

**Iowa Specialty Hospital - Clarion
Clarion, Iowa**

FINANCIAL REPORT

June 30, 2015

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Iowa Specialty Hospital - Clarion
OFFICIALS
June 30, 2015

BOARD OF COMMISSIONERS

Officers

Ken Stoakes, President

Katie Stecher, Vice President

Sue Martin, Secretary-Treasurer

Expiration of term

June 30, 2017

June 30, 2018

June 30, 2016

Members

Lisa Hagie

Kimberly Heller

Judith Ritter

Scott Whyte

June 30, 2018

June 30, 2018

June 30, 2017

June 30, 2016

CHIEF EXECUTIVE OFFICER

Steve Simonin

CHIEF FINANCIAL OFFICER

Greg Polzin



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Iowa Specialty Hospital - Clarion
Clarion, Iowa

We have audited the accompanying financial statements of Iowa Specialty Hospital - Clarion, a component unit of the City of Clarion, Iowa, and its component unit, Wright Medical Foundation, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Hospital's and Foundation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iowa Specialty Hospital - Clarion and its component unit, Wright Medical Foundation, as of June 30, 2015 and 2014, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-10 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2015 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 30, 2015

Iowa Specialty Hospital - Clarion MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Iowa Specialty Hospital - Clarion, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis, the independent auditor's reports, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

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

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

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

Financial Highlights

- Total assets decreased by \$2,394,465 to \$42,886,830
- Total noncurrent assets whose use is limited increased by \$143,432 to \$7,099,806
- Total capital assets decreased by \$1,842,917 to \$17,786,748
- Total net position increased by \$792,134 to \$5,682,960
- Total long-term debt, including current maturities, decreased by \$1,497,352 to \$17,565,043
- Net patient service revenue increased by \$1,396,699, or 3%, to \$44,630,200
- Operating expenses increased by \$1,078,268, or 2%, to \$46,900,305

Financial Analysis of the Hospital

The statement of net position and the statements of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Hospital's statements of net position is presented in Table 1.

Table 1
Condensed Statements of Net Position

	June 30		
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2013</u> (Not restated)
Current assets	\$18,000,276	\$18,695,256	\$21,706,904
Noncurrent assets whose use is limited	7,099,806	6,956,374	4,224,403
Capital assets	<u>17,786,748</u>	<u>19,629,665</u>	<u>21,673,596</u>
Total assets	<u>42,886,830</u>	<u>45,281,295</u>	<u>47,604,903</u>
Deferred outflows of resources	<u>2,091,491</u>	—	—
Total assets and deferred outflows of resources	<u>\$44,978,321</u>	<u>\$45,281,295</u>	<u>\$47,604,903</u>
Current liabilities	\$ 6,655,742	\$ 7,444,486	\$ 8,616,522
Noncurrent liabilities	<u>27,763,620</u>	<u>17,563,734</u>	<u>19,102,059</u>
Total liabilities	<u>34,419,362</u>	<u>25,008,220</u>	<u>27,718,581</u>
Deferred inflows of resources	<u>4,875,999</u>	—	—
Net investment in capital assets	2,200,380	2,439,703	2,903,149
Restricted	401,800	375,484	376,662
Unrestricted	<u>3,080,780</u>	<u>17,457,888</u>	<u>16,606,511</u>
Total net position	<u>5,682,960</u>	<u>20,273,075</u>	<u>19,886,322</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$44,978,321</u>	<u>\$45,281,295</u>	<u>\$47,604,903</u>

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated and decreased by \$15,382,249 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

A summary of the Hospital's historical statements of revenues, expenses, and changes in net position is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year ended June 30		
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2013</u> (Not restated)
Net patient service revenue	\$44,630,200	\$43,233,501	\$43,362,691
Other revenue	<u>3,760,674</u>	<u>3,704,632</u>	<u>4,990,391</u>
Total operating revenue	<u>48,390,874</u>	<u>46,938,133</u>	<u>48,353,082</u>
Salaries	18,939,373	18,465,496	18,868,651
Supplies and expenses	25,445,382	24,884,588	25,327,175
Provision for depreciation	<u>2,515,550</u>	<u>2,471,953</u>	<u>2,076,903</u>
Total operating expenses	<u>46,900,305</u>	<u>45,822,037</u>	<u>46,272,729</u>
Operating income	<u>1,490,569</u>	<u>1,116,096</u>	<u>2,080,353</u>
Investment income	127,089	112,742	13,872
Unrestricted contributions	46,983	76,756	117,105
Interest expense	<u>(872,507)</u>	<u>(918,841)</u>	<u>(955,270)</u>
Total nonoperating gains (losses)	<u>(698,435)</u>	<u>(729,343)</u>	<u>(824,293)</u>
Change in net position	792,134	386,753	1,256,060
Total net position, beginning	<u>4,890,826</u>	<u>19,886,322</u>	<u>18,630,262</u>
Total net position, ending	<u>\$ 5,682,960</u>	<u>\$20,273,075</u>	<u>\$19,886,322</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in net position between June 30, 2015 and 2014.

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

Volume: Medical, surgical and obstetrical discharges for fiscal year 2015 were 1,164 compared to 1,071 in fiscal year 2014. Average length of stay for medical, surgical and obstetrical decreased as patient days decreased to 2,808 from 2,857 in 2014. Swing bed, skilled care discharges for fiscal year 2015 were 132 compared to 99 in fiscal year 2014. Average length of stay for swing bed, skilled care decreased as patient days increased to 636 from 608 in fiscal year 2014. Volume on the outpatient side indicated positive growth in 2015. In 2015, gross outpatient charges increased to \$52,876,963 compared to \$48,863,923 in 2014.

Price Increase: The Hospital did review its charge structure in 2015. Overall, gross patient service revenue increased to \$85,555,628 from \$79,584,258 in 2014. Operating room, central supply, MRI, pharmacy and clinics reflected the most significant growth in 2015.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts increased to \$40,925,428 in 2015 from \$36,350,757 in 2014, representing 48% and 46% of gross patient charges for the years ended June 30, 2015 and 2014, respectively.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Medicare	37%	40%	42%
Medicaid	14	12	9
Commercial insurance	42	44	44
Patients	<u>7</u>	<u>4</u>	<u>5</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$3,760,674 in 2015 compared to \$3,704,632 in 2014, primarily due to an increase in retail pharmacy.

Expenses

Approximately 40% of Hospital's expenses are for salaries. Total salaries increased by 3% to \$18,939,373 in 2015 from \$18,465,496 in 2014. The Hospital departments experiencing the most significant increase in 2015 were emergency service and clinics.

