

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

**Together with Independent Auditor's Report**

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**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

**Officials**  
**June 30, 2016**

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	<u>Address</u>	<u>Term Expires</u>
<b>Board of Trustees:</b>		
Matt Hummel, President	Hawarden, Iowa	December 2019
Kathy Jacobs, Vice-President	Hawarden, Iowa	December 2019
Denny Hulshof, Secretary	Ireton, Iowa	December 2017
Jim Feldhacker	Hawarden, Iowa	December 2019
Stan Hoekstra	Hawarden, Iowa	December 2017
<b>Hospital Officials:</b>		
Jayson Pullman, Chief Executive Officer	Hawarden, Iowa	Indefinite

## Independent Auditor's Report

To the Board of Trustees  
Hawarden Regional Healthcare  
Hawarden, Iowa:

### Report on the Financial Statements

We have audited the accompanying basic financial statements of Hawarden Regional Healthcare (Hospital), a component unit of the city of Hawarden, Iowa, 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 of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### Opinion

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

### Other Matters

As explained in Note 1, the accompanying financial statements present only the Hospital Fund of the city of Hawarden, Iowa, and are not intended to present fairly the financial position of the city of Hawarden, Iowa, and changes in financial position and cash flows in conformity with accounting principles generally accepted in the United States of America.

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of the Hospital's proportionate share of the net pension liability and the schedule of the Hospital's contributions on pages 4 through 7 and 30 through 32 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) and the schedule of expenditures and federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 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 14, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 14, 2016.

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

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**Introduction**

This management's discussion and analysis of Hawarden Regional Healthcare's (Hospital) financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2016 and 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 8.

**Financial Highlights**

The Hospital's net position in 2016 was \$7,295,642 or a 7.9% increase from 2015. The Hospital's net position for 2015 was \$6,759,251 or an 11.8% increase from 2014. The Hospital continues to report positive operating income for the last 3 years. See Table 2 for more details of operating income and other details of hospital operations.

**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 financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the Hospital finances begins on page 5. The Statement of Financial 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 the question of whether the Hospital, as a whole, is better or worse off as a result of the year's activities. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. 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 assets and changes in them. You can think of the Hospital's net assets, the difference between assets and liabilities, as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

*The Statement of Cash Flows*

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It shows where cash came from and what the cash was used for. It also provides the change in cash balance during the reporting period.

*The Hospital's Net Position*

The Hospital's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position on page 5. The Hospital's net position increased in each of the past two years by \$536,391 (7.9%) in 2016, \$795,550 (11.8%) in 2015 and \$448,195 (8.3%) in 2014, as you can see from **Table 1**.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

*Table 1: Assets, Liabilities, and Net Assets*

	<u>2016</u>	<u>2015</u>	<u>(not restated) 2014</u>
<b>Assets:</b>			
Current assets	\$ 4,527,531	4,369,791	4,151,018
Capital assets, net	8,454,174	3,202,599	2,172,256
Other noncurrent assets	2,074,338	2,315,512	656,816
<b>Total assets</b>	<b>15,056,043</b>	<b>9,887,902</b>	<b>6,980,090</b>
<b>Deferred Outflows of Resources</b>			
Pension related deferred outflows	1,055,713	634,327	--
Intangible asset, net	513,542	619,792	726,042
<b>Total assets and deferred outflows of resources</b>	<b>\$ 16,625,298</b>	<b>11,142,021</b>	<b>7,706,132</b>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 5,098,387	813,780	918,468
Other current and noncurrent liabilities	1,359,070	936,471	823,963
Net pension liability	2,183,699	1,660,106	--
<b>Total liabilities</b>	<b>8,641,156</b>	<b>3,410,357</b>	<b>1,742,431</b>
<b>Deferred Inflows of Resources</b>			
Deferred grant revenue	180,035	339,296	--
Pension related deferred inflows	508,465	633,117	--
<b>Total deferred inflows of resources</b>	<b>688,500</b>	<b>972,413</b>	<b>--</b>
<b>Net Position:</b>			
Net investment in capital assets	3,355,787	2,388,819	1,253,788
Expendable for capital acquisitions and operating activities	1,780,857	1,653,833	230,818
Unrestricted	2,158,998	2,716,599	4,479,095
<b>Total net position</b>	<b>7,295,642</b>	<b>6,759,251</b>	<b>5,963,701</b>
<b>Total liabilities, deferred inflows of resources and net position</b>	<b>\$ 16,625,298</b>	<b>11,142,021</b>	<b>7,706,132</b>

In 2016, the total assets increased by \$5,168,141. The change was due primarily to the increase in capital assets relating to construction and remodel of current facility.

In 2016, the total liabilities increased by \$5,230,799. This change was a result interim financing on the capital project and to record changes to the net pension liability under GASB No. 68.

**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 \$1,740,228 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 year 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.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

*Table 2: Condensed Statements of Revenues, Expenses and Changes in Net Assets*

	<u>2016</u>	<u>2015</u>	<u>(not restated) 2014</u>
<b>Operating Revenue:</b>			
Net patient service revenue	\$ 6,850,904	7,044,675	6,456,610
Provision for bad debt	(126,185)	(157,903)	(364,240)
Other operating revenues	1,723,843	1,321,562	1,502,265
Loss on sale of property and equipment	--	--	(26,649)
	<u>8,448,562</u>	<u>8,208,334</u>	<u>7,567,986</u>
<b>Total operating revenue</b>	<b>8,448,562</b>	<b>8,208,334</b>	<b>7,567,986</b>
<b>Operating Expenses:</b>			
Salaries and benefits	4,158,105	3,862,433	3,635,868
Purchased services and other	3,730,915	3,549,020	3,210,913
Depreciation and amortization	403,613	402,744	391,359
	<u>8,292,633</u>	<u>7,814,197</u>	<u>7,238,140</u>
<b>Total operating expenses</b>	<b>8,292,633</b>	<b>7,814,197</b>	<b>7,238,140</b>
<b>Operating income</b>	<b>155,929</b>	<b>394,137</b>	<b>329,846</b>
<b>Nonoperating Revenue (Expenses)</b>			
Interest	--	(1,115)	(52)
Joint venture and clinic investment loss, net	(95,696)	(154,343)	(125,125)
Investment income	10,606	9,010	6,214
Sales tax revenue	321,722	320,359	292,197
Gifts, grants and contributions, net	143,830	1,967,730	45,115
	<u>380,462</u>	<u>2,141,641</u>	<u>218,349</u>
<b>Total nonoperating revenue (expenses), net</b>	<b>380,462</b>	<b>2,141,641</b>	<b>218,349</b>
<b>Increase in net position</b>	<b>536,391</b>	<b>2,535,778</b>	<b>548,195</b>
<b>Net position, beginning of year as restated</b>	<b>6,759,251</b>	<b>4,223,473</b>	<b>5,415,506</b>
<b>Net position, end of year</b>	<b>\$ 7,295,642</b>	<b>6,759,251</b>	<b>5,963,701</b>

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of local option sales taxes, interest revenue, investment earnings and gifts, grants and bequests for the purchase of property and equipment.

