long-term debt	(361,007)	(369,810)
	<u>(3,608,817)</u>	<u>(1,070,781)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to short-term investments and assets limited as to use or restricted	(21,226)	(149,755)
Investment income	24,690	22,435
	<u>3,464</u>	<u>(127,320)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,375,105)	2,620,997
CASH AND CASH EQUIVALENTS, beginning of year	4,853,180	2,232,183
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 2,478,075</u>	<u>4,853,180</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Equipment acquired under capital lease obligation	<u>\$ 434,804</u>	<u>--</u>

*See notes to financial statements*

## Adair County Memorial Hospital

### Statements of Cash Flows (Continued) For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	\$ (685,788)	(998,136)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,268,588	1,151,173
Loss on disposal of capital assets	4,641	--
Increase (decrease) in net pension liability	549,381	(959,843)
Increase in deferred outflows of resources	(425,862)	(208,498)
(Decrease) increase in deferred inflows of resources	(252,063)	981,587
(Increase) decrease in current assets -		
Receivables -		
Patients	193,402	(397,450)
Other	(40,095)	(9,769)
Inventories	22,199	(20,484)
Prepaid expenses	38,528	24,991
Estimated third-party payor settlements	(120,846)	1,469,809
Increase (decrease) in current liabilities -		
Accounts payable	53,789	68,308
Accrued salaries, vacation and benefits payable	12,867	11,082
Estimated third-party payor settlements	(1,101,677)	1,101,677
Net cash (used in) provided by operating activities	<u>\$ (482,936)</u>	<u>2,214,447</u>

*See notes to financial statements*

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### (1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a description of the reporting entity and a summary of significant accounting policies of Adair County Memorial Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital (CAH), operating with 25 acute-care beds. The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in the Adair County area.

#### A. *Reporting Entity*

For financial reporting purposes, Adair County Memorial Hospital has included all funds of the Hospital and all funds of Adair County Health Foundation (Foundation) as a blended component unit. The Hospital has considered all potential component entities 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of 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. Management has determined the Foundation is the only component unit.

The Foundation is a legally separate not-for-profit corporation that was formed to "protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services." The Adair County Memorial Hospital and the Adair County Health Foundation are collectively referred to as the "Hospital" throughout this report.

#### B. *Industry Environment*

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

#### C. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred inflows and outflows of resources, and liabilities, with the difference reported as net position. Net position is reported in the following categories:

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

### *D. Measurement Focus and Basis of Accounting*

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recognized when incurred.

### *E. Use of Estimates*

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

### *F. Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include investments in highly liquid debt instruments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees, donor or debt agreement.

### *G. Short-Term Investments*

Short-term investments are assets available for operations without donor imposed restrictions. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at cost.

### *H. Patient Receivables, Net*

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debt for those accounts over a certain age based on discharge that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debt in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

*I. Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for that fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year.

However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*J. Inventories*

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

*K. Assets Limited as to Use or Restricted*

Assets limited as to use or restricted include the following:

By Indenture Agreements – These funds are reserve funds as specified under indenture agreements.

By Board of Trustees - Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

*L. Investment Income*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses before capital grants and contributions unless the investments are trading securities. Periodically the Hospital reviews its investments to determine whether any unrealized losses are other than temporary. During 2016 and 2015, there were no investment declines that were determined to be other than temporary.

*M. Capital Assets, Net*

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.



# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings, leasehold improvements, and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital's capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

Gifts of capital assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as restricted support. Absent explicit donor stipulations about how long those capital assets must be maintained, expirations of donor restrictions are reported when the donated or acquired capital assets are placed into service.

*N. 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.

*O. Compensated Absences*

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits and earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. Accrued compensated absences payable at June 30, 2016 and 2015 was \$266,472 and \$270,691, respectively.

*P. Pensions*

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

*Q. 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 statements of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

R. *Income Taxes*

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

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

S. *Statements of Revenue, Expenses, and Changes in Net Position*

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of health care services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenue and peripheral or incidental transactions are reported as nonoperating revenue and expenses.

T. *Net Patient Service Revenue*

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. 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.

U. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from revenue under the Hospital's charity care policy were \$17,672 and \$29,119 for 2016 and 2015, respectively.

V. *Grants and Contributions*

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

W. *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. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### X. Subsequent Events

The Hospital considered events occurring through October 24, 2016 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

### (2) Cash, Short-Term Investments and Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2016 and 2015 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to 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, and warrants or improvement certificates of a drainage district. The Hospital had only certificates of deposit investments at June 30, 2016 and 2015.

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

The Hospital had no investments meeting the disclosure requirements of GASB Statement No. 72.