Approximately 55% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 2% to \$25,445,382 in 2015 from \$24,884,588 in 2014. The most significant increases in 2015 related to central supply and group health, life and other benefits.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$2,515,550 in 2015 from \$2,471,953 in 2014.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased in 2015 to \$(698,435) from \$(729,343) in 2014, primarily due to an increase in investment income.

Capital Assets

At the end of 2015, the Hospital had \$17,786,748 invested in capital assets, net of accumulated depreciation. The notes to financial statements provide more detail of changes in capital assets. In 2015, \$672,633 was spent to acquire capital assets.

A summary of the Hospital's capital assets is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	2015	2014	2013
Land	\$ 123,106	\$ 123,106	\$ 123,106
Land improvements	588,897	588,897	588,897
Buildings	16,490,312	16,490,312	16,495,638
Fixed equipment	11,516,955	11,394,900	11,646,269
Major movable equipment	<u>9,319,958</u>	<u>8,769,380</u>	<u>10,092,828</u>
Subtotal	38,039,228	37,366,595	38,946,738
Less accumulated depreciation	<u>20,252,480</u>	<u>17,736,930</u>	<u>17,273,142</u>
Capital assets	<u>\$17,786,748</u>	<u>\$19,629,665</u>	<u>\$21,673,596</u>

Debt Administration

At year end, the Hospital had \$17,565,043 in current and long-term debt related to Revenue Notes and notes payable, equipment, a decrease of \$1,497,352 from 2014. More detailed information about the Hospital's outstanding debt is presented in the notes to financial statements. Note that the total long-term debt represents approximately 50% of the Hospital's total liabilities as of year end.

Deferred Outflows and Inflows of Resources

As of June 30, 2015, the Hospital reported \$2,091,491 of deferred outflows of resources and \$4,875,999 of deferred inflows of resources. The Notes to the Financial Statements provide more detail regarding the nature and components of the deferred outflows and inflows of resources.

Contacting Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Iowa Specialty Hospital - Clarion at (515) 532-2811 or write care of: Chief Financial Officer, Iowa Specialty Hospital - Clarion, 1316 South Main Street, Clarion, Iowa 50525.

Iowa Specialty Hospital - Clarion
STATEMENTS OF NET POSITION
June 30, 2015 and 2014

ASSETS	Iowa Specialty Hospital - Clarion		Wright Medical Foundation	
	2015	2014 <small>(Not restated)</small>	2015	2014
CURRENT ASSETS				
Cash and cash equivalents	\$ 5,020,813	\$ 3,373,008	\$ 118,709	\$ 93,580
Investments	—	—	685,523	687,812
Patient receivables, less allowances for contractual adjustments and bad debts	10,539,683	12,108,667	—	—
Other receivables	196,396	663,217	—	—
Estimated third-party payor settlements	180,000	520,000	—	—
Inventories	1,630,059	1,603,909	—	—
Prepaid expenses	<u>433,325</u>	<u>426,455</u>	—	—
Total current assets	<u>18,000,276</u>	<u>18,695,256</u>	<u>804,232</u>	<u>781,392</u>
ASSETS WHOSE USE IS LIMITED				
Designated by board for plant replacement and expansion				
Cash	4,719,331	4,708,457	—	—
Restricted for payment of long-term debt and interest				
Cash	702,884	529,192	—	—
Municipal bonds	<u>1,677,591</u>	<u>1,718,725</u>	—	—
Total assets whose use is limited	<u>7,099,806</u>	<u>6,956,374</u>	—	—
CAPITAL ASSETS				
Less accumulated depreciation	<u>20,252,480</u>	<u>17,736,930</u>	<u>656,352</u>	<u>580,582</u>
Total capital assets	<u>17,786,748</u>	<u>19,629,665</u>	<u>2,267,432</u>	<u>2,336,602</u>
OTHER ASSET				
Reserve and depreciation funds	<u>—</u>	<u>—</u>	<u>196,011</u>	<u>175,565</u>
Total assets	<u>42,886,830</u>	<u>45,281,295</u>	<u>3,267,675</u>	<u>3,293,559</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension related deferred outflows	<u>2,091,491</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets and deferred outflows of resources	<u>\$44,978,321</u>	<u>\$45,281,295</u>	<u>\$3,267,675</u>	<u>\$3,293,559</u>

See Notes to Financial Statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	Iowa Specialty Hospital - Clarion		Wright Medical Foundation	
	2015	2014 (Not restated)	2015	2014
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 1,475,396	\$ 1,498,661	\$ 30,217	\$ 28,998
Accounts payable	2,753,458	2,311,803	49,198	82,355
Accrued employee compensation	1,588,590	1,519,421	—	—
Payroll taxes and amounts withheld from employees	551,298	784,601	—	—
Accrued interest	67,000	70,000	—	—
Estimated third-party payor settlements	220,000	1,260,000	—	—
Total current liabilities	<u>6,655,742</u>	<u>7,444,486</u>	<u>79,415</u>	<u>111,353</u>
LONG-TERM LIABILITIES				
Long-term debt, less current maturities	16,089,647	17,563,734	1,729,712	1,759,893
Net pension liability	<u>11,673,973</u>	—	—	—
Total long-term liabilities	<u>27,763,620</u>	<u>17,563,734</u>	<u>1,729,712</u>	<u>1,759,893</u>
Total liabilities	<u>34,419,362</u>	<u>25,008,220</u>	<u>1,809,127</u>	<u>1,871,246</u>
DEFERRED INFLOWS OF RESOURCES				
Pension related deferred inflows	<u>4,875,999</u>	—	—	—
NET POSITION				
Net investment in capital assets	2,200,380	2,439,703	—	—
Restricted	401,800	375,484	—	—
Unrestricted	<u>3,080,780</u>	<u>17,457,888</u>	<u>1,458,548</u>	<u>1,422,313</u>
Total net position	<u>5,682,960</u>	<u>20,273,075</u>	<u>1,458,548</u>	<u>1,422,313</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$44,978,321</u>	<u>\$45,281,295</u>	<u>\$3,267,675</u>	<u>\$3,293,559</u>

See Notes to Financial Statements.