The loss for the joint venture and clinic investment was \$(95,696) in 2016, \$(154,343) in 2015 and \$(125,125) in 2014. We continue to fund the clinic as part of our mission to provide for the health and wellness of all the people in our community.

**The Hospital's Cash Flows**

Changes in the Hospital's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier. Cash flows provided by operating activities continue to be positive in 2016, 2015 and 2014 displaying the hospital's consistent financial performance.

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

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**Capital Asset and Debt Administration**

Capital Assets

As of end of the year 2016, the Hospital had \$8,454,174 invested in capital assets, net of accumulated depreciation, as compared to \$3,202,599 in 2015 and \$2,172,256 in 2014, as detailed in Note 7 of the financial statements. In 2016, the hospital purchased depreciable capital assets costing \$4,924,961 compared to \$1,326,837 in 2015 and \$1,006,484 in 2014. Some of the major purchases the Hospital made were a related to the ongoing Hospital Expansion and remodel project.

Debt

During fiscal year 2016 the hospital utilized interim construction financing totaling approximately \$4.5 million. The Hospital also had minor loans and a capital lease obligations that were outstanding from the previous year. The financing plan related to the project includes permanent financing with the USDA for \$8.8 million at 3.5% with a 30 year amortization. The Board has also authorized an additional \$2.8 million of additional debt to fund the project beyond significant equity contributions by the Hospital. The Hospital's formal debt issuances and revenue notes cannot be issued without approval of the Board of Directors.

During the construction phase the Hospital has access to \$11,653,254 through issuance of the following Hospital Revenue Loan Anticipation Project Notes:

- \$500,000 of Series 2014A
- \$5,500,000 of Series 2014B
- \$3,333,254 of Series 2015A
- \$2,070,000 of Series 2015B
- \$750,000 of Series 2015C

**Contacting the Hospital's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the CEO, at Hawarden Regional Healthcare, 1111 11<sup>th</sup> Street, Hawarden, Iowa 51023.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,043,329	1,659,440
Receivables -		
Patients, net of allowance for uncollectible accounts of \$277,085 in 2016 and \$267,448 in 2015	1,089,319	937,468
Due from related party, net	235,317	315,638
Pledges	271,154	282,772
Other	279,189	301,363
Inventories	111,933	137,575
Prepaid expenses	111,449	140,535
Estimated third-party payor settlements	<u>385,841</u>	<u>595,000</u>
Total current assets	4,527,531	4,369,791
Assets limited as to use	1,696,605	1,718,367
Pledges receivable, net of current portion	371,771	588,177
Capital assets, net	8,454,174	3,202,599
Other assets, net	<u>5,962</u>	<u>8,968</u>
Total assets	15,056,043	9,887,902
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	1,055,713	634,327
Intangible asset, net	<u>513,542</u>	<u>619,792</u>
Total assets and deferred outflows of resources	\$ <u>16,625,298</u>	<u>11,142,021</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 166,160	155,538
Accounts payable -		
Mercy	69,466	86,267
Capital assets	702,234	173,855
Trade	165,879	236,607
Salaries, wages and accrued benefits payable	287,709	258,413
Payroll taxes withheld and accrued	27,076	23,338
Other accrued liabilities	<u>106,706</u>	<u>157,991</u>
Total current liabilities	1,525,230	1,092,009
Long-term liabilities:		
Long-term debt, net of current portion	4,932,227	658,242
Net pension liability	<u>2,183,699</u>	<u>1,660,106</u>
Total liabilities	<u>8,641,156</u>	<u>3,410,357</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred grant revenue	180,035	339,296
Pension related deferred inflows	<u>508,465</u>	<u>633,117</u>
Total deferred inflows of resources	<u>688,500</u>	<u>972,413</u>
<b>NET POSITION</b>		
Net investment in capital assets	3,355,787	2,388,819
Restricted:		
Expendable for capital acquisitions and operating activities	1,780,857	1,653,833
Unrestricted	<u>2,158,998</u>	<u>2,716,599</u>
Total net position	<u>7,295,642</u>	<u>6,759,251</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>16,625,298</u>	<u>11,142,021</u>

See notes to financial statements

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

**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	\$ 6,850,904	7,044,675
Provision for bad debts	(126,185)	(157,903)
Net patient service revenue	6,724,719	6,886,772
Other operating revenue	1,723,843	1,321,562
Total operating revenue	<u>8,448,562</u>	<u>8,208,334</u>
OPERATING EXPENSES:		
Salaries and wages	3,235,853	3,132,186
Employee benefits	922,252	730,247
Purchased services and professional fees	2,435,383	2,219,811
Utilities	70,289	91,388
Supplies and other expenses	1,137,993	1,162,473
Depreciation and amortization	403,613	402,744
Insurance	87,250	75,348
Total operating expenses	<u>8,292,633</u>	<u>7,814,197</u>
OPERATING INCOME	<u>155,929</u>	<u>394,137</u>
NONOPERATING REVENUE (EXPENSE):		
Interest expense	--	(1,115)
Joint venture and clinic investment loss, net	(95,696)	(154,343)
Investment income	10,606	9,010
Sales tax revenue	321,722	320,359
Noncapital grants and contributions	16,806	110,742
Nonoperating revenue, net	<u>253,438</u>	<u>284,653</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	409,367	678,790
CAPITAL GRANTS AND CONTRIBUTIONS	<u>127,024</u>	<u>1,856,988</u>
INCREASE IN NET POSITION	536,391	2,535,778
NET POSITION, beginning of year, as restated	<u>6,759,251</u>	<u>4,223,473</u>
NET POSITION, end of year	<u>\$ 7,295,642</u>	<u>6,759,251</u>