The composition of short-term investments and assets limited as to use or restricted as of June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Short-term investments:		
Operating reserves -		
Certificates of deposit	\$ 2,218,824	1,421,455
Accrued interest	3,617	3,575
Total short-term investments	<u>\$ 2,222,441</u>	<u>1,425,030</u>
Assets limited as to use or restricted:		
By indenture agreements -		
Cash and cash equivalent	\$ 360,721	331,115
Certificates of deposit	640,124	636,302
	1,000,845	967,417
By Board of Trustees for capital improvement,		
Certificates of deposit	797,537	1,607,150
Total assets limited as to use or restricted	1,798,382	2,574,567
Less amounts required to meet current obligations	371,142	333,230
Assets limited as to use or restricted, net of current portion	<u>\$ 1,427,240</u>	<u>2,241,337</u>

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### (3) 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 is as follows:

**Medicare** - Inpatient acute care services rendered to Medicare program beneficiaries in a CAH are paid based on Medicare defined costs of providing the services. Outpatient services and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2014.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment.

**Medicaid** - Inpatient acute services and outpatient services rendered to Iowa Medicaid program beneficiaries in a CAH are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital. On April 1, 2016 most existing and future Iowa Medicaid members were enrolled in IA Health Link. IA Health Link brings together physical, behavioral and long-term care under one program across Iowa which is covered by managed care organizations. The Hospital is reimbursed prospectively by the managed care organizations.

**Commercial** - The Hospital has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's gross patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 954,976	1,030,897
Outpatient	11,847,902	10,338,634
Clinics	<u>2,063,462</u>	<u>2,101,135</u>
Total gross patient service revenue	<u>14,866,340</u>	<u>13,470,666</u>
Deductions from gross patient service revenue:		
Medicare	222,101	392,365
Medicaid	524,168	412,257
Other payors	2,131,049	1,885,865
Charity care	<u>17,672</u>	<u>29,119</u>
Total deductions from gross patient service revenue	<u>2,894,990</u>	<u>2,719,606</u>
Net patient service revenue before provision for bad debt	<u>\$ 11,971,350</u>	<u>10,751,060</u>

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 52% and 14%, respectively, of the Hospital's net patient revenue for the years ended June 30, 2016 and 2015. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2016 and 2015 net patient service revenue increased approximately \$120,000 and \$40,000, respectively, due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years no longer subject to audits, review, and investigations.

### (4) Other Operating Revenue

Other operating revenue for the years ended June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Pharmacy revenue – 340B drug pricing program	\$ 343,695	478,349
Grants	241,431	197,580
Meals sold	56,580	38,368
Lifeline	22,035	22,808
Loss on disposal of capital assets	(4,641)	--
Other	39,798	64,580
	<u>\$ 698,898</u>	<u>801,685</u>

#### 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter into certain contracts with unrelated pharmacies who provide certain prescriptive drugs to Hospital patients who receive rural health clinic and outpatient services. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future. During 2016 and 2015 the Hospital recognized \$343,695 and \$478,349, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

### (5) Health Information Technology Incentive

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among healthcare providers. During 2016 and 2015, the Hospital qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive amounts are computed using several elements, one of which includes using the value of undepreciated assets required to implement the EHR system. As of June 30, 2016 and 2015 the Hospital has deferred approximately \$358,000 and \$481,000, respectively, related to future Medicare reimbursement. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

### (6) Composition of Patient Receivables

Patient receivables as of June 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Patient receivables	\$ 1,987,777	2,010,027
Less estimated third-party contractual adjustments	(372,600)	(214,500)
Less allowance for doubtful accounts	<u>(251,052)</u>	<u>(238,000)</u>
	<u>\$ 1,364,125</u>	<u>1,557,527</u>

The Hospital is located in Greenfield, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2016</u>	<u>2015</u>
Medicare	25%	33%
Medicaid	14	9
Other third-party payors	36	37
Patients	<u>25</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>

### (7) Capital Assets, Net

Capital assets activity for the years ended June 30, 2016 and 2015 were as follows:

	<u>June 30, 2015</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2016</u>
Capital assets, not being depreciated:				
Land	\$ 50,806	47,000	--	97,806
Construction in progress	172,083	2,777,516	(2,935,673)	13,926
Total capital assets, not being depreciated	<u>222,889</u>	<u>2,824,516</u>	<u>(2,935,673)</u>	<u>111,732</u>
Capital assets, being depreciated:				
Land improvements	371,843	--	175,914	547,757
Building and leasehold improvements	9,471,616	48,185	2,338,113	11,857,914
Fixed equipment	1,016,852	--	144,852	1,161,704
Major movable equipment	5,332,955	512,683	(479,163)	5,366,475
Total capital assets, being depreciated	<u>16,193,266</u>	<u>560,868</u>	<u>2,179,716</u>	<u>18,933,850</u>
Less accumulated depreciation:				
Land improvements	252,191	20,758	--	272,949
Building and leasehold improvements	4,129,812	538,433	--	4,668,245
Fixed equipment	754,775	53,767	(16,471)	792,071
Major movable equipment	3,371,331	655,630	(682,640)	3,344,321
Total accumulated depreciation	<u>8,508,109</u>	<u>1,268,588</u>	<u>(699,111)</u>	<u>9,077,586</u>
Total capital assets, being depreciated, net	<u>7,685,157</u>	<u>(707,720)</u>	<u>2,878,827</u>	<u>9,856,264</u>
Total capital assets, net	<u>\$ 7,908,046</u>	<u>2,116,796</u>	<u>(56,846)</u>	<u>9,967,996</u>