Iowa Specialty Hospital - Clarion
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Years ended June 30, 2015 and 2014

	<u>Iowa Specialty Hospital - Clarion</u>		<u>Wright Medical Foundation</u>	
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2015</u>	<u>2014</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2015 \$2,372,525; 2014 \$2,008,344	\$44,630,200	\$43,233,501	\$ -	\$ -
OTHER REVENUE	<u>3,760,674</u>	<u>3,704,632</u>	<u>578,750</u>	<u>549,663</u>
Total revenue	<u>48,390,874</u>	<u>46,938,133</u>	<u>578,750</u>	<u>549,663</u>
EXPENSES				
Nursing service	19,388,090	18,327,773	-	-
Other professional service	13,610,314	13,406,666	-	-
General service	2,274,391	2,406,196	-	-
Fiscal and administrative service and unassigned expenses	9,111,960	9,209,449	481,187	504,548
Provision for depreciation	<u>2,515,550</u>	<u>2,471,953</u>	<u>75,770</u>	<u>82,294</u>
Total expenses	<u>46,900,305</u>	<u>45,822,037</u>	<u>556,957</u>	<u>586,842</u>
Operating income (loss)	<u>1,490,569</u>	<u>1,116,096</u>	<u>21,793</u>	<u>(37,179)</u>
NONOPERATING GAINS (LOSSES)				
Investment income	127,089	112,742	18,867	97,821
Unrestricted contributions	46,983	76,756	68,853	63,635
Interest and amortization expense	<u>(872,507)</u>	<u>(918,841)</u>	<u>(73,278)</u>	<u>(74,446)</u>
Total nonoperating gains (losses)	<u>(698,435)</u>	<u>(729,343)</u>	<u>14,442</u>	<u>87,010</u>
Change in net position	792,134	386,753	36,235	49,831
TOTAL NET POSITION				
Beginning	<u>4,890,826</u>	<u>19,886,322</u>	<u>1,422,313</u>	<u>1,372,482</u>
Ending	<u>\$ 5,682,960</u>	<u>\$20,273,075</u>	<u>\$1,458,548</u>	<u>\$1,422,313</u>

See Notes to Financial Statements.

Iowa Specialty Hospital - Clarion
STATEMENTS OF CASH FLOWS
Years ended June 30, 2015 and 2014

	Iowa Specialty Hospital - Clarion		Wright Medical Foundation	
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from patients and third-party payors	\$45,499,184	\$46,034,425	\$ —	\$ —
Cash paid to suppliers for goods and services	(25,726,997)	(27,954,124)	(354,613)	(347,859)
Cash paid to employees for services	(18,870,204)	(18,223,491)	(159,131)	(156,312)
Other operating revenue received	<u>3,760,674</u>	<u>3,704,632</u>	<u>578,150</u>	<u>553,767</u>
Net cash and cash equivalents provided by operating activities	<u>4,662,657</u>	<u>3,561,442</u>	<u>64,406</u>	<u>49,596</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Contributions received	<u>46,983</u>	<u>76,756</u>	<u>68,853</u>	<u>63,635</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition of capital assets	(672,633)	(428,022)	(6,600)	(17,210)
Principal payments on long-term debt	(1,497,352)	(1,496,590)	(28,962)	(27,794)
Interest paid on long-term debt	<u>(875,507)</u>	<u>(921,841)</u>	<u>(73,278)</u>	<u>(74,446)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(3,045,492)</u>	<u>(2,846,453)</u>	<u>(108,840)</u>	<u>(119,450)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	127,089	112,742	18,330	17,689
Proceeds from maturities of investments	41,134	—	14,000	—
Purchases of investments	<u>—</u>	<u>(7,038)</u>	<u>(31,620)</u>	<u>(31,067)</u>
Net cash and cash equivalents provided by (used in) investing activities	<u>168,223</u>	<u>105,704</u>	<u>710</u>	<u>(13,378)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,832,371	897,449	25,129	(19,597)
CASH AND CASH EQUIVALENTS				
Beginning	<u>8,610,657</u>	<u>7,713,208</u>	<u>93,580</u>	<u>113,177</u>
Ending	<u>\$10,443,028</u>	<u>\$ 8,610,657</u>	<u>\$ 118,709</u>	<u>\$ 93,580</u>

See Notes to Financial Statements.

Iowa Specialty Hospital - Clarion
STATEMENTS OF CASH FLOWS (continued)
Years ended June 30, 2015 and 2014

	Iowa Specialty Hospital - Clarion		Wright Medical Foundation	
	<u>2015</u>	<u>2014</u> (Not restated)	<u>2015</u>	<u>2014</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 1,490,569	\$ 1,116,096	\$ 21,793	\$ (37,179)
Adjustments to reconcile operating income (loss) to net cash and cash equivalents provided by operating activities				
Depreciation	2,515,550	2,471,953	75,770	82,294
Changes in assets and liabilities				
Decrease in patient receivables	1,568,984	700,924	-	-
(Increase) decrease in other receivables	466,821	(361,054)	-	4,104
(Increase) decrease in estimated third-party payor settlements	(700,000)	2,100,000	-	-
(Increase) in inventories	(26,150)	(58,616)	-	-
(Increase) decrease in prepaid expenses	(6,870)	62,910	-	-
(Increase) in pension related deferred outflows	(618,309)	-	-	-
Increase (decrease) in accounts payable	441,655	(2,847,230)	(33,157)	377
Increase in accrued employee compensation	69,169	242,005	-	-
Increase (decrease) in payroll taxes and amounts withheld from employees	(233,303)	134,454	-	-
(Decrease) in net pension liability	(5,181,458)	-	-	-
Increase in pension related deferred inflows	<u>4,875,999</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Net cash and cash equivalents provided by operating activities	 <u>\$ 4,662,657</u>	 <u>\$ 3,561,442</u>	 <u>\$ 64,406</u>	 <u>\$ 49,596</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET				
Per balance sheet				
Current assets, cash and cash equivalents	\$ 5,020,813	\$ 3,373,008	\$ 118,709	\$ 93,580
Assets whose use is limited				
Designated by board for replacement and expansion, cash	4,719,331	4,708,457	-	-
Restricted for payment of long-term debt and interest, cash	<u>702,884</u>	<u>529,192</u>	<u>-</u>	<u>-</u>
Total per statement of cash flows	<u>\$10,443,028</u>	<u>\$ 8,610,657</u>	<u>\$ 118,709</u>	<u>\$ 93,580</u>

See Notes to Financial Statements.

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a memorial municipal Hospital of the City of Clarion, Iowa, organized under Chapter 37, Code of Iowa, and as such is not subject to taxes on income or property. The Hospital is governed by a six member Board of Commissioners.