*See notes to financial statements*

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from patients and third party payors	\$ 6,782,027	7,238,291
Cash paid for employee salaries and benefits	(4,306,777)	(3,592,190)
Cash paid to suppliers and contractors	(3,792,827)	(3,644,280)
Other receipts and payments, net	<u>1,804,164</u>	<u>1,546,161</u>
Net cash provided by operating activities	<u>486,587</u>	<u>1,547,982</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Sales tax received	321,722	320,359
Noncapital grants and contributions	<u>16,806</u>	<u>110,742</u>
Net cash provided by noncapital financing activities	<u>338,528</u>	<u>431,101</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of capital assets, net	(4,924,961)	(1,361,134)
Capital grants and contributions	355,048	986,039
Proceeds from issuance of long-term debt	4,413,339	50,850
Payments on purchase agreement	(100,000)	(100,000)
Payments on capital lease obligations	(61,387)	(55,538)
Interest paid on long-term debt and capital lease obligations	<u>(62,943)</u>	<u>(1,115)</u>
Net cash used in capital and related financing activities	<u>(380,904)</u>	<u>(480,898)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Joint venture and clinic investment loss, net	(95,696)	(154,343)
Withdrawals (Deposits) from (to) assets limited as to use	21,762	(1,070,592)
Investment income	10,606	9,010
Deposits (Withdrawals) to (from) other assets	<u>3,006</u>	<u>73</u>
Net cash used in investing activities	<u>(60,322)</u>	<u>(1,215,852)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>383,889</b>	<b>282,333</b>
<b>CASH AND CASH EQUIVALENTS - beginning of year</b>	<b><u>1,659,440</u></b>	<b><u>1,377,107</u></b>
<b>CASH AND CASH EQUIVALENTS - end of year</b>	<b>\$ <u>2,043,329</u></b>	<b><u>1,659,440</u></b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Capital asset additions acquired with capital lease obligations	<b>\$ <u>32,655</u></b>	<b><u>--</u></b>

*See notes to financial statements*

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating gain	\$ 155,929	394,137
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	403,613	402,744
Decrease in net pension liability	523,593	(324,724)
Increase in deferred outflows of resources	(421,386)	(389,725)
Increase in deferred inflows of resources	(283,913)	972,413
(Increase) decrease in current assets -		
Receivables -		
Patients	(151,851)	851,214
Due from related party	80,321	224,599
Other	22,174	(212,900)
Inventories	25,642	(2,037)
Prepaid expenses	29,086	(14,849)
Estimated third-party payor settlements	209,159	(499,695)
Increase (decrease) in current liabilities -		
Accounts payable -		
Mercy	(16,801)	(14,898)
Trade	(70,728)	4,726
Salaries, wages and accrued benefits payable	29,296	8,091
Payroll taxes withheld and accrued	3,738	4,188
Other accrued liabilities	(51,285)	144,698
Net cash provided by operating activities	<u>\$ 486,587</u>	<u>1,547,982</u>

*See notes to financial statements*

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

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

The following is a summary of significant accounting policies of Hawarden Regional Healthcare (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a city public hospital organized under Chapter 392 of the Code of Iowa and governed by a five member Board of Trustees elected for terms of four years.

*A. Reporting Entity*

The financial statements of the Hospital are used to account for the provisions of acute hospital and physician clinic services to the residents of the City of Hawarden and the surrounding area.

The Hospital's financial statements are an integral part of the City of Hawarden, Iowa. The accompanying financial statements are not intended to present fairly the financial position and changes in financial position of the City of Hawarden, Iowa, in conformity with accounting principles generally accepted in the United States of America.

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

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential healthcare services through limited service hospitals and rural health networks. During fiscal year 2000, the Hawarden Regional Healthcare Board of Trustees approved the Health Services' plan to obtain Critical Access Hospital (CAH) designation. CAH's are acute care facilities that provide emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective November 2, 2000.

*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 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.

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

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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 and liabilities, with the differences reported as net position. Net position is reported in three categories:

*Net investment in capital assets* – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other debt attributable to the acquisition, construction, or improvement of those assets.

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

*Unrestricted* – This component of net position consists of net position items not meeting the definition of the two preceding categories. Unrestricted net positions often have 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. *Use of Estimates***

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

**E. *Basis of Accounting and Accounting Standards***

The Hospital's financial statements are presented on the accrual basis of accounting. Revenue is recognized when earned, expenses are recognized when incurred.

The Hospital's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is primarily responsible for establishing GAAP for state and local governments through its pronouncements. Governments had been also required to follow the statements and interpretations of the Financial Accounting Standards Board, Accounting Principles Board opinions, and Accounting Research Bulletins issued through November 30, 1989, that do not conflict with or contradict GASB pronouncements.

**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.

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

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*G. Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

*H. Pledges Receivable*

Pledges receivable are unconditional promises to give that are recognized as contributions when the promise is received. Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible pledges receivable is determined based on management's evaluation of the collectability of individual promises to give. Promises to give that remain outstanding more than one year after their due dates are written off as uncollectible, unless the donor(s) indicate that payment is merely postponed.

*I. Inventories*

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

*J. Assets Limited as to Use*

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

By Donor – These funds are restricted for specified purposes as directed by the grantor or donor.

*K. Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, assets limited as to use, accounts receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

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

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*L. Capital Assets, Net*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is computed using the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements.

Lives range by capital asset classification as follows:

Land improvements	10 to 50 years
Buildings and building improvements	10 to 50 years
Equipment, computers and furniture	3 to 25 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 long-lived 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 long-lived 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 long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed into service.

*M. Intangible Assets, Net*

Intangible assets are recorded at cost, less accumulated amortization. Amortization on finite-lived intangible assets is calculated on a straight-line basis over the estimated life of the asset.

*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 unamortized intangible assets as well as 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*

Paid time off (PTO) vests and may be carried forward by an employee in an amount not to exceed 240 hours. PTO expense is accrued as an expense and a liability as it is earned. PTO expenditures are recognized to the extent it is paid during the year and the vested amount is recorded as a current liability. Accrued PTO payable at June 30, 2016 and 2015 was \$183,130 and \$172,196, 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.

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

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**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 statement of net position consists of expected future grant revenue and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

**R. *Statement of Revenue, Expenses and Changes in Net Position***

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of healthcare services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**S. *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 per discharge, reimbursed costs, discounted charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

**T. *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 that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

**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. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in the statements of revenue, expenses and changes in net position.

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community health services at or below cost.

**V. *Sales Tax Revenue***

Taxes are included in nonoperating gains when received and distributed by the City Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

**W. *Income Taxes***

Under the Code of Iowa, Chapter 392, the Hospital is an instrumentality of the City of Hawarden, Iowa. As such, the Hospital is exempt from paying income taxes.

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

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X. *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.

Y. *Subsequent Events*

The Hospital considered events occurring through October 14, 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**

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 instrumentality's; 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; and certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital manages the following risks in accordance with their formal investment policy:

*Credit Risk:* The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Hospital or its agent in the Hospital's name.