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 50,806	--	--	50,806
Construction in progress	148,418	23,665	--	172,083
Total capital assets, not being depreciated	<u>199,224</u>	<u>23,665</u>	<u>--</u>	<u>222,889</u>
Capital assets, being depreciated:				
Land improvements	371,843	--	--	371,843
Building and leasehold improvements	9,391,659	55,565	24,392	9,471,616
Fixed equipment	1,014,002	27,242	(24,392)	1,016,852
Major movable equipment	5,075,369	252,504	5,082	5,332,955
Total capital assets, being depreciated	<u>15,852,873</u>	<u>335,311</u>	<u>5,082</u>	<u>16,193,266</u>
Less accumulated depreciation:				
Land improvements	236,088	16,103	--	252,191
Building and leasehold improvements	3,650,058	479,754	--	4,129,812
Fixed equipment	708,773	46,002	--	754,775
Major movable equipment	2,762,017	609,314	--	3,371,331
Total accumulated depreciation	<u>7,356,936</u>	<u>1,151,173</u>	<u>--</u>	<u>8,508,109</u>
Total capital assets, being depreciated, net	<u>8,495,937</u>	<u>(815,862)</u>	<u>5,082</u>	<u>7,685,157</u>
Total capital assets, net	<u>\$ 8,695,161</u>	<u>(792,197)</u>	<u>5,082</u>	<u>7,908,046</u>

Depreciation and amortization expense related to capital assets of \$1,268,588 and \$1,151,173 in 2016 and 2015, respectively, is included in the accompanying statements of revenue, expenses and changes in net position. Construction in progress at June 30, 2015 is related to architecture and other planning fees related to a renovation project that was completed in January 2016. The project was funded with internal funds.

### (8) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2016 and 2015 consisted of the following:

	June 30, 2015	Borrowings	Payments	June 30, 2016	Due Within One Year
Hospital revenue bonds					
series 2007A (A)	\$ 3,990,000	--	(100,000)	3,890,000	105,000
REC loan (B)	90,000	--	(30,000)	60,000	30,000
USDA series A and B (C)	4,042,141	--	(101,909)	3,940,232	106,194
Capital leases (D)	146,728	434,804	(117,526)	464,006	107,095
	<u>\$ 8,268,869</u>	<u>434,804</u>	<u>(349,435)</u>	<u>8,354,238</u>	<u>348,289</u>
	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Hospital revenue bonds					
series 2007A (A)	\$ 4,085,000	--	(95,000)	3,990,000	100,000
REC loan (B)	120,000	--	(30,000)	90,000	30,000
USDA series A and B (C)	4,139,939	--	(97,798)	4,042,141	101,910
Capital leases (D)	249,322	--	(102,594)	146,728	77,832
	<u>\$ 8,594,261</u>	<u>--</u>	<u>(325,392)</u>	<u>8,268,869</u>	<u>309,742</u>

## Adair County Memorial Hospital

### Notes to Financial Statements June 30, 2016 and 2015

- (A) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially ranging from \$100,000 to \$280,000 through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%, collateralized by the Hospital's net revenue. The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.
- (B) The REC Loan is a Rural Economic Development Loan for \$300,000 to finance an addition to the Hospital. The Loan is a zero interest bearing loan and the Hospital is required to make annual payments of \$30,000 over ten years; the first payment was made August 2008.
- (C) The USDA 2009 Series A and B bonds; \$4,500,000 maturing May 2039 with interest only payments monthly for the first 24 months, interest at 4.125%. Annual payments including principal and interest are \$266,760 on an aggregate basis.
- (D) Two capital lease obligations, payable in monthly installments of \$2,093 and \$7,340, including interest at 0.19% and 1.68%, with maturity dates of March 2019 and February 2021, collateralized by leased equipment.

A summary of the Hospital's future principal and interest payments as of June 30, 2016 is as follows:

Year	Principal	Interest	Total
2017	\$ 348,289	355,987	704,276
2018	359,187	345,344	704,531
2019	334,017	334,200	668,217
2020	326,477	322,586	649,063
2021	308,564	310,533	619,097
2022-2026	1,419,600	1,372,320	2,791,920
2027-2031	1,776,860	1,013,883	2,790,743
2032-2036	2,226,221	554,427	2,780,648
2037-2039	1,255,023	71,502	1,326,525
	<u>\$ 8,354,238</u>	<u>4,680,782</u>	<u>13,035,020</u>

In conjunction with the issuance of the Hospital Revenue Bonds Series 2007A, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund and a sinking fund which are included on the statements of net position as assets limited as to use or restricted. In addition, the Hospital is required to meet a debt service coverage ratio of 1.20% or above. At June 30, 2016 and 2015, the Hospital met the debt service coverage ratio requirement.

In conjunction with the issuance of the USDA 2009 Series A and B bonds, the Hospital has agreed to comply with certain covenants as described in the related Note Resolution. In accordance with the Note Resolution, the Hospital has established a debt service reserve fund which is included on the statements of net position as assets limited as to use or restricted.

