

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Financial Statements
June 30, 2015

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Independent Auditor's Report

To the Board of Directors
Polk County Health Services, Inc.
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Polk County Health Services, Inc. (a component unit of Polk County, Iowa) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Organization'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of Polk County Health Services, Inc. as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Year Comparative Information

The financial statements include summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Polk County Health Services' financial statements for the year ended June 30, 2014 from which such information was derived. The basic financial statements of the governmental activities and each major governmental fund of Polk County Health Services, Inc. as of and for the year ended June 30, 2014, were audited by other auditors whose report, dated October 6, 2014, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 – 8 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 October 23, 2015 on our consideration of the Organization'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 Polk County Health Services, Inc.'s internal control over financial reporting and compliance.



Des Moines, Iowa
October 23, 2015

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

As management of Polk County Health Services, Inc. (PCHS) and Polk County Health Services Foundation (the Foundation), referred to herein as the Organization, we offer readers of the Organization's financial statements this narrative overview and analysis of the financial activities of the Organization for the fiscal year ended June 30, 2015 and 2014.

Financial Highlights

- The assets of the Organization exceeded its liabilities at June 30, 2015 and 2014 by \$8,636,799 and \$8,632,309, respectively (net position).
- The Organization's total net position at June 30, 2015 and 2014 increased by \$4,490 and \$454,412, respectively, compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Organization's basic financial statements. The Organization's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to basic financial statements.

Government-wide financial statements: The government-wide financial statements are designed to provide readers with a broad overview of the Organization's finances in a manner similar to private-sector business.

The statement of net position presents information on all of the Organization's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Organization is improving or deteriorating.

The statement of activities presents information showing how the Organization's net position changed during the current fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

The government-wide financial statements, as indicated above, include the financial information of the Foundation. Although the Foundation is a legally separate entity, PCHS effectively has control of the operations of the Foundation and the earnings of the Foundation support the operations of PCHS. Based on these facts, the Foundation information has been included as an integral part of these financial statements.

Fund financial statements: A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Organization uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Organization has two funds that are governmental in nature.

Governmental fund financial statements: The Organization processes all financial activity through two governmental funds, which focus on how cash and other financial assets that can readily be converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Organization's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information following the governmental fund financial statements that explains the relationship (or differences) between them.

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**Management's Discussion and Analysis
Year Ended June 30, 2015**

The Organization maintains a General Fund and a Special Revenue Fund. Information is presented separately in the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances for the General Fund and the Special Revenue Fund, both of which are considered to be major funds. The Special Revenue Fund contains all activity of the Foundation.

Notes to basic financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis of the Organization

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Organization, assets exceeded liabilities by \$8,636,799 and \$8,632,309 as of June 30, 2015 and 2014, respectively.

The Organization's Net Position			
	2015	2014	2013
Assets:			
Capital assets, net	\$ 4,133,960	\$ 3,922,083	\$ 3,844,776
Other assets	5,422,887	5,537,049	5,391,308
Total assets	9,556,847	9,459,132	9,236,084
Liabilities:			
Due to county	103,513	79,092	466,373
Other current liabilities	737,323	676,402	591,814
Other noncurrent liabilities	79,212	71,329	-
Total current liabilities	920,048	826,823	1,058,187
Net position:			
Investment in capital assets	4,133,960	3,922,083	3,844,776
Restricted	2,303,619	2,666,363	2,289,183
Unrestricted	2,199,220	2,043,863	2,043,938
Total net position	\$ 8,636,799	\$ 8,632,309	\$ 8,177,897

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Management's Discussion and Analysis
Year Ended June 30, 2015

Total assets of the Organization at June 30, 2015 were \$9,556,847, an increase of \$97,715 from the previous year and were \$9,459,132 at June 30, 2014, an increase of \$223,048 from the previous year. Total liabilities at June 30, 2015 were \$93,225 more than the previous fiscal year primarily due to an increase in the amount due to the County related to the Capitation (Integrated Services) Program and an increase in the accounts payable at year-end for the Decategorization grants. Total liabilities at June 30, 2014 were \$231,362 less than the previous fiscal year primarily due to a decrease in the amount due to the County related to the Capitation (Integrated Services) Program.