*Interest Rate Risk:* The Hospital's investment policy allows for the investment of funds with varying maturities as a means of managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

*Custodial Credit Risk:* Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

Investment return, including return on assets limited as to use, for the years ended June 30, 2016 and 2015 is included in investment income on the statements of revenue, expenses and changes in net position.

**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 payers follows:

**Medicare.** Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, certain outpatient services and certain rural health clinic services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed on a prospectively determined rate per episode for home care services rendered to Medicare beneficiaries. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2015.

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 Medicaid program beneficiaries in a Critical Access Hospital 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.

**Commercial Insurance.** 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 service revenue at its established rates and revenue deductions by major third-party payers:

	<u>2016</u>	<u>2015</u>
Gross patient service revenue		
Inpatient services and swing bed	\$ 1,291,550	1,403,396
Outpatient	<u>8,154,685</u>	<u>8,610,622</u>
Total gross patient service revenue	<u>9,446,235</u>	<u>10,014,018</u>
Deductions from gross patient service revenue		
Medicare	1,379,956	1,735,762
Medicaid	371,407	298,933
Other payors	802,939	857,830
Charity care	<u>41,029</u>	<u>76,818</u>
Total deductons from gross patient service revenue	<u>2,595,331</u>	<u>2,969,343</u>
Net patient service revenue before provision for bad debt	<u>\$ 6,850,904</u>	<u>7,044,675</u>

The Hospital reports net patient services 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.

**Hawarden Regional Healthcare**  
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**Notes to Financial Statements**  
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Revenue from the Medicare and Medicaid programs accounted for approximately 53% and 11%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2016 compared to 54% and 11%, respectively in 2015. 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.

**(4) Other Revenue**

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

	<u>2016</u>	<u>2015</u>
Services provided to clinic	\$ 798,258	528,651
340B program revenue	356,713	192,379
Outsourced physical therapy revenue	248,125	277,631
Helmsley grant	138,911	195,438
Other	69,246	32,809
HRSA grant	28,951	7,956
Medical office building rent	27,600	27,600
MediMate	14,777	14,039
Specialty clinic rent	13,146	17,651
Occupational health consulting	10,835	9,421
Purchasing rebates	9,887	10,281
Meals	4,597	4,429
Wellness center dues	1,628	2,138
Vending	1,169	1,139
	<u>\$ 1,723,843</u>	<u>1,321,562</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 \$356,713 and \$192,379, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

**(5) Composition of Patient Receivables**

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

	<u>2016</u>	<u>2015</u>
Patient accounts receivable	\$ 1,476,404	1,591,916
Less estimated third-party contractual adjustments	(110,000)	(387,000)
Less allowance for uncollectibles	<u>(277,085)</u>	<u>(267,448)</u>
	<u>\$ 1,089,319</u>	<u>937,468</u>

**Hawarden Regional Healthcare**  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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

	<u>2016</u>	<u>2015</u>
Medicare	38%	38%
Medicaid	10	9
Blue Cross Blue Shield	10	15
Other third-party payors	12	16
Private pay	30	22
	<u>100%</u>	<u>100%</u>

**(6) Pledges Receivable, Net**

Included in pledges receivable are the following unconditional promises to give at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Restricted for:		
Capital improvement and expansion	\$ 647,575	878,523
Less unamortized discount	<u>(4,650)</u>	<u>(7,574)</u>
Pledges receivable, net	<u>\$ 642,925</u>	<u>870,949</u>

Pledges receivable at June 30, 2016 are expected to be received as follows:

Less than one year	\$ 271,154
One to five years	<u>371,771</u>
	<u>\$ 642,925</u>

The discount rate ranged from 0.28% to 2.07% for the year ending June 30, 2016.

**(7) Assets Limited as to Use**

Cash deposits and investments designated by the Board for future capital improvements, and endowments as of June 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Capital Improvements and Endowments -		
Cash	\$ 1,522,885	1,558,856
Certificates of deposit	<u>164,483</u>	<u>150,347</u>
	<u>1,687,368</u>	<u>1,709,203</u>

Cash deposits and investments restricted by donor for future capital improvements, and endowments as of June 30, 2016 and 2015, are summarized as follows:

	<u>2016</u>	<u>2015</u>
Capital Improvements and Endowments -		
Certificates of deposit	\$ 9,237	<u>9,164</u>

**Hawarden Regional Healthcare**  
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**Notes to Financial Statements**  
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**(8) Capital Assets, Net**

Capital asset additions, retirements and balances as of June 30, 2016 and 2015, are summarized as follows:

	June 30, 2015	Additions	Transfers and Disposals	June 30, 2016
Capital assets, not being depreciated:				
Land	\$ 172,313	--	--	172,313
Construction in progress	1,566,581	5,543,501	(210,368)	6,899,714
Total capital assets, not being depreciated	<u>1,738,894</u>	<u>5,543,501</u>	<u>(210,368)</u>	<u>7,072,027</u>
Capital assets, being depreciated:				
Land improvements	54,997	--	(16,874)	38,123
Hospital buildings	1,556,820	--	(199,333)	1,357,487
Fixed equipment	620,022	--	(24,088)	595,934
Major moveable equipment	2,101,104	168,453	(244,380)	2,025,177
Electronic health record - non-meaningful use	144,721	47,352	--	192,073
Electronic health record - meaningful use	501,840	--	--	501,840
Total capital assets, being depreciated	<u>4,979,504</u>	<u>215,805</u>	<u>(484,675)</u>	<u>4,710,634</u>
Less accumulated depreciation:				
Land improvements	39,404	1,794	(16,874)	24,324
Hospital buildings	1,271,591	35,653	(199,333)	1,107,911
Fixed equipment	483,598	18,774	(24,088)	478,284
Major moveable equipment	1,562,815	155,629	(244,380)	1,474,064
Electronic health record - non-meaningful use	39,036	14,274	--	53,310
Electronic health record - meaningful use	119,355	71,239	--	190,594
Total accumulated depreciation	<u>3,515,799</u>	<u>297,363</u>	<u>(484,675)</u>	<u>3,328,487</u>
Total capital assets, being depreciated, net	<u>1,463,705</u>	<u>(81,558)</u>	<u>--</u>	<u>1,382,147</u>
Total capital assets, net	<u>\$ 3,202,599</u>	<u>5,461,943</u>	<u>(210,368)</u>	<u>8,454,174</u>
	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 172,313	--	--	172,313
Construction in progress	468,215	1,098,366	--	1,566,581
Total capital assets, not being depreciated	<u>640,528</u>	<u>1,098,366</u>	<u>--</u>	<u>1,738,894</u>
Capital assets, being depreciated:				
Land improvements	54,997	--	--	54,997
Hospital buildings	1,556,820	--	--	1,556,820
Fixed equipment	620,022	--	--	620,022
Major moveable equipment	1,887,228	213,876	--	2,101,104
Electronic health record - non-meaningful use	5,473	--	139,248	144,721
Electronic health record - meaningful use	626,493	14,595	(139,248)	501,840
Total capital assets, being depreciated	<u>4,751,033</u>	<u>228,471</u>	<u>--</u>	<u>4,979,504</u>
Less accumulated depreciation:				
Land improvements	37,610	1,794	--	39,404
Hospital buildings	1,235,879	35,712	--	1,271,591
Fixed equipment	464,714	18,884	--	483,598
Major moveable equipment	1,415,534	147,281	--	1,562,815
Electronic health record - non-meaningful use	6,627	20,805	11,604	39,036
Electronic health record - meaningful use	58,941	72,018	(11,604)	119,355
Total accumulated depreciation	<u>3,219,305</u>	<u>296,494</u>	<u>--</u>	<u>3,515,799</u>
Total capital assets, being depreciated, net	<u>1,531,728</u>	<u>(68,023)</u>	<u>--</u>	<u>1,463,705</u>
Total capital assets, net	<u>\$ 2,172,256</u>	<u>1,030,343</u>	<u>--</u>	<u>3,202,599</u>