Reporting Entity

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. 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. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Wright Medical Foundation. The Foundation is a legally separate nonprofit corporation. The Hospital does not appoint a voting majority of the Foundation's Board of Trustees or in any way impose its will over the Foundation. However, the Foundation is a component unit due to the nature and significance of its relationship with the Hospital. The accounts and transactions of the Foundation are included by discrete presentation within these financial statements as required by accounting principles generally accepted in the United States of America.

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

Measurement Focus and Basis of Accounting

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

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

The Foundation is a private nonprofit organization that reports under the *FASB Accounting Standards Codification*, including the Not-for-Profit Entities Topic. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Accounting Standards

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and all certificates of deposit.

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

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

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities	
Municipal bonds	
Maturity of one year or less when purchased	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

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

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

The Foundation carries investments in money market funds and marketable securities with readily determinable fair values and at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in net position in the accompanying statements of revenues, expenses, and changes in net position.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Capital Assets

Capital assets acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is three to forty years.

Reserve and Depreciation Funds

For purposes of reporting the statement of cash flows, the Foundation does not consider funds maintained in the reserve and depreciation funds to be cash and cash equivalents.

Net Pension Liability

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

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources

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

Net Position

Net position is presented in the following three components:

Net investment in capital assets

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

Restricted

Restricted net position consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments. The Hospital has no restricted net position.

Unrestricted

Unrestricted net position has no externally imposed restrictions on use.

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Net Patient Service Revenue

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.

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses and Changes in Net Position

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

Credit Policy

The Hospital grants credit to patients, substantially all of whom are residents of the City and surrounding areas.

Accounting Estimates and Assumptions

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

Income Taxes

The Foundation is a nonprofit corporation exempt from federal income tax under applicable provisions of the Internal Revenue Code. The Foundation follows the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the FASB Accounting Standards Codification. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through September 30, 2015, the date which the financial statements were available to be issued. There were no subsequent events required to be accrued to disclosed.

Reclassifications

Certain amounts have been reclassified in the 2014 financial statements in order to conform with the 2015 presentation, with no effect on the change in net position.

NOTE 2 CASH AND INVESTMENTS

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

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

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 2 CASH AND INVESTMENTS (continued)

The Hospital's debt securities, consisting of municipal bonds, at June 30, 2015 are as follows:

<u>Maturity</u>	<u>Fair value</u>
February, 2022	\$ 183,302
June, 2024	330,340
April, 2025	479,553
December, 2026	134,581
February, 2027	288,775
February, 2028	<u>261,040</u>
Total	<u>\$1,677,591</u>

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

At June 30, 2015 and 2014, the Foundation's investments consisted of money market funds, corporation and municipal bonds, mutual funds and pooled investments of \$685,523 and \$687,812, respectively.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation measures the fair value of financial instruments in accordance with generally accepted accounting principles, using a fair value hierarchy consisting of three input levels, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances.

The following tables present information about the Foundation's investments measured at fair value as of June 30, 2015 and 2014.

<u>June 30, 2015</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 10,949	\$ —	\$ —	\$ 10,949
Corporation and municipal bonds	101,213	—	—	101,213
Mutual funds	527,140	—	—	527,140
Pooled investments	<u>—</u>	<u>—</u>	<u>46,221</u>	<u>46,221</u>
Investments, at fair value	<u>\$ 639,302</u>	<u>\$ —</u>	<u>\$ 46,221</u>	<u>\$ 685,523</u>
<u>June 30, 2014</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 11,888	\$ —	\$ —	\$ 11,888
Corporation and municipal bonds	101,623	—	—	101,623
Mutual funds	527,714	—	—	527,714
Pooled investments	<u>—</u>	<u>—</u>	<u>46,587</u>	<u>46,587</u>
Investments, at fair value	<u>\$ 641,225</u>	<u>\$ —</u>	<u>\$ 46,587</u>	<u>\$ 687,812</u>

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Level 3 investments consist primarily of assets that are not actively traded and significant other observable inputs are not available. The assets held by the Community Foundation of Greater Des Moines consist of pooled funds invested at the Community Foundation. The Foundation holds a share of the pooled funds and not direct ownership of the underlying investments. Although the pooled funds, as noted in the previous table, include equity, fixed income, and other marketable securities, the pool itself is not a publicly traded instrument. The following table presents further information about the Foundation's Level 3 investment activity for the years ended June 30, 2015 and 2014.

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Beginning balance	\$ 46,587	\$ 40,389
Contributions	1,350	1,000
Unrealized gains	326	6,624
Interest and dividends	799	1,352
Grants paid	(2,366)	(2,332)
Management fees	<u>(475)</u>	<u>(446)</u>
Ending balance	<u>\$ 46,221</u>	<u>\$ 46,587</u>

The fair value of the pooled investments have been estimated by the Foundation primarily using information from management of the Community Foundation of Greater Des Moines.

NOTE 4 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Medicare	\$ 3,302,524	\$ 4,841,761
Medicaid	1,670,115	1,497,757
Commercial insurance	5,042,765	5,177,256
Patients	<u>4,984,279</u>	<u>6,371,893</u>
Total patient receivables	14,999,683	17,888,667
Less allowances for contractual adjustments and bad debts	<u>(4,460,000)</u>	<u>(5,780,000)</u>
Net patient receivables	<u>\$10,539,683</u>	<u>\$12,108,667</u>

NOTE 5 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2015:

	<u>Sinking Funds</u>	<u>Reserve Funds</u>	<u>Total</u>
BALANCE , beginning of year	\$ 375,484	\$1,872,433	\$2,247,917
Transfer from current assets, cash	1,800,544	-	1,800,544
Interest earned	-	106,242	106,242
Principal and interest payments	<u>(1,774,228)</u>	<u>-</u>	<u>(1,774,228)</u>
BALANCE , end of year	<u>\$ 401,800</u>	<u>\$1,978,675</u>	<u>\$2,380,475</u>

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 6 CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation follows:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 123,106	\$ -	\$ 123,106	\$ -
Land improvements	588,897	413,894	588,897	375,647
Buildings	16,490,312	10,529,205	16,490,312	9,946,946
Fixed equipment	11,516,955	3,700,799	11,394,900	3,029,516
Major movable equipment	<u>9,319,958</u>	<u>5,608,582</u>	<u>8,769,380</u>	<u>4,384,821</u>
Totals	<u>\$38,039,228</u>	<u>\$20,252,480</u>	<u>\$37,366,595</u>	<u>\$17,736,930</u>