Governmental activities increased the Organization's net position by \$4,490 and \$454,412 for the years ended June 30, 2015 and 2014, respectively. Key elements of this increase are as follows:

The Organization's Governmental Activities			
	2015	2014	2013
Revenues:			
Program revenues:			
Charges for services	\$ 1,368,618	\$ 1,428,154	\$ 1,369,078
Operating grants and contributions	2,171,948	2,694,290	1,918,923
General revenues:			
Investment income	20,845	23,567	11,136
Miscellaneous income	60,555	17,910	18,471
Total revenues	3,621,966	4,163,921	3,317,608
Expenses:			
General government and administration	1,491,274	1,798,632	1,577,407
Group home services	931,487	1,115,692	896,499
Decategorization program services	630,119	260,369	261,891
Capitation services	521,647	519,458	785,216
Ticket to work program	42,949	15,358	22,496
Total expenses	3,617,476	3,709,509	3,543,509
Change in net position	4,490	454,412	(225,901)
Net assets, beginning of year	8,632,309	8,177,897	8,403,798
Net assets, end of year	\$ 8,636,799	\$ 8,632,309	\$ 8,177,897

The Organization saw a 19 percent decrease in operating grants during the year ended June 30, 2015. This decrease was due to no funding received from Polk County for the purchase of additional group homes. Miscellaneous income increased during the year ended June 30, 2015 due to the organization's fiscal agent support for an increased number of Decategorization grants. Investment income decreased during the year ended June 30, 2015 due to lower interest rates and maturity of investments.

The Organization saw a 25 percent increase in operating grants during the year ended June 30, 2014. This increase was due to funding provided by Polk County for the purchase of additional group homes.

**Polk County Health Services, Inc.
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**Management's Discussion and Analysis
Year Ended June 30, 2015**

During the year ended June 30, 2015, general government and administration expenses decreased over 2014 because of decreases in salaries and fringe benefits. Expenses for the group home program decreased because of loss on the sale of two homes and higher maintenance and repair expenses associated with testing and remediation of radon in all properties owned by PCHS, both during the previous fiscal year. Decategorization program services expenses increased due to the increase in the number of grants.

During the year ended June 30, 2014, general government and administration expenses increased slightly over 2013 because of increases in salaries and fringe benefits. Expenses for the group home program increased because of loss on the sale of two homes and higher maintenance and repair expenses associated with testing and remediation of radon in all properties owned by PCHS during the fiscal year. Investment income increased due to higher interest rates and more invested funds; and capitation services expenses decreased because fewer consumers were assigned to lead agencies and the Development Fund refund to the Primary Government was less than the prior year.

Capitation (Integrated Services) Program Funds

The Integrated Services Program is designed to demonstrate a specialized managed system of care for individuals with serious and persistent mental illness and individuals with intellectual and developmental disabilities that is driven by participants' choices and focuses on individualized community services and support and maximum community integration. Through this program, PCHS has designated existing community service providers to be lead agencies in order to provide them with the flexibility, resources and proper incentives for providing high-quality and cost-effective care for priority individuals with disabilities. It is not the purpose of the program to implement traditional managed care approaches such as gate keeping, prior authorization or selective contracting to reduce the cost of providing services. To align financial incentives with the vision of the program, there are four accounts under capitation services (risk, training, incentive and development) which are interrelated so as to spread savings and risk and to provide incentive for high-quality, well-managed care. The four accounts and their purposes are:

Risk account: To insure the lead agency against unforeseen catastrophic costs or to insure the lead agency against adverse risk selection, unforeseen catastrophe or other costs outside of their control. If the balance in the account exceeds 10 percent of anticipated total capitation payments, the excess is returned to the Primary Government.

Training account: To train the lead agency staff in state-of-the art methods of supporting clients in the least restrictive, most cost-effective community settings. It is utilized to promote the system's philosophy and to retrain system staff to think and act holistically on behalf of the individual. Training is the tool essential to empower the lead agency to constantly improve services. Any funds not distributed to the lead agencies are transferred to the Development account.

Incentive account: To encourage the lead agency to perform more than adequately. The better the performance, the more the lead agency will receive, up to 100 percent of the Incentive fund that is banked for the lead agency. Polk County takes 3.5 percent out of case rate payments up front, and PCHS banks that money in an incentive account. At the end of the fiscal year, PCHS distributes some percentage of the Incentive Account to the lead agency depending on the lead agency's performance. Disbursements are approved by resolution of the PCHS Board of Directors and the Polk County Board of Supervisors. Any funds not distributed to the lead agencies are transferred to the Development Account.