The following is a summary of capitalized leased assets included in capital assets:

	2016	2015
Major movable equipment	\$ 553,936	501,777
Less: accumulated depreciation	90,755	350,904
	<u>\$ 463,181</u>	<u>150,873</u>



# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### (9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$3,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

### (10) Pension Plan

#### Plan Description

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS 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](http://www.ipers.org).

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

#### Pension Benefits

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

The formula used to calculate a Regular member's monthly IPERS benefit includes:

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

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

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

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### Disability and Death Benefits

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

### Contributions

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

In fiscal years 2016 and 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the years ended June 30, 2016 and 2015 were \$375,992 and \$388,216 respectively.

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

At June 30, 2016, the Hospital reported a liability of \$2,892,438 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's proportion was 0.058545%, which was a decrease of 0.000535% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Hospital recognized pension expense of \$265,386. At June 30, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 44,186	6,163
Changes of assumptions	80,519	95
Net difference between projected and actual earnings on IPERS' investments	465,541	723,266
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	47,355	--
Hospital contributions subsequent to the measurement date	<u>375,992</u>	<u>--</u>
Total	<u>\$ 1,013,593</u>	<u>729,524</u>

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

Deferred outflows of resources related to pensions included \$375,992 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, 2017. 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 Ended</u> <u>June 30,</u>	
2017	\$ (79,942)
2018	(79,942)
2019	(79,942)
2020	128,641
2021	<u>19,262</u>
	\$ <u><u>(91,923)</u></u>

There were no non-employer contributing entities at IPERS.

### Actuarial Assumptions

The total pension liability in the June 30, 2015 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% per annum
Rates of salary increases (effective June 30, 2010)	4.00% to 17.00%, average, including inflation. Rates vary by membership group
Long-term investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

The long-term expected rate of return on IPERS investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of IPERS 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:

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core Plus Fixed Income	28%	2.04%
Domestic Equity	24	6.29
International Equity	16	6.75
Private Equity/Debt	11	11.32
Real Estate	8	3.48
Credit Opportunities	5	3.63
U.S. TIPS	5	1.91
Other Real Assets	2	6.24
Cash	1	(0.71)
Total	<u>100%</u>	

### Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS'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 IPERS investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 5,220,830	2,892,438	927,453

### IPERS Fiduciary Net Position

Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### Payables to the IPERS

At June 30, 2016, the Hospital reported payables to IPERS of \$20,927 for legally required employer contributions and \$13,944 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

### (11) Designated Net Position

Of the \$4,346,914 and \$5,641,371 of unrestricted net position in 2016 and 2015, respectively, \$797,537 and \$1,607,150 has been designated by the Hospital's Board of Trustees for capital improvements. Designated funds remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

---

### (12) Restricted Net Position

At June 30, 2016 and 2015, restricted expendable net position was available for the following purposes:

	<u>2016</u>	<u>2015</u>
Operations	\$ 19,234	2,029
Capital assets	655	6,270
	<u>\$ 19,889</u>	<u>8,299</u>

### (13) Management Contract

In November 2012, the Hospital entered into a contractual arrangement with Mercy Health Network, Inc. (MHN), under which MHN provides management and other services to the Hospital. Prior to that date the Hospital had a similar arrangement with Mercy Medical Center – Des Moines (Mercy). These arrangements do not alter the authority or responsibility of the Board of Trustees of the Hospital. The amount paid to MHN and Mercy for services during the years ended June 30, 2016 and 2015 were \$672,536 and \$590,534, respectively.

### (14) Commitments and Contingencies

The Hospital leases certain equipment under operating leases expiring at various dates through 2021. The following is a schedule by year of the future minimum lease payments under operating leases as of June 30, 2016 that have initial lease terms in excess of one year:

2017	\$ 36,252
2018	36,252
2019	36,252
2020	36,252
2021	<u>24,942</u>
	<u>\$ 169,950</u>

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

### (15) Combining Statements of Blended Component Unit

The information below is the combining information of the blended component unit described in Note 1:

#### Combining Statement of Net Position – June 30, 2016

	Adair County Memorial Hospital	Adair County Health Foundation	Eliminations	Total
<b>ASSETS</b>				
Total current assets	\$ 8,592,432	64,372	--	8,656,804
Net capital assets	9,967,996	--	--	9,967,996
Other noncurrent assets	1,427,240	--	--	1,427,240
Total assets	19,987,668	64,372	--	20,052,040
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related deferred outflows	1,013,593	--	--	1,013,593
Total assets and deferred outflows of resources	\$ 21,001,261	64,372	--	21,065,633
<b>LIABILITIES</b>				
Current liabilities	\$ 1,295,694	--	--	1,295,694
Long-term debt	8,005,949	--	--	8,005,949
Net pension liability	2,892,438	--	--	2,892,438
Total liabilities	12,194,081	--	--	12,194,081
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable property tax revenue	1,570,000	--	--	1,570,000
Pension related deferred inflows	729,524	--	--	729,524
Total deferred inflows of resources	2,299,524	--	--	2,299,524
<b>NET POSITION</b>				
Net investment in capital assets	2,205,225	--	--	2,205,225
Restricted - expendable	--	19,889	--	19,889
Unrestricted	4,302,431	44,483	--	4,346,914
Total net position	6,507,656	64,372	--	6,572,028
Total liabilities, deferred inflows of resources and net position	\$ 21,001,261	64,372	--	21,065,633