A summary of changes in capital assets for the year ended June 30, 2015 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ -	\$ -	\$ 123,106
Land improvements	588,897	-	-	588,897
Buildings	16,490,312	-	-	16,490,312
Fixed equipment	11,394,900	122,055	-	11,516,955
Major movable equipment	<u>8,769,380</u>	<u>550,578</u>	-	<u>9,319,958</u>
Totals	37,366,595	672,633	-	38,039,228
Less accumulated depreciation	<u>(17,736,930)</u>	<u>(2,515,550)</u>	-	<u>(20,252,480)</u>
Net property and equipment	<u>\$19,629,665</u>	<u>\$(1,842,917)</u>	<u>\$ -</u>	<u>\$17,786,748</u>

A summary of changes in capital assets for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 123,106	\$ -	\$ -	\$ 123,106
Land improvements	588,897	-	-	588,897
Buildings	16,495,638	-	5,326	16,490,312
Fixed equipment	11,646,269	32,063	283,432	11,394,900
Major movable equipment	<u>10,092,828</u>	<u>395,959</u>	<u>1,719,407</u>	<u>8,769,380</u>
Totals	38,946,738	428,022	2,008,165	37,366,595
Less accumulated depreciation	<u>(17,273,142)</u>	<u>(2,471,953)</u>	<u>(2,008,165)</u>	<u>(17,736,930)</u>
Net property and equipment	<u>\$21,673,596</u>	<u>\$(2,043,931)</u>	<u>\$ -</u>	<u>\$19,629,665</u>

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 CAPITAL ASSETS (continued)

A summary of the Foundation's capital assets and related accumulated depreciation follows:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 251,577	\$ -	\$ 251,577	\$ -
Land improvements	208,719	56,927	202,119	44,433
Buildings	2,414,311	566,340	2,414,311	505,982
Fixed equipment	<u>49,177</u>	<u>33,085</u>	<u>49,177</u>	<u>30,167</u>
Totals	<u>\$2,923,784</u>	<u>\$ 656,352</u>	<u>\$2,917,184</u>	<u>\$ 580,582</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ -	\$ -	\$ 251,577
Land improvements	202,119	6,600	-	208,719
Buildings	2,414,311	-	-	2,414,311
Fixed equipment	<u>49,177</u>	<u>-</u>	<u>-</u>	<u>49,177</u>
Totals	2,917,184	6,600	-	2,923,784
Less accumulated depreciation	<u>(580,582)</u>	<u>(75,770)</u>	<u>-</u>	<u>(656,352)</u>
Net property and equipment	<u>\$2,336,602</u>	<u>\$ (69,170)</u>	<u>\$ -</u>	<u>\$2,267,432</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 251,577	\$ -	\$ -	\$ 251,577
Land improvements	202,119	-	-	202,119
Buildings	2,414,311	-	-	2,414,311
Fixed equipment	<u>31,967</u>	<u>17,210</u>	<u>-</u>	<u>49,177</u>
Totals	2,899,974	17,210	-	2,917,184
Less accumulated depreciation	<u>(498,288)</u>	<u>(82,294)</u>	<u>-</u>	<u>(580,582)</u>
Net property and equipment	<u>\$2,401,686</u>	<u>\$ (65,084)</u>	<u>\$ -</u>	<u>\$2,336,602</u>

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT

The Hospital's long-term debt at June 30, 2015 and 2014 is summarized as follows:

	Year ended June 30	
	2015	2014
Hospital Refunding Revenue Bonds, Series 2010A	\$ 4,330,000	\$ 4,665,000
Hospital Revenue Bonds, Series 2010B	12,520,000	13,120,000
Notes payable, equipment	715,043	1,277,395
Total	17,565,043	19,062,395
Less current maturities	1,475,396	1,498,661
Long-term debt, net of current maturities	<u>\$16,089,647</u>	<u>\$17,563,734</u>

Hospital Refunding Revenue Bonds, Series 2010A

The Hospital has issued Hospital Refunding Revenue Bonds, Series 2010A in the original amount of \$5,960,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2025, at remaining interest rates ranging from 4% to 5.75%. At June 30, 2015, the remaining balance on these Bonds is \$4,330,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$572,733.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2015.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Hospital Revenue Bonds, Series 2010B

The Hospital has issued Hospital Revenue Bonds, Series 2010B in the original amount of \$14,800,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2030, at remaining interest rates ranging from 4% to 5.3%, net of anticipated subsidy payments from the federal government. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$1,117,000. At June 30, 2015, the remaining balance on these Bonds is \$12,520,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2015.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Note Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$43,015, including interest at 3.25%, through December, 2016. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2015, the remaining balance on this note is \$715,043.

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (continued)

As to the above Bonds, Series 2010A and 2010B, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2030. As of June 30, 2015 the remaining principal and interest on the Series 2010A and 2010B Bonds was \$23,346,325. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2015 and 2014:

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Change in net position	\$ 792,134	\$ 386,753
Provision for depreciation	2,515,550	2,471,953
Interest expense on the Bonds	<u>836,410</u>	<u>865,344</u>
 Pledged net revenues	 <u>\$4,144,094</u>	 <u>\$3,724,050</u>
 Principal and interest requirements		
Hospital Refunding Revenue Bonds, Series 2010A	\$ 564,793	\$ 570,023
Hospital Revenue Bonds, Series 2010B	<u>1,209,435</u>	<u>1,208,388</u>
 Totals	 <u>\$1,774,228</u>	 <u>\$1,778,411</u>

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Notes</u>		<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
	<u>Series 2010A</u>	<u>Series 2010B</u>				
2016	\$ 355,000	\$ 620,000	\$ 500,396	\$ 1,475,396	\$ 789,628	\$ 2,265,024
2017	365,000	645,000	214,647	1,224,647	737,054	1,961,701
2018	380,000	665,000	-	1,045,000	697,169	1,742,169
2019	395,000	690,000	-	1,085,000	655,381	1,740,381
2020	420,000	715,000	-	1,135,000	611,199	1,746,199
2021-2025	2,415,000	4,065,000	-	6,480,000	2,236,045	8,716,045
2026-2030	-	<u>5,120,000</u>	-	<u>5,120,000</u>	<u>786,060</u>	<u>5,906,060</u>
Totals	4,330,000	12,520,000	715,043	17,565,043	6,512,536	24,077,579
Less current maturities	<u>355,000</u>	<u>620,000</u>	<u>500,396</u>	<u>1,475,396</u>	<u>789,628</u>	<u>2,265,024</u>
 Total long-term debt	 <u>\$3,975,000</u>	 <u>\$11,900,000</u>	 <u>\$ 214,647</u>	 <u>\$16,089,647</u>	 <u>\$5,722,908</u>	 <u>\$21,812,555</u>