**Hawarden Regional Healthcare**  
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**Notes to Financial Statements**  
**June 30, 2016 and 2015**

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Construction in progress at June 30, 2016 includes costs incurred for a new addition and remodel to the Hospital. The project is expected to be completed in December 2016 with an anticipated total cost of approximately \$14,500,000. The Hospital has received approval from the United States Department of Agriculture-Rural Development (USDA) for a direct loan not to exceed \$8,833,254 at 3.5% over 30 years in addition to the \$2,820,000 of Hospital Revenue Loan Anticipation Project Notes (Series 2015B and Series 2015C) approved by the Board.

Construction of the outpatient expansion project will be financed during the construction period through the issuance of \$11,653,254 million of Hospital Revenue Bond Anticipation Project Notes (Series 2014A, 2014B, 2015A, 2015B and 2015C), as further described in Note 11, and equity contributions from the Hospital.

Permanent financing for the Series 2014A, Series 2014B and Series 2015A Hospital Revenue Bond Anticipation Project Notes will come from the execution of the aforementioned USDA direct loan. Series 2015B and Series 2015C will remain in effect at a local bank.

**(9) Intangible Assets, Net**

A summary of intangible assets at June 30, 2016 and 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Non-compete agreements	\$ 850,000	850,000
Less accumulated amortization	<u>(336,458)</u>	<u>(230,208)</u>
Intangible assets, net	<u>\$ 513,542</u>	<u>619,792</u>

The noncompete agreements are being amortized over the term of the payment period for the purchase of Therapeutic Health Service, Inc (THS). Amortization for the years ended June 30, 2016 and 2015 was \$106,250, and is included in the statements of revenue, expenses and changes in net position.

**(10) Mercy Accounts Payable**

Mercy accounts payable includes amounts due to Mercy Medical Services and Mercy Medical Center related to the Hospital's portion of financial support for the Hawarden Regional Healthcare Clinics, LLC and other professional and management fees. Mercy accounts payable as of June 30, 2016 and 2015 is summarized as follows:

	<u>2016</u>	<u>2015</u>
Mercy Medical Services for share of Hawarden Regional Healthcare Clinics, LLC operating support	\$ 29,513	42,214
Mercy Medical Center for professional and management services	<u>39,933</u>	<u>44,053</u>
	<u>\$ 69,466</u>	<u>86,267</u>

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

**(11) Long-Term Obligations**

A summary of long-term obligations at June 30, 2016 and 2015 follows:

	June 30, 2015	Borrowings	Payments	June 30, 2016	Due Within One Year
Capital lease obligations (A)	\$ 162,930	32,655	(61,387)	134,198	66,160
Interest free loan financed by the seller (B)	600,000	--	(100,000)	500,000	100,000
Construction note payable (C)	50,850	4,413,339	--	4,464,189	--
	<u>\$ 813,780</u>	<u>4,445,994</u>	<u>(161,387)</u>	<u>5,098,387</u>	<u>166,160</u>
	June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Capital lease obligations (A)	\$ 218,468	--	(55,538)	162,930	55,538
Interest free loan financed by the seller (B)	700,000	--	(100,000)	600,000	100,000
Construction note payable (C)	--	50,850	--	50,850	--
	<u>\$ 918,468</u>	<u>50,850</u>	<u>(155,538)</u>	<u>813,780</u>	<u>155,538</u>

(A) The Hospital has entered into capital lease obligation at an imputed interest rates between .99% and 4.75%. Monthly payments between \$975 and \$4,628 are to be made thru December 2018, and are collateralized by leased equipment with a cost of \$297,405.

(B) On May 8, 2013, the Hospital entered into an asset purchase agreement with THS, a provider of physical and occupational health services and home health services in Northwest Iowa. The agreement was for the purchase of all contracts and contract rights of THS, equipment, fixtures, office equipment owned and utilized by THS in connection with the aforementioned contracts, inventory and therapy supplies used in connection with the contracts, and service records, marketing material and agreements relating to the acquired contracts and medical practice. THS agreement included a noncompete clause for the term of the payment period. The purchase agreement was for \$850,000 with the first payment of \$75,000 paid upon the closing of the agreement. Subsequent payments are due on January 10 of each year for varying amounts. The final payment in the amount of \$150,000 is due on January 10, 2019.

(C) On August 21, 2014, the Hospital issued Hospital Revenue Bond Anticipation Project Notes, Series 2014A and 2014B with a local financial institution to provide interim financing up to \$5,500,000 during the construction phase hospital capital project. On December 3, 2015, the Hospital issued Hospital Revenue Bond Anticipation Project Notes, Series 2015A, 2015B and 2015C with a local financial institution to provide additional financing up to \$6,153,254 during the construction project. The principal amount of the Series 2014 A, 2014B and 2015A notes will be paid off with a direct USDA loan when the project is completed. Interest only payments are to be paid on the outstanding principal balance during the construction phase at rates ranging from 2.95% to 4.00%.