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Development account: To use money for the annual independent evaluation and for the service system to finance short- and long-term programs/projects which are needed to expand services or improve the quality of services. This account may be used to fund demonstration projects or to advance the values of the Integrated Services Project. If the balance in the account exceeds 10 percent of anticipated total capitation payments, the excess is returned to the Primary Government.

In fiscal years 2015 and 2014, the organization expended \$521,647 and \$519,458, respectively, for this program.

Ticket to Work Accounts

PCHS is an employment network under the Social Security Administration's Ticket to Work program. When one of Polk County's employment providers reaches certain milestones for eligible consumers, Social Security makes an incentive payment to PCHS. PCHS places those funds into accounts similar to those described above for the capitation programs. During fiscal years 2015 and 2014, PCHS received \$34,454 and \$11,428, respectively, in payments from Social Security and expended \$42,949 and \$15,358, respectively, for evaluation costs and provider incentive payments.

Group Home Services

PCHS owns 75 homes that are leased to provider agencies to provide housing and supportive services to persons with disabilities who are eligible for county funding. The homes were purchased over the past 35 years with a combination of bonds, loans from Polk County and funding from Polk County. All debt on the homes has been retired and all expenses associated with the homes are covered by rental income.

Decategorization Program

Decategorization is a program administered by the State Department of Human Services to grant greater flexibility in delivery of child welfare services to local geographic areas. The Polk County decategorization staff are employees of PCHS but are supervised by the Polk County DHS office. PCHS is reimbursed for all expenses associated with the staff. In addition, PCHS acts as fiscal agent for grants negotiated and administered by the local decategorization project. Funding for those grants are a pass-through in which PCHS pays invoices at the direction of the decategorization staff and then is reimbursed by the state.

Governmental funds financial analysis of the organization: As of June 30, 2015 and 2014, the Organization's governmental funds reported a combined fund balance of \$4,654,624 and \$4,796,110, respectively. Fund balance primarily does not include capital assets of \$4,133,960 and \$3,922,083 at June 30, 2015 and 2014, respectively. This is not a current financial resource, and thus is excluded from the fund statements. In addition, certain revenues are not received within 60 days from the end of the fiscal year and accordingly, they are reported as deferred inflows of resources. There were no deferred inflows of resources at June 30, 2015 and 2014. The fund statements also do not include compensated absence liabilities. The fund balances decreased by \$141,486 during the year ended June 30, 2015 and increased by \$387,536 during the year ended June 30, 2014.

A reconciliation between the fund balance and net position can be found on page 12 of this report.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

Capital Assets Administration

The Organization owns properties throughout the Polk County area, which are used as group homes for persons with disabilities. Capital assets are summarized below:

The Organization's Capital Assets			
	2015	2014	2013
Land	\$ 1,301,209	\$ 1,250,482	\$ 1,223,141
Buildings and improvements	9,527,454	9,029,143	8,817,248
Furniture and equipment	111,017	111,017	111,017
Total	10,939,680	10,390,642	10,151,406
Less accumulated depreciation	(6,805,720)	(6,468,559)	(6,306,631)
Capital assets, net	\$ 4,133,960	\$ 3,922,083	\$ 3,844,775

Net capital assets were higher at June 30, 2015 because of the purchase of an additional property, and improvements on existing properties during the fiscal year. Net capital assets were higher at June 30, 2014 because depreciation expense of \$353,033 was less than new capital asset purchases of \$590,000. There was also a loss on disposal of capital assets of \$159,659 related to group homes that were sold that had been on a lease to own program.

Economic Factors

- Because of the state-imposed limitation on County property taxes for MH/ID/DD services and the failure of the state to provide adequate funding to counties to meet service needs, there has been increased pressure to control or reduce costs of MH/ID/DD programs, including the County's administrative costs which generally appear in the PCHS budget. This pressure eased with the implementation of a new state funding mechanism, however, the impact on administrative costs are unknown because the limitations have not yet been defined.
- During the year, Des Moines Public Housing continued to take people off the waiting list for Section 8 housing subsidies. Consumers on the Section 8 waiting list live in some of the properties owned by Polk County Health Services, Inc. Because current rents sometimes exceed the maximum allowed by Section 8 guidelines, Polk County Health Services, Inc. is required to reduce rents of individual houses.
- The Organization serves as fiscal agent for several grants administered by the Iowa Department of Human Services Child Welfare Decategorization Project. The Organization cannot predict or control what volume of such grants there will be in the future. Since the Organization is paid a fee to serve as fiscal agent, fluctuations in the volume of the grants will impact the Organization's overall revenues and expenses.