A summary of changes in Hospital's long-term debt for the year ended June 30, 2015 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 4,665,000	\$ -	\$ 335,000	\$ 4,330,000	\$ 355,000
Hospital Revenue Bonds, Series 2010B	13,120,000	-	600,000	12,520,000	620,000
Notes payable, equipment	<u>1,277,395</u>	<u>-</u>	<u>562,352</u>	<u>715,043</u>	<u>500,396</u>
 Totals	 <u>\$19,062,395</u>	 <u>\$ -</u>	 <u>\$1,497,352</u>	 <u>\$17,565,043</u>	 <u>\$1,475,396</u>

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in the Hospital's long-term debt for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Refunding Revenue Bonds, Series 2010A	\$ 4,995,000	\$ —	\$ 330,000	\$ 4,665,000	\$ 335,000
Hospital Revenue Bonds, Series 2010B	13,700,000	—	580,000	13,120,000	600,000
Notes payable, equipment	<u>1,863,985</u>	<u>—</u>	<u>586,590</u>	<u>1,277,395</u>	<u>563,661</u>
Totals	<u>\$20,558,985</u>	<u>\$ —</u>	<u>\$1,496,590</u>	<u>\$19,062,395</u>	<u>\$1,498,661</u>

The Foundation's long-term debt at June 30, 2015 and 2014 is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Note payable	\$1,759,929	\$1,788,891
Less current maturities	<u>30,217</u>	<u>28,998</u>
Long-term debt, net of current maturities	<u>\$1,729,712</u>	<u>\$1,759,893</u>

Note Payable, Building

The Foundation has issued a note payable in the original amount of \$2,000,000. The note is payable in monthly installments of \$8,520, including interest at 4.13%, through September, 2045. The note is secured by a mortgage and at June 30, 2015 the remaining balance is \$1,759,929.

The Foundation also maintains certain funds as follows:

A Reserve Fund requiring monthly deposits until the balance is equal to \$102,240. At June 30, 2015 the balance of this fund is \$97,104.

A Depreciation Fund is also funded by monthly deposits. At June 30, 2015 the balance of this fund is \$98,907.

The aggregate of these two funds, \$196,011, is reported on the balance sheets as an other asset at June 30, 2015.

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Maturities required on the Foundation's long-term debt are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 30,217	\$ 72,023	\$ 102,240
2017	31,487	70,753	102,240
2018	32,811	69,429	102,240
2019	34,190	68,050	102,240
2020	35,627	66,613	102,240
2021-2025	201,902	309,298	511,200
2026-2030	248,062	263,138	511,200
2031-2035	304,776	206,424	511,200
2036-2040	374,455	136,745	511,200
2041-2045	458,194	53,006	511,200
2046	<u>8,208</u>	<u>312</u>	<u>8,520</u>
Totals	1,759,929	1,315,791	3,075,720
Less current maturities	<u>30,217</u>	<u>72,023</u>	<u>102,240</u>
Total long-term debt	<u>\$1,729,712</u>	<u>\$1,243,768</u>	<u>\$2,973,480</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2015 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, building	\$ <u>1,788,891</u>	\$ <u>—</u>	\$ <u>28,962</u>	\$ <u>1,759,929</u>	\$ <u>30,217</u>

A summary of changes in the Foundation's long-term debt for the year ended June 30, 2014 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Note payable, building	\$ <u>1,816,685</u>	\$ <u>—</u>	\$ <u>27,794</u>	\$ <u>1,788,891</u>	\$ <u>28,998</u>

NOTE 8 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

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

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 NET PATIENT SERVICE REVENUE (continued)

Other

The Hospital has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined per diem rates.

NOTE 9 CHARITY CARE

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

	Year ended June 30	
	2015	2014
Charges foregone, based on established rates	<u>\$ 206,505</u>	<u>\$ 174,243</u>
Equivalent percentage of charity care patients to all patients served	<u>0.2%</u>	<u>0.2%</u>

NOTE 10 MALPRACTICE CLAIMS

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

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

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

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN

Plan Description

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

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

Pension Benefits

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

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

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

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

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% 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 0.5% for each month that the member receives benefits before age 65.

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

Disability and Death Benefits

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

**Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 PENSION PLAN (continued)

Contributions

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

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the Health Center contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of pay and the Hospital contributed 10.14% for a total rate of 16.9%.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$1,464,643 and \$1,473,182, respectively.

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

At June 30, 2015, the Hospital reported a liability of \$11,673,973 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. The following table summarizes the change in the Hospital's proportionate share:

	June 30		Change
	2014	2013	
Hospital's proportionate share	0.294358%	0.293563%	0.000795%

For the year ended June 30, 2015, the Hospital recognized pension expense of \$540,875. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 125,350	\$ -
Change in assumptions	501,498	-
Net difference between projected and actual earnings on pension plan investments	-	4,478,348
Change in proportion and difference between Hospital contributions and proportionate share of contributions	-	397,651
Hospital contributions subsequent to the measurement date	1,464,643	-
Totals	\$2,091,491	\$4,875,999

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN (continued)

The \$1,464,643 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Regular Members</u>	<u>Protection Occupation</u>	<u>Total</u>
2016	\$(1,058,960)	\$ (3,688)	\$(1,062,648)
2017	(1,058,960)	(3,688)	(1,062,648)
2018	(1,058,960)	(3,688)	(1,062,648)
2019	(1,058,958)	(3,686)	(1,062,644)
2020	<u>15,650</u>	<u>295</u>	<u>15,945</u>
Totals	\$(<u>4,220,188</u>)	\$ (<u>14,455</u>)	\$(<u>4,234,643</u>)

There were no nonemployer contributing entities at IPERS.

Actuarial Assumptions

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

Rate of inflation (effective June 30, 2014)	3%
Salary increases (effective June 30, 2014)	4%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.5% per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN (continued)

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

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

Discount Rate

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	<u>\$22,114,244</u>	<u>\$11,673,973</u>	<u>\$2,861,362</u>

Pension Plan Fiduciary Net Position

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

Iowa Specialty Hospital - Clarion
NOTES TO FINANCIAL STATEMENTS

NOTE 11 PENSION PLAN (continued)

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of approximately \$73,000 for legally required employer contributions and approximately \$49,000 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions. An actuarial valuation has been performed and the other post employment benefit has been judged by management to be immaterial to the financial statements.