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

	Seller Financed Note		Capital Lease		Construction Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	100,000	--	66,160	4,184	--	131,694	166,160	135,878
2018	100,000	--	62,992	3,668	4,464,189	131,694	4,627,181	135,362
2019	150,000	--	5,046	595	--	--	155,046	595
2020	150,000	--	--	-	--	--	150,000	-
2021	--	--	--	--	--	--	-	--
	<u>\$ 500,000</u>	<u>-</u>	<u>134,198</u>	<u>8,447</u>	<u>4,464,189</u>	<u>263,387</u>	<u>5,098,387</u>	<u>271,834</u>

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

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**(12) 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 \$2,000,000 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 recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2016 and 2015, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

**(13) 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 except 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.

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

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

*Disability and Death Benefits*

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

*Contributions*

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

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%. Protective occupation members contributed 6.56% of covered payroll and the Hospital contributed 9.84% of covered payroll, for a total rate of 16.40%.

The Hospital's contributions to IPERS for the years ended June 30, 2016 and 2015 were \$300,299 and \$269,496, 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 \$2,183,699 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 .0442%, which was an increase of .002341% from its proportion measured as of June 30, 2014.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

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For the year ended June 30, 2016 and 2015, the Hospital recognized pension expense of \$300,299 and \$164,922, respectively. 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	\$ 32,993	--
Changes of assumptions	60,123	--
Net difference between projected and actual earnings on pension plan investments	326,725	508,465
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	335,573	--
Hospital contributions subsequent to the measurement date	<u>300,299</u>	<u>--</u>
Total	<u>\$ 1,055,713</u>	<u>508,465</u>

The Hospital reported \$300,299 as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 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 June 30,</u>	
2017	\$ 32,997
2018	32,997
2019	32,997
2020	140,023
2021	<u>8,855</u>
	<u>\$ 247,869</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, 2015)	3.00 percent
Salary increases (effective June 30, 2015)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation
Wage growth (effective June 30, 1990)	4.00% per annum based on 3.00% inflation and 1.00% real wage inflation

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
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, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 3,823,263	2,183,699	799,788

Pension Plan Fiduciary Net Position

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

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

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Payables to the Pension Plan

At June 30, 2016, the Hospital reported payables to the defined benefit pension plan of \$61,205 for legally required employer contributions and \$40,780 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

**(14) Related Party Transactions**

Effective January 1, 2005, the Hospital and Mercy Medical Services (MMS) entered into a joint venture whereby each partner has a 50% sponsorship interest in Hawarden Regional Healthcare Clinics, LLC. (HRHC). The Hospital and MMS share equally in the net income (loss) of HRHC. HRHC operates clinics in Hawarden and Ireton, Iowa.

Hawarden Clinic

The Hospital's share of Hawarden Clinic's (HC) 2016 and 2015 operating loss was \$76,557 and \$123,474, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net position.

The Hospital hires the employees of HC and leases them back to HC. Amounts received by the Hospital for expenses paid in 2016 and 2015 was \$655,414 and \$395,676, respectively, and is included in the accompanying statements of revenue, expenses and changes in net position. The Hospital also received management fees from HC totaling \$70,000 in 2016 and 2015, respectively, and monthly rent totaling \$27,600 for the years ended June 30, 2016 and 2015. These amounts are included in other revenue.

HC owed the Hospital \$219,109 and \$319,726 at June 30, 2016 and 2015, respectively. These amounts are recorded in due from related party on the statement of financial position.

Ireton Clinic

The Hospital's share of Ireton Clinic's (IC) 2016 and 2015 operating loss was \$19,139 and \$30,869, respectively, and is included in joint venture loss, net in the accompanying statements of revenue, expenses and changes in net position.

The Hospital hires the employees of IC and leases them back to IC. Amounts received by the Hospital for expenses paid in 2016 and 2015 was \$62,844 and \$50,915, respectively, and is included in the accompanying statements of revenue, expenses and changes in net position. The Hospital also received management fees from IC totaling \$10,000 in 2016 and 2015. These fees are included in other revenue.

IC owed the Hospital \$25,541 at June 30, 2016 and the Hospital owed IC \$4,088 at June 30, 2015. These amounts are recorded in due from related party on the statement of financial position.

See Note 10 regarding amounts due Mercy Medical Services.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

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Iowa Public Employee's Retirement System Last Fiscal Year* (In Thousands)		
	<u>2016</u>	<u>2015</u>
Hospital's proportion of net pension liability	0.044200%	0.041020%
Hospital's proportionate share of the net pension liability	\$ 2,184	1,660
Hospital's covered-employee payroll	\$ 3359.46	3,012
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	65.01%	55.11%
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.

*See accompanying independent auditor's report*

**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.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

	<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	\$ 300	269	245	190	186	140	123	121	99	99
Contributions in relation to the statutorily required contribution	<u>(300)</u>	<u>(269)</u>	<u>(245)</u>	<u>(190)</u>	<u>(186)</u>	<u>(140)</u>	<u>(123)</u>	<u>(121)</u>	<u>(99)</u>	<u>(99)</u>
Contribution deficiency (excess)	\$ <u>    --</u>	<u>    --</u>								
Health Center's covered-employee payroll	\$ 3,359	3,012	2,744	2,191	2,305	2,014	1,850	1,906	1,636	1,722
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*

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

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**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%.
- 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, 2015. 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 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 in the calculation of the UAL amortization payments.

**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>NURSING SERVICES:</b>								
Medical, surgical and obstetrics	\$ 170,761	120,734	--	291,495	175,742	224,201	--	399,943
Swing bed	--	--	299,267	299,267	--	--	380,289	380,289
Observation	--	68,214	--	68,214	--	89,047	--	89,047
	<u>170,761</u>	<u>188,948</u>	<u>299,267</u>	<u>658,976</u>	<u>175,742</u>	<u>313,248</u>	<u>380,289</u>	<u>869,279</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	92,094	1,894,626	189,783	2,176,503	78,166	1,979,055	243,289	2,300,510
Radiology	26,608	1,746,617	10,644	1,783,869	54,583	1,700,393	15,079	1,770,055
Laboratory	38,690	1,250,953	35,744	1,325,387	35,459	1,453,827	27,851	1,517,137
Physical therapy	17,571	1,052,456	100,559	1,170,586	10,808	1,046,647	89,233	1,146,688
Emergency and outpatient service	833	825,247	7,095	833,175	1,085	789,682	4,497	795,264
Professional fees	40,281	320,322	--	360,603	41,814	351,137	--	392,951
Respiratory therapy	48,799	139,734	64,644	253,177	54,028	120,976	38,142	213,146
Occupational therapy	5,589	148,506	49,279	203,374	1,875	151,552	39,652	193,079
Gastro-Intestinal	1,904	187,288	--	189,192	3,287	215,786	--	219,073
Central services and supply	34,030	83,384	37,580	154,994	31,795	117,698	68,313	217,806
Electrocardiology	2,600	123,859	200	126,659	4,000	134,343	400	138,743
Cardiac rehab	--	102,567	--	102,567	--	88,803	--	88,803
Speech therapy	1,658	66,561	15,276	83,495	543	118,958	3,436	122,937
Operating and recovery rooms	--	9,035	--	9,035	--	14,488	--	14,488
Dietary consulting	--	7,379	--	7,379	--	5,444	--	5,444
Anesthesiology	--	7,264	--	7,264	--	8,615	--	8,615
	<u>310,657</u>	<u>7,965,798</u>	<u>510,804</u>	<u>8,787,259</u>	<u>317,443</u>	<u>8,297,404</u>	<u>529,892</u>	<u>9,144,739</u>
<b>GROSS PATIENT SERVICE REVENUE</b>	<u>\$ 481,418</u>	<u>8,154,746</u>	<u>810,071</u>	<u>9,446,235</u>	<u>493,185</u>	<u>8,610,652</u>	<u>910,181</u>	<u>10,014,018</u>
<b>LESS:</b>								
Contractual allowances and other deductions, primarily Medicare and Medicaid				<u>(2,595,331)</u>				<u>(2,969,343)</u>
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>				<u>\$ 6,850,904</u>				<u>7,044,675</u>