Requests for Information

This financial report is designed to provide a general overview of the Organization's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Polk County Health Services, Inc., Polk County River Place, 2309 Euclid Avenue, Des Moines, Iowa 50310.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Statements of Net Position
June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	\$ 3,800,822	\$ 4,293,917
Accounts receivable	452,283	96,685
Prepaid expenses	65,949	55,893
Interest receivable	2,594	3,632
Investments	1,101,239	1,086,922
Capital assets:		
Nondepreciable, land	1,301,209	1,250,482
Depreciable:		
Buildings and improvements	9,527,454	9,029,143
Furniture and equipment	111,017	111,017
Less accumulated depreciation	(6,805,720)	(6,468,559)
Capital assets, net	4,133,960	3,922,083
Total assets	9,556,847	9,459,132
Liabilities		
Accounts payable	373,143	300,251
Health insurance bank	43,805	58,881
Compensated absences payable	72,573	77,064
Lead agency incentive payable	157,604	153,070
Unearned grant income	90,198	87,136
Due to county	103,513	79,092
Total current liabilities	840,836	755,494
Compensated absences payable, less current portion	79,212	71,329
Total liabilities	920,048	826,823
Net Position		
Investment in capital assets	4,133,960	3,922,083
Restricted:		
Foundation purposes	1,110,421	1,095,370
Group home purchases	-	252,802
Ticket to work program	36,698	45,162
Lead agency incentive	1,156,500	1,273,029
Unrestricted	2,199,220	2,043,863
Total net position	\$ 8,636,799	\$ 8,632,309

See Notes to Basic Financial Statements.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Statements of Activities
For the Year Ended June 30, 2015 (With Comparative Totals for the Year Ended June 30, 2014)

Functions/Programs	2015			2014	
	Expenses	Program Revenues		Net	Net
		Charges for Services	Operating Grants and Contributions	(Expense) Revenue and Changes in Net Position	(Expense) Revenue and Changes in Net Position
Governmental activities:					
General government and administration	\$ 1,491,274	\$ -	\$ 1,500,383	\$ 9,109	\$ 638,106
Group home services	931,487	748,802	-	(182,685)	(380,816)
Decategorization and other grant program services	630,119	-	637,111	6,992	(14,245)
Capitation services	521,647	619,816	-	98,169	173,820
Ticket to work program	42,949	-	34,454	(8,495)	(3,930)
Total governmental activities	\$ 3,617,476	\$ 1,368,618	\$ 2,171,948	(76,910)	412,935
General revenues:					
Investment income				20,845	23,567
Miscellaneous income				60,555	17,910
Total general revenues				81,400	41,477
Change in net position				4,490	454,412
Net position, beginning of year				8,632,309	8,177,897
Net position, end of year				\$ 8,636,799	\$ 8,632,309

See Notes to Basic Financial Statements.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Balance Sheets

Governmental Funds

June 30, 2015 (With Comparative Totals for June 30, 2014)

	2015			2014
	General Fund	Foundation Fund	Total Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,794,234	\$ 6,588	\$ 3,800,822	\$ 4,293,917
Accounts receivable	452,283	-	452,283	96,685
Prepaid items	65,949	-	65,949	55,893
Interest receivable	-	2,594	2,594	3,632
Investments	-	1,101,239	1,101,239	1,086,922
Total assets	\$ 4,312,466	\$ 1,110,421	\$ 5,422,887	\$ 5,537,049
Liabilities				
Accounts payable and other liabilities	373,143	-	373,143	300,251
Lead agency incentive payable	157,604	-	157,604	153,070
Health insurance bank	43,805	-	43,805	58,881
Unearned grant income	90,198	-	90,198	87,136
Due to county	103,513	-	103,513	79,092
Total liabilities	768,263	-	768,263	678,430
Deferred Inflows of Resources, unavailable revenues	-	-	-	62,509
Fund Balances				
Nonspendable	65,949	-	65,949	55,893
Restricted				
Foundation purposes	-	1,110,421	1,110,421	1,095,370
Group home purchases	-	-	-	252,802
Ticket to work program	36,698	-	36,698	45,162
Lead agency incentive	1,156,500	-	1,156,500	1,273,029
Unassigned	2,285,056	-	2,285,056	2,073,854
Total fund balances	3,544,203	1,110,421	4,654,624	4,796,110
Total liabilities, deferred inflows of resources and fund balances	\$ 4,312,466	\$ 1,110,421	\$ 5,422,887	\$ 5,537,049