# Adair County Memorial Hospital

## Notes to Financial Statements June 30, 2016 and 2015

### Combining Statement of Revenue, Expenses and Changes in Net Position – For the year ended June 30, 2016

	<b>Adair County Memorial Hospital</b>	<b>Adair County Health Foundation</b>	<b>Eliminations</b>	<b>Total</b>
Operating revenue:				
Net patient service revenue	\$ 11,752,657	--	--	11,752,657
Other operating revenue	698,898	--	--	698,898
Total operating revenue	<u>12,451,555</u>	<u>--</u>	<u>--</u>	<u>12,451,555</u>
Operating expenses:				
Salaries and employee benefits	5,931,107	--	--	5,931,107
Contract labor	3,229,672	--	--	3,229,672
Supplies and other expenses	2,657,072	80,454	(29,550)	2,707,976
Depreciation	1,268,588	--	--	1,268,588
Total operating expenses	<u>13,086,439</u>	<u>80,454</u>	<u>(29,550)</u>	<u>13,137,343</u>
Operating loss	(634,884)	(80,454)	29,550	(685,788)
Nonoperating revenue, net	1,274,332	103,170	--	1,377,502
Excess of revenue over expenses before capital grants and contributions	639,448	22,716	29,550	691,714
Capital grants and contributions	29,550	--	(29,550)	--
Increase in net position	668,998	22,716	--	691,714
Net position, beginning of year	5,838,658	41,656	--	5,880,314
Net position, end of year	<u>\$ 6,507,656</u>	<u>64,372</u>	<u>--</u>	<u>6,572,028</u>

### Combining Statement of Cash Flows – For the year ended June 30, 2016

	<b>Adair County Memorial Hospital</b>	<b>Adair County Health Foundation</b>	<b>Eliminations</b>	<b>Total</b>
Net cash from operating activities	\$ (386,074)	(67,312)	(29,550)	(482,936)
Net cash from noncapital financing activities	1,713,184	--	--	1,713,184
Net cash from capital and related financing activities	(3,711,987)	103,170	--	(3,608,817)
Net cash from investing activities	(26,086)	--	29,550	3,464
Change in cash and cash equivalents	(2,410,963)	35,858	--	(2,375,105)
Cash and cash equivalents, beginning of year	4,824,666	28,514	--	4,853,180
Cash and cash equivalents, end of year	<u>\$ 2,413,703</u>	<u>64,372</u>	<u>--</u>	<u>2,478,075</u>

## Adair County Memorial Hospital

### Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information June 30, 2016

---

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2016, Adair County Memorial Hospital's (excludes the Adair County Health Foundation) expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	\$ 1,608,453	--	1,608,453	1,450,026	158,427
Add: Other revenue / receipts	12,507,356	(1,024,480)	11,482,876	13,097,138	(1,614,262)
Less: Expenses / disbursements	<u>13,446,811</u>	<u>2,055,481</u>	<u>15,502,292</u>	<u>16,376,824</u>	<u>874,532</u>
Net	668,998	(3,079,961)	(2,410,963)	<u>(1,829,660)</u>	<u>(581,303)</u>
Balance, beginning of year	<u>5,838,658</u>	<u>(1,013,992)</u>	<u>4,824,666</u>		
Balance, end of year	<u>\$ 6,507,656</u>	<u>(4,093,953)</u>	<u>2,413,703</u>		

*See accompanying independent auditor's report*



## Adair County Memorial Hospital

### Schedule of the Hospital's Proportionate Share of the Net Pension Liability Required Supplementary Information June 30, 2016

---

	Iowa Public Employees' Retirement System Last Two Fiscal Years* (In Thousands)	<u>2016</u>	<u>2015</u>
Hospital's proportion of net pension liability		0.058545%	0.059080%
Hospital's proportionate share of the net pension liability		\$ 2,892	2,343
Hospital's covered-employee payroll		\$ 4,347	4,247
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		66.52%	55.17%
Plan fiduciary net position as a percentage of the total pension liability		85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding year.

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

*See accompanying independent auditor's report*

**Adair County Memorial Hospital**

**Schedule of Hospital Contributions  
Required Supplementary Information  
June 30, 2016**

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years  
(In Thousands)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Statutorily required contribution	\$ 376	388	379	351	306	276	251	222	190	170
Contributions in relation to the statutorily required contribution	<u>376</u>	<u>388</u>	<u>379</u>	<u>351</u>	<u>306</u>	<u>276</u>	<u>251</u>	<u>222</u>	<u>190</u>	<u>170</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Hospital's covered-employee payroll	\$ 4,210	4,347	4,247	4,043	3,794	3,967	3,774	3,496	3,140	2,957
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

*See accompanying independent auditor's report*

## Adair County Memorial Hospital

### Notes to Required Supplementary Information – Pension Liability June 30, 2016

---

#### Notes to Required Supplementary Information – Pension Liability

##### Changes of benefit terms

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

Legislative action, in 2008, 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.