*See accompanying independent auditor's report*

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

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	<u>2016</u>	<u>2015</u>
Services provided to clinic	\$ 798,258	528,651
340B program revenue	356,713	192,379
Outsourced physical therapy revenue	248,125	277,631
Helmsley grant	138,911	195,438
Other	69,246	32,809
HRSA grant	28,951	7,956
Medical office building rent	27,600	27,600
MediMate	14,777	14,039
Specialty clinic rent	13,146	17,651
Occupational health consulting	10,835	9,421
Purchasing rebates	9,887	10,281
Meals	4,597	4,429
Wellness center dues	1,628	2,138
Vending	1,169	1,139
	<u>\$ 1,723,843</u>	<u>1,321,562</u>

*See accompanying independent auditor's report*

Department Expenses  
For the Years Ended June 30, 2016 and 2015

	2016				2015			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 917,469	35,262	131,172	1,083,903	897,529	66,781	87,727	1,052,037
Observation	124	--	--	124	1,454	--	--	1,454
	<u>917,593</u>	<u>35,262</u>	<u>131,172</u>	<u>1,084,027</u>	<u>898,983</u>	<u>66,781</u>	<u>87,727</u>	<u>1,053,491</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Physical therapy	522,427	36,781	12,806	572,014	484,812	3,641	15,752	504,205
Emergency room	49,930	991,261	449	1,041,640	23,540	880,269	--	903,809
Laboratory	173,758	91,636	167,334	432,728	201,404	132,400	132,893	466,697
Radiology	139,643	200,858	7,343	347,844	140,623	193,619	17,621	351,863
Hawarden community clinic	367,323	230,561	298	598,182	329,378	--	49,477	378,855
Pharmacy	9,062	173,996	556,213	739,271	13,223	93,648	567,255	674,126
Medical records	133,351	46,628	16,816	196,795	131,410	83,635	12,994	228,039
Respiratory therapy	--	23,790	4,603	28,393	15	22,450	11,739	34,204
Outpatient clinic	50,365	--	558	50,923	46,087	--	400	46,487
Central services and supply	2,319	--	(5,954)	(3,635)	(413)	--	9,642	9,229
Gastro-Intestinal	306	--	1,911	2,217	3,109	--	3,550	6,659
Occupational therapy	68,619	--	19,094	87,713	78,575	--	19,606	98,181
Intravenous therapy	25	--	--	25	7,094	--	--	7,094
Electrocardiology	--	4,888	--	4,888	(11)	5,093	--	5,082
Cardiac rehab	36,705	--	1,398	38,103	35,716	--	176	35,892
Home health	--	12,307	--	12,307	--	11,816	--	11,816
Occupation health	3,437	--	781	4,218	3,311	--	1,128	4,439
Operating and recovery room	--	27,566	15,059	42,625	26	21,996	6,149	28,171
Anesthesiology	--	4,000	--	4,000	--	7,000	--	7,000
Speech therapy	4,771	58,852	10,223	73,846	42,836	7,711	9,299	59,846
	<u>1,562,041</u>	<u>1,903,124</u>	<u>808,932</u>	<u>4,274,097</u>	<u>1,540,735</u>	<u>1,463,278</u>	<u>857,681</u>	<u>3,861,694</u>
<b>GENERAL SERVICES:</b>								
Plant operation and maintenance	122,405	6,431	99,710	228,546	108,950	9,416	120,667	239,033
Dietary	115,233	3,100	38,153	156,486	104,244	2,917	42,480	149,641
Housekeeping	53,665	--	13,640	67,305	55,070	--	10,199	65,269
Laundry and linen	--	--	16,776	16,776	--	--	19,912	19,912
	<u>291,303</u>	<u>9,531</u>	<u>168,279</u>	<u>469,113</u>	<u>268,264</u>	<u>12,333</u>	<u>193,258</u>	<u>473,855</u>
<b>ADMINISTRATIVE SERVICES</b>	<u>464,916</u>	<u>487,466</u>	<u>99,899</u>	<u>1,052,281</u>	<u>424,204</u>	<u>677,419</u>	<u>115,195</u>	<u>1,216,818</u>
<b>NONDEPARTMENTAL:</b>								
Employee benefits	--	--	922,252	922,252	--	--	730,247	730,247
Depreciation and amortization	--	--	403,613	403,613	--	--	402,744	402,744
Insurance	--	--	87,250	87,250	--	--	75,348	75,348
	<u>--</u>	<u>--</u>	<u>1,413,115</u>	<u>1,413,115</u>	<u>--</u>	<u>--</u>	<u>1,208,339</u>	<u>1,208,339</u>
<b>GRAND TOTAL</b>	<u>\$ 3,235,853</u>	<u>2,435,383</u>	<u>2,621,397</u>	<u>8,292,633</u>	<u>3,132,186</u>	<u>2,219,811</u>	<u>2,462,200</u>	<u>7,814,197</u>

See accompanying independent auditor's report

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

ANALYSIS OF AGING:

Days Since Discharge	2016		2015	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 919,494	62.28 %	1,040,524	65.36 %
31 - 60	108,255	7.33	112,351	7.06
61 - 90	87,722	5.94	61,088	3.84
91 - 120	73,449	4.97	114,155	7.17
Over 120	287,484	19.47	263,798	16.57
	<u>1,476,404</u>	<u>100.00 %</u>	<u>1,591,916</u>	<u>100.00 %</u>