See Notes to Basic Financial Statements.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Position
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Total fund balances - governmental funds	\$ 4,654,624	\$ 4,796,110
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheets	4,133,960	3,922,083
Certain revenues are not received within the period of availability and therefore are not recognized as revenue in the fund statements.	-	62,509
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds balance sheets, compensated absences payable.	(151,785)	(148,393)
Net position of governmental activities	<u>\$ 8,636,799</u>	<u>\$ 8,632,309</u>

See Notes to Basic Financial Statements.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Statements of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015 (With Comparative Totals for the Year Ended June 30, 2014)

	2015			2014
	General Fund	Foundation Fund	Total Governmental Funds	Total Governmental Funds
Revenues:				
Funding from primary government	\$ 1,500,383	\$ -	\$ 1,500,383	\$ 2,436,738
Intergovernmental	734,074	-	734,074	195,044
Capitation services	619,816	-	619,816	693,278
Investment income	5,794	15,051	20,845	23,567
Lease income	621,818	-	621,818	612,857
Management fees	126,984	-	126,984	122,019
Miscellaneous income	60,555	-	60,555	17,910
Total revenues	3,669,424	15,051	3,684,475	4,101,413
Expenditures:				
Current:				
General government and administration	1,478,910	-	1,478,910	1,716,720
Group home services	586,102	-	586,102	611,972
Decategorization program services	630,119	-	630,119	260,369
Capitation services	521,647	-	521,647	519,458
Ticket to work program	42,949	-	42,949	15,358
Capital outlay	566,234	-	566,234	590,000
Total expenditures	3,825,961	-	3,825,961	3,713,877
Net change in fund balances	(156,537)	15,051	(141,486)	387,536
Fund balances, beginning of year	3,700,740	1,095,370	4,796,110	4,408,574
Fund balances, end of year	\$ 3,544,203	\$ 1,110,421	\$ 4,654,624	\$ 4,796,110

See Notes to Basic Financial Statements.

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

**Reconciliation of the Governmental Funds Statements of Revenues,
Expenditures and Changes in Fund Balances to the Statements of Activities
For the Years Ended June 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Net change in fund balances, governmental funds	\$ (141,486)	\$ 387,536
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities, those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities.</p>		
Capital outlay reported in governmental fund statements, but is capitalized in the government-wide statements	566,234	590,000
Loss on disposal of capital assets reported in the statement of activities	(561)	(159,660)
Depreciation expense reported in the statement of activities	(353,796)	(353,033)
Certain revenues are not received within the period of availability and therefore are not recognized as revenue in the fund statements, intergovernmental revenues	(62,509)	62,509
Long-term liabilities are reported in the government-wide statement of activities. They do not require the use of current financial resources and are not reported as expenditures in governmental funds. This amount is the net effect of current and prior year compensated absences payable.	(3,392)	(72,940)
Change in net position, governmental activities	\$ 4,490	\$ 454,412

See Notes to Basic Financial Statements.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies

Nature of operations:

Polk County Health Services, Inc. ("PCHS") was formed in the Des Moines, Iowa metropolitan area on November 5, 1976 to foster improved quality health care at a reasonable cost through the coordination of available services, cooperative planning between existing agencies, and the development of needed additional health care services. Chapter 331 of the Code of Iowa requires counties to create a disability services regional governing board to prepare a plan, and to allocate and account for the expenditure of state funds for services to persons with mental illness, intellectual disability or developmental disabilities. The Polk County Board of Supervisors has designated the Board of Directors of PCHS as the governing board.

Reporting entity:

The Organization is considered a component unit of Polk County, the primary government, as it is a legally separate entity for which Polk County is financially accountable. Although the Organization's Board is responsible for the operation of Polk County's mental health system, they are dependent on the Polk County Board of Supervisors for a significant portion of financial support.