NOTE 13 RISK MANAGEMENT

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

NOTE 14 ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for the fiscal year ended June 30, 2015 was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net position</u>
Net position June 30, 2014, as previously reported	\$20,273,075
Net pension liability at June 30, 2014	(16,855,431)
Deferred outflows of resources related to contributions made After the July 30, 2013 measurement date	<u>1,473,182</u>
Net position July 1, 2014, as restated	<u>\$ 4,890,826</u>

Iowa Specialty Hospital – Clarion
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
Required Supplementary Information

	<u>June 30</u> <u>2015</u>
Hospital's proportion of the net pension liability	0.294358%
Hospital's proportionate share of the net pension liability	\$11,673,973
Hospital's total payroll	\$18,939,373
Hospital's proportionate share of the net pension liability as a % of its covered employee payroll	62%
Plan fiduciary net position as a % of the total pension liability	88%

See accompanying notes to required supplementary information - pension liability.

Iowa Specialty Hospital – Clarion
SCHEDULE OF HOSPITAL PENSION CONTRIBUTIONS
Iowa Public Employees’ Retirement System
Required Supplementary Information

	Year ended June 30			
	2015	2014	2013	2012
Statutorily required contribution	\$ 1,464,643	\$ 1,473,182	\$ 1,457,855	\$ 1,279,001
Contributions in relation to the statutorily required contribution	<u>1,464,643</u>	<u>1,473,182</u>	<u>1,457,855</u>	<u>1,279,001</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Hospital’s total payroll	\$18,939,373	\$18,465,496	\$18,868,651	\$17,721,246
Contributions as a percentage of total payroll	7.7%	8.0%	7.7%	7.2%

See accompanying notes to required supplementary information - pension liability.

Year ended June 30					
<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 1,007,292	\$ 901,452	\$ 880,805	\$ 778,496	\$ 620,096	\$ 427,886
<u>1,007,292</u>	<u>901,452</u>	<u>880,805</u>	<u>778,496</u>	<u>620,096</u>	<u>427,886</u>
<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
\$17,130,930	\$15,547,336	\$16,184,391	\$14,925,000	\$11,637,717	\$ 7,885,985
5.9%	5.8%	5.4%	5.2%	5.3%	5.4%

Iowa Specialty Hospital – Clarion
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
Year ended June 30, 2015

CHANGES OF BENEFIT TERMS

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

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

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

CHANGES OF ASSUMPTIONS

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

- Decreased the inflation assumption from 3.25% to 3%.
- Decreased the assumed rate of interest on member accounts from 4% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

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

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

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



INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Commissioners
Iowa Specialty Hospital - Clarion
Clarion, Iowa

We have audited the financial statements of Iowa Specialty Hospital - Clarion and its component unit, Wright Medical Foundation, as of and for the years ended June 30, 2015 and 2014, and have issued our report thereon dated September 30, 2015, which contained an unmodified opinion on those financial statements. Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 30, 2015

**Iowa Specialty Hospital - Clarion
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
0 - 30 days (includes patients in Hospital at end of year)	\$ 7,258,766	\$ 7,514,947	48.39%	42.01%
31 - 60 days	1,564,008	2,522,987	10.43	14.10
61 - 90 days	1,001,253	1,620,162	6.68	9.06
91 - 120 days	671,225	693,149	4.47	3.88
121-180 days	1,013,582	910,785	6.76	5.09
Over 180 days	<u>3,490,849</u>	<u>4,626,637</u>	<u>23.27</u>	<u>25.86</u>
Totals	<u>14,999,683</u>	<u>17,888,667</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	1,320,000	1,880,000		
Medicaid	720,000	640,000		
Other	260,000	320,000		
Bad debts	<u>2,160,000</u>	<u>2,940,000</u>		
Total allowances	<u>4,460,000</u>	<u>5,780,000</u>		
Totals	<u>\$10,539,683</u>	<u>\$12,108,667</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 122,275</u>	<u>\$ 118,448</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>86</u>	<u>102</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
BALANCE , beginning	\$2,940,000	\$1,540,000		
ADD				
Provision for bad debts	2,372,525	2,008,344	5.32%	4.65%
Recoveries of accounts previously written off	<u>209,951</u>	<u>185,904</u>	.47	.43
	5,522,476	3,734,248		
DEDUCT				
Accounts written off	<u>3,362,476</u>	<u>794,248</u>	7.53	1.84
BALANCE , ending	<u>\$2,160,000</u>	<u>\$2,940,000</u>		

Iowa Specialty Hospital - Clarion
PATIENT SERVICE REVENUE
Year ended June 30, 2015, with comparative totals for 2014

	<u>2015</u>			<u>2014</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 2,557,220	\$ –	\$ 2,557,220	\$ 2,657,977
Swing bed	724,541	–	724,541	612,195
Nursery	504,278	–	504,278	455,091
	<u>3,786,039</u>	<u>–</u>	<u>3,786,039</u>	<u>3,725,263</u>
OTHER NURSING SERVICES				
Observation room	–	707,950	707,950	712,801
Operating room	11,269,865	14,319,439	25,589,304	23,417,997
Recovery room	291,264	866,142	1,157,406	1,120,920
Delivery and labor rooms	1,291,861	407,747	1,699,608	1,440,045
Central supply	8,436,386	2,197,258	10,633,644	9,405,181
Emergency service	–	<u>2,535,020</u>	<u>2,535,020</u>	<u>2,583,870</u>
	<u>21,289,376</u>	<u>21,033,556</u>	<u>42,322,932</u>	<u>38,680,814</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	1,327,341	5,424,354	6,751,695	6,308,804
Radiology	158,476	3,888,725	4,047,201	3,809,534
CT scans	164,527	3,372,817	3,537,344	3,213,073
MRI	55,254	2,075,152	2,130,406	1,779,594
Nuclear scans	3,776	480,813	484,589	636,270
Ultrasound	112,089	1,963,276	2,075,365	1,804,830
Electrocardiology	25,300	181,693	206,993	222,673
Respiratory therapy	413,854	513,252	927,106	1,444,638
Cardiac rehabilitation	–	416,411	416,411	437,623
Pharmacy	1,932,778	2,271,666	4,204,444	3,327,683
Intravenous therapy	–	–	–	441,560
Anesthesiology	2,105,758	2,091,314	4,197,072	3,916,506
Occupational therapy	234,737	166,644	401,381	404,020
Physical therapy	491,787	1,740,281	2,232,068	1,924,393
Speech therapy	5,489	117,638	123,127	123,063
Clinics	776,784	6,519,812	7,296,596	6,648,115
Sleep center	1,805	<u>619,559</u>	<u>621,364</u>	<u>910,045</u>
	<u>7,809,755</u>	<u>31,843,407</u>	<u>39,653,162</u>	<u>37,352,424</u>
Totals	<u>\$32,885,170</u>	<u>\$52,876,963</u>	85,762,133	79,758,501
Charity care charges forgone, based on established rates			<u>(206,505)</u>	<u>(174,243)</u>
Total gross patient service revenue			85,555,628	79,584,258
Provisions for contractual adjustments and bad debts			<u>(40,925,428)</u>	<u>(36,350,757)</u>
Total net patient service revenue			<u>\$44,630,200</u>	<u>\$43,233,501</u>