##### Changes of assumptions

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

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

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

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

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

**Net Patient Service Revenue  
For the Years Ended June 30, 2016 and 2015**

	2016				2015			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
<b>DAILY PATIENT SERVICES:</b>								
Medical and surgical	\$ 191,564	(12,656)	--	178,908	301,736	12,656	--	314,392
Swing-bed	--	--	195,961	195,961	--	--	197,813	197,813
Hospital physicians	476	63,990	--	64,466	330	38,711	--	39,041
	<u>192,040</u>	<u>51,334</u>	<u>195,961</u>	<u>439,335</u>	<u>302,066</u>	<u>51,367</u>	<u>197,813</u>	<u>551,246</u>
<b>NURSING SERVICES:</b>								
Operating and recovery rooms	--	910,092	--	910,092	--	829,892	--	829,892
Emergency room	778	755,975	--	756,753	2,766	701,460	--	704,226
Emergency physicians	--	244,959	--	244,959	--	257,098	--	257,098
	<u>778</u>	<u>1,911,026</u>	<u>--</u>	<u>1,911,804</u>	<u>2,766</u>	<u>1,788,450</u>	<u>--</u>	<u>1,791,216</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Laboratory	94,056	2,364,982	23,311	2,482,349	125,631	2,278,807	26,268	2,430,706
Central services and supplies	4,997	127,278	2,820	135,095	10,775	97,655	2,264	110,694
Blood administration	--	31,521	347	31,868	10,379	16,973	2,688	30,040
Electrocardiology	5,434	740,137	312	745,883	3,091	520,148	1,664	524,903
Ambulance	21,741	603,475	5,856	631,072	30,604	557,498	586	588,688
Radiology	7,275	739,229	1,773	748,277	14,060	705,430	1,667	721,157
MRI	3,782	300,235	--	304,017	3,032	298,631	--	301,663
Mammography	--	136,648	--	136,648	--	146,664	--	146,664
CT	11,450	1,197,352	--	1,208,802	20,842	909,224	--	930,066
Nuclear medicine	--	14,557	1,606	16,163	--	24,327	--	24,327
Home health	--	879,382	--	879,382	--	912,379	--	912,379
Pharmacy	91,937	896,795	41,490	1,030,222	115,322	716,353	47,987	879,662
Intravenous therapy	131,213	288,380	4,240	423,833	--	132,615	--	132,615
Ultrasound	1,263	151,053	1,062	153,378	1,719	159,390	--	161,109
Anesthesiology	--	219,719	--	219,719	--	171,994	--	171,994
Respiratory therapy	7,595	11,180	5,394	24,169	7,650	2,754	1,386	11,790
Physical therapy	6,098	853,835	51,226	911,159	8,182	720,374	48,576	777,132
Occupational therapy	2,416	21,475	32,747	56,638	2,916	17,760	40,302	60,978
Speech therapy	--	17,599	3,149	20,748	--	5,733	661	6,394
Fontanelle clinic	--	112,212	--	112,212	--	238,747	--	238,747
Stuart clinic	--	639,984	--	639,984	--	605,610	--	605,610
Greenfield clinic	--	1,247,276	--	1,247,276	--	1,218,067	--	1,218,067
Cardiac rehab	--	92,501	--	92,501	--	81,430	--	81,430
Observation rooms	1,607	95,634	--	97,241	--	61,389	--	61,389
Mental health services	--	166,565	--	166,565	--	--	--	--
	<u>390,864</u>	<u>11,949,004</u>	<u>175,333</u>	<u>12,515,201</u>	<u>354,203</u>	<u>10,599,952</u>	<u>174,049</u>	<u>11,128,204</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<b>\$ <u>583,682</u></b>	<b><u>13,911,364</u></b>	<b><u>371,294</u></b>	<b><u>14,866,340</u></b>	<b><u>659,035</u></b>	<b><u>12,439,769</u></b>	<b><u>371,862</u></b>	<b><u>13,470,666</u></b>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,877,318)				(2,690,487)
Charity care services and other discounts, based on charges forgone				<u>(17,672)</u>				<u>(29,119)</u>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<b>11,971,350</b>				<b>10,751,060</b>
<b>PROVISION FOR BAD DEBT</b>				<b><u>(218,693)</u></b>				<b><u>(400,977)</u></b>
<b>NET PATIENT SERVICE REVENUE</b>				<b>\$ <u>11,752,657</u></b>				<b><u>10,350,083</u></b>

See accompanying independent auditor's report

**Other Operating Revenue**  
**For the Years Ended June 30, 2016 and 2015**

---

	<u>2016</u>	<u>2015</u>
Pharmacy revenue - 340B drug pricing program	\$ 343,695	478,349
Grants	241,431	197,580
Meals sold	56,580	38,368
Lifeline	22,035	22,808
Loss on disposal of capital assets	(4,641)	--
Other	<u>39,798</u>	<u>64,580</u>
	<u>\$ 698,898</u>	<u>801,685</u>