Less:

Allowance for doubtful accounts	(277,085)	(267,448)
Allowance for contractual adjustments	<u>(110,000)</u>	<u>(387,000)</u>
	<u>\$ 1,089,319</u>	<u>937,468</u>

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2016	2015
Balance, beginning of year	\$ 267,448	433,310
Provision of uncollectible accounts	126,185	157,903
Recoveries of accounts previously written off	54,693	20,854
Accounts written off	<u>(171,241)</u>	<u>(344,619)</u>
Balance, end of year	<u>\$ 277,085</u>	<u>267,448</u>

*See accompanying independent auditor's report*

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

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	<u>2016</u>	<u>2015</u>
INVENTORIES:		
Pharmacy drugs	\$ 97,327	124,492
All other	<u>14,606</u>	<u>13,083</u>
	<u>\$ 111,933</u>	<u>137,575</u>
PREPAID EXPENSES:		
Insurance	\$ 21,108	60,713
Service contracts	86,406	75,793
Dues	<u>3,935</u>	<u>4,029</u>
	<u>\$ 111,449</u>	<u>140,535</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:		
Adult and pediatric -		
Medicare	149	173
Other	75	53
	<u>224</u>	<u>226</u>
Swing bed	<u>496</u>	<u>621</u>
Total	<u><u>720</u></u>	<u><u>847</u></u>
Patient discharges:		
Adult and pediatric -		
Medicare	53	56
Other	21	24
	<u>74</u>	<u>80</u>
Swing bed	<u>41</u>	<u>45</u>
Total	<u><u>115</u></u>	<u><u>125</u></u>
Average length of stay:		
Adult and pediatric -		
Medicare	2.8 days	3.1 days
Other	3.6 days	2.2 days
Swing bed	12.1 days	13.8 days
Emergency room visits	1,475	1,570
Specialty clinic visits	1,451	1,556
Number of employees - full-time equivalents		
Hospital	58.09	60.05
Clinic	10.23	9.11
	<u>68.32</u>	<u>69.16</u>

**Schedule of Expenditures of Federal Awards and Notes to the Schedule  
For the Year Ended June 30, 2016**

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<u>Federal Grantor/Pass-Through Agency / Program or Cluster Title</u>	<u>Federal CFDA # Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Total Expenditures</u>
<b>U.S. Department of Agriculture</b>			
Direct Program			
Community Facilities Loans and Grants	10.766	N/A	\$ <u>4,413,339</u>
Total Expenditures of Federal Awards			\$ <u><u>4,413,339</u></u>

*The accompanying notes are an integral part of this schedule*

**Notes to the Schedule**

**Note 1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Hospital under programs of the federal government for the year ended June 30, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, changes in net position or cash flows of the Hospital.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

**Note 3. Loan**

The balance of loans outstanding at June 30, 2016 consists of:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Outstanding Balance at June 30, 2016</u>
10.766	Department of Agriculture – Community Facilities Loans and Grants	\$4,413,339

**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  
Hawarden Regional Healthcare  
Hawarden, 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 Hawarden Regional Healthcare (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 14, 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. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs 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*.

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.

#### **The 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 questioned costs. 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 Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
October 14, 2016.

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Trustees  
Hawarden Regional Healthcare  
Hawarden, Iowa:

Report on Compliance for Each Major Federal Program

We have audited Hawarden Regional Healthcare (Hospital) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2016. The Hospital's major federal program is identified in Part I of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Hospital's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*SEIM JOHNSON, LLP*

Omaha, Nebraska,  
October 14, 2016.

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2016**

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

*Financial Statements*

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ x \_\_\_\_\_ No
- Significant deficiency(ies) identified? \_\_\_\_\_ x \_\_\_\_\_ Yes \_\_\_\_\_ None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes \_\_\_\_\_ x \_\_\_\_\_ No

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified? \_\_\_\_\_ Yes \_\_\_\_\_ x \_\_\_\_\_ No
- Significant deficiency(ies) identified? \_\_\_\_\_ Yes \_\_\_\_\_ x \_\_\_\_\_ None Reported
- Type of auditor's report issued on compliance for major federal programs: Unmodified
- Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? \_\_\_\_\_ Yes \_\_\_\_\_ x \_\_\_\_\_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.766	Department of Agriculture – Community Facilities Loans and Grants

Dollar threshold used to distinguish between type A and type B programs \_\_\_\_\_ \$750,000 \_\_\_\_\_

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes \_\_\_\_\_ X \_\_\_\_\_ No

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

**Instances of Non-Compliance:**

No matters were reported.

**Significant Deficiency:**

**II-A-16**

*Criteria:* The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.

**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2016**

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*Condition:* We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.

*Effect:* Audit journal entries were made to adjust amounts recorded by management for certain settlement and contractual adjustments in accounts receivable.

*Cause:* Management did not perform third party payor estimates as of fiscal year end and did properly reconcile capital assets, notes payable and cash as of fiscal year end.

*Recommendation:* We recommend that management review their estimation processes in these areas and determine if additional procedures or templates can be added to enhance the estimation process at year end and on an interim basis.

*Response:* The Hospital concurs with the recommendation.

*Conclusion:* Response accepted.

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

**III-A-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-B-16** Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**III-C-16** Business Transactions: The following transactions between the Hospital and Hospital officials:

Matt Hummel, Member Board of Trustees:	
Hospital pharmacy supervision fee	\$ 14,800
Hospital purchases of drugs and supplies and 340B dispensing fees from Businesses operated by Matt Hummel - Booth Pharmacy	46,027
	<u>46,027</u>
Total	\$ <u>60,827</u>

Glea Hamik, Member Board of Trustees:	
Wages paid for being a part-time employee during the year ended June 30, 2016	\$ 24,601
	<u>24,601</u>
Total	\$ <u>24,607</u>

**III-D-16** Board Minutes: - No transactions were found that we believe should have been approved in the Board minutes but were not.

**III-E-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-F-16** Publishing Requirements: An annual condensed statement of total receipts and expenditures is to be published in a newspaper of the city in which the Hospital is located according to Chapter 392.6 of the Code of Iowa.

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

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<b>Finding</b>	<b>Status</b>	<b>Corrective Action Plan or Other Explanation</b>
II-A-15	Net realizable value of accounts receivable and third party settlements	Unresolved, similar finding reported at II-A-16

**Hawarden Regional Healthcare**  
A Component Unit of the City of Hawarden, Iowa

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

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**This audit was performed by:**

- Brian D. Green, FHFMA, CPA, Partner
- Brad D. Pieper, In-Charge Auditor
- Phil E. Sanks, Staff Auditor