Iowa Specialty Hospital - Clarion
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Contractual adjustments		
Medicare	\$17,888,660	\$16,676,634
Medicaid	5,615,225	4,037,009
Other adjustments	15,049,018	13,628,770
Provision for bad debts	<u>2,372,525</u>	<u>2,008,344</u>
 Totals	 <u>\$40,925,428</u>	 <u>\$36,350,757</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
Electronic health records meaningful use incentive revenue	\$ 480,701	\$ 356,335
Cafeteria	328,412	386,121
Fitness center	78,519	109,601
Residential fees	723,226	715,697
Retail pharmacy	2,008,986	1,791,511
Miscellaneous	<u>140,830</u>	<u>345,367</u>
 Totals	 <u>\$3,760,674</u>	 <u>\$3,704,632</u>

Iowa Specialty Hospital - Clarion
EXPENSES
Year ended June 30, 2015, with comparative totals for 2014

	<u>2015</u>			<u>2014</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 470,299	\$ 107,036	\$ 577,335	\$ 413,233
Medical, surgical and obstetrical	1,658,452	504,941	2,163,393	2,263,619
Nursery, delivery and labor rooms	642,532	130,809	773,341	784,698
Operating room	3,152,476	5,865,628	9,018,104	8,778,541
Emergency service	1,361,444	379,528	1,740,972	1,523,000
Central supply	133,114	4,981,831	5,114,945	4,564,682
Total nursing service	<u>7,418,317</u>	<u>11,969,773</u>	<u>19,388,090</u>	<u>18,327,773</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	457,698	829,164	1,286,862	1,339,124
Radiology	764,579	543,712	1,308,291	1,076,333
CT scans	-	506,296	506,296	427,074
MRI	68,545	323,097	391,642	522,652
Nuclear scans	-	107,499	107,499	128,103
Ultrasound	142,155	158,310	300,465	291,251
Electrocardiology	7,094	3,319	10,413	7,764
Respiratory therapy	245,725	31,254	276,979	284,356
Cardiac rehabilitation	87,958	26,470	114,428	111,264
Pharmacy	444,482	753,579	1,198,061	1,042,799
Retail pharmacy	210,751	938,555	1,149,306	1,138,931
Anesthesiology	908,313	112,014	1,020,327	1,006,088
Occupational therapy	143,797	81,713	225,510	247,666
Physical therapy	654,578	251,979	906,557	978,062
Speech therapy	72,268	4,185	76,453	81,122
Clinics	3,396,687	751,724	4,148,411	3,975,075
Sleep center	58,894	67,798	126,692	162,599
Medical records	353,016	103,106	456,122	586,403
Total other professional service	<u>8,016,540</u>	<u>5,593,774</u>	<u>13,610,314</u>	<u>13,406,666</u>
GENERAL SERVICE				
Dietary	373,737	343,895	717,632	804,735
Plant operation	268,402	648,754	917,156	969,228
Housekeeping	389,943	73,871	463,814	457,465
Laundry	-	175,789	175,789	174,768
Total general service	<u>1,032,082</u>	<u>1,242,309</u>	<u>2,274,391</u>	<u>2,406,196</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administrative services	2,291,197	1,760,628	4,051,825	4,028,621
Residential services	136,070	276,414	412,484	438,969
Fitness center	45,167	52,415	97,582	74,608
Group health, life and other benefits	-	2,322,561	2,322,561	1,473,722
FICA	-	1,117,404	1,117,404	1,119,951
IPERS	-	540,875	540,875	1,473,182
Insurance	-	569,229	569,229	600,396
Total fiscal and administrative service and unassigned expenses	<u>2,472,434</u>	<u>6,639,526</u>	<u>9,111,960</u>	<u>9,209,449</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>2,515,550</u>	<u>2,515,550</u>	<u>2,471,953</u>
Total expenses	<u>\$18,939,373</u>	<u>\$27,960,932</u>	<u>\$46,900,305</u>	<u>\$45,822,037</u>

**Iowa Specialty Hospital - Clarion
STATISTICS**

	<u>Year ended June 30</u>	
	<u>2015</u>	<u>2014</u>
PATIENT DAYS		
Medical, surgical and obstetrical	2,793	2,857
Swing bed		
Skilled care	665	608
Intermediate care	65	22
Nursery	<u>501</u>	<u>535</u>
Totals	<u>4,024</u>	<u>4,022</u>
DISCHARGES		
Medical, surgical and obstetrical	1,105	1,071
Swing bed		
Skilled care	105	99
Intermediate care	2	4
Nursery	<u>287</u>	<u>266</u>
Totals	<u>1,499</u>	<u>1,440</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.53	2.67
Swing bed		
Skilled care	6.33	6.14
Intermediate care	32.50	5.50
Nursery	1.75	2.01



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

Board of Commissioners
Iowa Specialty Hospital - Clarion
Clarion, 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 Iowa Specialty Hospital - Clarion, and its component unit, Wright Memorial Foundation, as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital'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, 2015 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 30, 2015

**Iowa Specialty Hospital - Clarion
SCHEDULE OF FINDINGS
Year ended June 30, 2015**

Part I—Findings Related to the Financial Statements

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

**Iowa Specialty Hospital - Clarion
SCHEDULE OF FINDINGS
Year ended June 30, 2015**

Part II—Findings Related to Required Statutory Reporting

15-II-A QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

15-II-B TRAVEL EXPENSES

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

15-II-C BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and Hospital officials and/or employees.

15-II-D BOARD MINUTES

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

15-II-E DEPOSITS AND INVESTMENTS

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