*See accompanying independent auditor's report*

**Departmental Expenses  
For the Years Ended June 30, 2016 and 2015**

	2016			2015		
	Salaries	Other	Total	Salaries	Other	Total
<b>NURSING SERVICES:</b>						
Medical and surgical	\$ 692,429	222,671	915,100	607,008	169,243	776,251
Emergency room	366,342	575,022	941,364	388,286	537,729	926,015
Operating and recovery rooms	89,827	103,796	193,623	84,126	53,865	137,991
Hospital physicians	--	13,948	13,948	--	10,040	10,040
	<u>1,148,598</u>	<u>915,437</u>	<u>2,064,035</u>	<u>1,079,420</u>	<u>770,877</u>	<u>1,850,297</u>
<b>OTHER PROFESSIONAL SERVICES:</b>						
Laboratory	195,508	302,434	497,942	186,171	267,717	453,888
Blood administration	--	12,349	12,349	--	7,122	7,122
Electrocardiology	1,808	160,827	162,635	1,102	140,532	141,634
Ambulance	85,592	23,244	108,836	80,289	29,287	109,576
Radiology	188,756	236,285	425,041	165,866	240,432	406,298
MRI	--	45,940	45,940	--	48,345	48,345
Mammography	--	6,917	6,917	--	8,296	8,296
CT	--	84,362	84,362	--	113,132	113,132
Ultrasound	--	13,510	13,510	--	14,940	14,940
Home health	364,489	98,712	463,201	426,371	124,444	550,815
Pharmacy	25,577	570,481	596,058	23,593	745,287	768,880
Anesthesiology	--	93,900	93,900	--	100,800	100,800
Respiratory therapy	--	6,690	6,690	--	7,244	7,244
Physical therapy	--	333,340	333,340	--	279,676	279,676
Occupational therapy	--	20,587	20,587	--	20,504	20,504
Speech therapy	--	7,594	7,594	--	1,497	1,497
Stuart clinic	462,970	111,289	574,259	463,442	169,545	632,987
Fontanelle clinic	67,319	61,471	128,790	174,517	51,303	225,820
Greenfield clinic	706,016	607,476	1,313,492	716,783	413,228	1,130,011
Renal clinic	50,149	167,837	217,986	48,860	89,933	138,793
Medical records	124,648	7,810	132,458	118,682	8,831	127,513
Cardiac rehab	57,370	10,484	67,854	75,806	4,989	80,795
Lifeline	1,757	7,876	9,633	995	12,550	13,545
Mental health services	13,229	207,510	220,739	--	--	--
	<u>2,345,188</u>	<u>3,198,925</u>	<u>5,544,113</u>	<u>2,482,477</u>	<u>2,899,634</u>	<u>5,382,111</u>
<b>GENERAL SERVICES:</b>						
Plant operation and maintenance	71,256	117,396	188,652	32,217	219,321	251,538
Dietary	129,139	44,959	174,098	101,123	40,013	141,136
Laundry	10,433	25,265	35,698	12,989	26,726	39,715
Housekeeping	92,268	5,432	97,700	89,080	5,308	94,388
	<u>303,096</u>	<u>193,052</u>	<u>496,148</u>	<u>235,409</u>	<u>291,368</u>	<u>526,777</u>
<b>ADMINISTRATIVE SERVICES</b>						
	<u>730,482</u>	<u>1,500,453</u>	<u>2,230,935</u>	<u>686,062</u>	<u>1,101,947</u>	<u>1,788,009</u>
<b>NONDEPARTMENTAL:</b>						
Employee benefits	--	1,403,743	1,403,743	--	1,353,400	1,353,400
Depreciation and amortization	--	1,268,588	1,268,588	--	1,151,173	1,151,173
Insurance	--	78,877	78,877	--	67,958	67,958
Administrative services - Foundation	--	50,904	50,904	--	30,179	30,179
	<u>--</u>	<u>2,802,112</u>	<u>2,802,112</u>	<u>--</u>	<u>2,602,710</u>	<u>2,602,710</u>
<b>TOTAL EXPENSES</b>	<b>\$ <u>4,527,364</u></b>	<b><u>8,609,979</u></b>	<b><u>13,137,343</u></b>	<b><u>4,483,368</u></b>	<b><u>7,666,536</u></b>	<b><u>12,149,904</u></b>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts  
June 30, 2016 and 2015**

ANALYSIS OF AGING:

Days Since Discharge	2016		2015	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,176,951	59 %	967,924	48 %
31 - 60	267,831	13	288,543	14
61 - 90	161,296	8	266,770	13
91 - 120	110,290	6	131,912	7
121 and over	271,409	14	354,878	18
	<u>1,987,777</u>	<u>100 %</u>	<u>2,010,027</u>	<u>100 %</u>
Less:				
Allowance for doubtful accounts	(251,052)		(238,000)	
Allowance for contractual adjustments	<u>(372,600)</u>		<u>(214,500)</u>	
	<u>\$ 1,364,125</u>		<u>1,557,527</u>	

	2016	2015
ALLOWANCE FOR DOUBTFUL ACCOUNTS:		
Balance, beginning of year	\$ 238,000	304,936
Provision of doubtful accounts	218,693	400,977
Recoveries of accounts previously written off	119,858	155,935
Accounts written off	<u>(325,499)</u>	<u>(623,848)</u>
Balance, end of year	<u>\$ 251,052</u>	<u>238,000</u>

See accompanying independent auditor's report

**Inventories/Prepaid Expenses**  
**June 30, 2016 and 2015**


---

	<u>2016</u>	<u>2015</u>
INVENTORIES:		
General	\$ 133,957	144,650
Pharmacy	81,082	92,000
Clinics and Home Care	<u>11,002</u>	<u>11,590</u>
	<u>\$ 226,041</u>	<u>248,240</u>
	<u>2016</u>	<u>2015</u>
PREPAID EXPENSES:		
Insurance	\$ 23,712	26,466
Maintenance contracts	27,010	63,882
Other	<u>99,599</u>	<u>98,501</u>
	<u>\$ 150,321</u>	<u>188,849</u>

*See accompanying independent auditor's report*



**Financial and Statistical Highlights  
For the Years Ended June 30, 2016 and 2015**


---

	<u>2016</u>	<u>2015</u>
Patient days (excluding swing-bed):		
Medicare	129	268
Medicaid	10	3
Private and other	<u>55</u>	<u>58</u>
Total	<u>194</u>	<u>329</u>
Medicare and Medicaid percentage	68%	82%
Patient discharges (excluding swing-bed):		
Medicare	43	85
Medicaid	3	2
Private and other	<u>21</u>	<u>21</u>
Total	<u>67</u>	<u>108</u>
Average length of stay (based on discharge days):		
Medicare	3.00 days	3.15 days
Medicaid	3.33 days	1.50 days
Private and other	2.61 days	2.76 days
Number of employees - full-time equivalents	95.68	95.38

*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**

To the Board of Trustees  
Adair County Memorial Hospital  
Greenfield, 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 Adair County Memorial Hospital (Hospital) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated October 24, 2016.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item II-A-16 that we consider to be a significant deficiency in internal control over financial reporting.

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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.

### **Hospital's Response to Findings**

The Hospital's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Hospital's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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

Seim Johnson, LLP

Omaha, Nebraska,  
October 24, 2016.

# Adair County Memorial Hospital

## Schedule of Findings and Responses For the Year Ended June 30, 2016

---

### **Part I: Summary of the Independent Auditor's Results**

- (a) An unmodified opinion was issued on the financial statements.
- (b) No material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) A significant deficiency in internal control over financial reporting was disclosed by the audit of the financial statements.
- (d) The audit did not disclose any non-compliance which is material to the financial statements.

### **Part II: Findings Related to the Financial Statements**

#### ***Instances of Non-Compliance:***

No matters were reported.

#### ***Significant Deficiency:***

##### **II-A-16 - Segregation of Duties**

Criteria:	One aspect of internal control is the segregation of duties among employees to prevent an employee from handling duties which are incompatible.
Condition:	The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.
Cause:	Due to limited number of administrative personnel, a lack of segregation of duties exists.
Effect:	Proper segregation of duties ensures an adequate internal control structure and, without this segregation, a greater risk of fraud and defalcation may exist.
Recommendation:	We recommend the Hospital continue to monitor and improve its segregation of duties.
Views of responsible officials and planned corrective actions:	Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purposes of removing all instances of segregation of duties. The Hospital will continue to maintain and improve segregation of duties when possible.
Conclusion:	Response accepted.

# Adair County Memorial Hospital

## Schedule of Findings and Responses For the Year Ended June 30, 2016

---

### Part III: Other Findings Related to Required Statutory Reporting

#### III-A-16

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2016.

#### III-B-16

Certified Budget: Hospital disbursements during the year ended June 30, 2016 did not exceed amounts budgeted.

#### III-C-16

Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

#### III-D-16

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

#### III-E-16

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

#### III-F-16

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

#### III-G-16

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

#### III-H-16

Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." The Hospital did publish a schedule of bills allowed but did not publish a schedule of salaries paid as required by the Code of Iowa.

Recommendation – The Hospital should publish the schedule of salaries by job classification in accordance with Chapter 347.13(11) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

Response – The Hospital will comply with the publishing requirements set forth in Chapter 347.13(11) of the Code of Iowa and the Supreme Court Case dated September 18, 1996. Conclusion – Response accepted.

## Adair County Memorial Hospital

### Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2016

---

#### Item II-A-15

Significant Deficiency:

Condition: The limited number of office personnel prevents a proper segregation of accounting functions necessary to assure optimal internal control.

Auditee Response: Management is aware of this deficiency and believes it is not financially prudent for the Hospital to employ additional personnel for the purposes of removing all instances of segregation of duties. The Hospital will continue to maintain and improve segregation of duties when possible.

Status: Finding not cleared. See Finding II-A-16

**Adair County Memorial Hospital**

**Audit Staff  
For the Year Ended June 30, 2016**

---

**This audit was performed by:**

Randy D. Hoffman, FHFMA, CPA, Partner

Jeremy J. Behrens, FHFMA, CPA, Partner

Sarah C. Griger, CPA, Staff Auditor

Morgan L. Birkel, Staff Auditor