The Polk County Health Services Foundation (the Foundation) was established on January 17, 1996 to engage in and conduct charitable, educational and scientific activities and assist PCHS in carrying out its charitable purposes. The Foundation's bylaws result in PCHS effectively controlling the election of the Foundation's trustees. The boards of the two entities are substantially the same. The Foundation's balances and activities are included in PCHS's financial statements as a blended component unit in a Special Revenue Fund, as the two entities are essentially one organization. PCHS and the Foundation are referred to herein as the Organization.

The accounting and reporting policies of the Organization relating to funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB).

Basis of Presentation:

The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Government-wide financial statements: The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Organization. As the majority of revenues are intergovernmental in nature, all activities of the Organization have been presented as governmental activities in the statement of net position.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All other revenues not included among program revenues are reported instead as general revenues.

Fund financial statements: The Organization processes all activity through two governmental funds, a General Fund and a Special Revenue Fund. The general fund is the main operating fund of the Organization and the foundation fund accounts for the charitable activity of the Organization. The measurement focus of these funds is on the sources, uses and balance of current financial resources.

The Organization prepares a financial plan annually for purposes of determining required funding by Polk County; however, it does not adopt a legally-binding budget.

Measurement Focus and Basis of Accounting:

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or noncurrent) are included on the statement of net position and the statement of activities presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, (i.e., both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the Organization considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences, are recorded only when payment is due.

The revenues susceptible to accrual are charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Summary of Significant Accounting Policies:

The significant accounting policies followed by the Organization include the following:

Cash and cash equivalents: Cash and cash equivalents includes demand deposit and money market accounts.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Investments: Investments consist of brokered certificates of deposit and are carried at fair value based on quoted market prices.

Accounts receivable: Accounts receivable are carried at original invoice amount less an estimate made for doubtful accounts. Receivables are written off when deemed uncollectible and recoveries are recorded when received. Based on management's review, there was no allowance at June 30, 2015 and 2014.

Prepaid expenses: Prepaid expenses are for payments made by the Organization in the current year for expenses to be incurred in the subsequent fiscal year.

Capital assets: Capital assets are reported in the government-wide financial statements. Capital assets are capitalized at historical cost. Donated assets are valued at their fair value on the date donated. Assets capitalized have an original cost of \$10,000 or more. Betterments are capitalized if the betterment increases the fair value or increases the useful life of the property. Depreciation is provided on the straight-line method over the following estimated useful lives (as developed by the American Hospital Association and approved by the Centers for Medicare and Medicaid Services).

Buildings	25 years
Improvements	5 - 25 years
Furniture and equipment	3 - 10 years

Compensated absences payable: The Organization's policy allows employees to accumulate unused sick time up to 90 days and unused vacation time up to 1.5 times the annual amount of vacation for which the employee is eligible. Accumulated vacation time is paid out in full upon termination. Employees who retire at or after age 62, with at least 25 years of service in a United Way of Central Iowa pension plan are allowed to convert accumulated sick leave into a bank which is used to pay health insurance premiums. A liability for the sick leave bank for retired employees is reported in the governmental funds. An estimated liability for currently active employees who may become eligible has been reported in the government-wide financial statements. All other unused sick time is forfeited.

Lead agency incentive payable: A lead agency incentive payable is recorded when PCHS's lead agencies have earned an incentive, based on a defined set of criteria, for services they performed from July 1 to June 30 each year.

Unearned grant income: Unearned grant income represents an advance from the state for reimbursement grant to function as a deposit for the Organization.

Deferred inflows of resources: In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows or resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 1. Nature of Operations, Reporting Entity, Basis of Presentation, Measurement Focus and Basis of Accounting and Summary of Significant Accounting Policies (Continued)

Fund balances: In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable — Amounts which cannot be spent because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted — Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Unassigned — All amounts not included in other classifications.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, it is the Organization's policy to pay the expenditure restricted fund balance and then less restricted classifications.

Net position: Net position represents the difference between assets and deferred inflows of resources and liabilities and deferred outflows of resources. Investment in capital assets consists of capital assets, net of accumulated depreciation.

Net position is reported as restricted when there are limitations or external restrictions imposed on its use by creditors, grantors or laws or regulations of other governments.

The Organization first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Tax status: The Organization has received a determination letter from the Internal Revenue Service exempting it from federal income taxes.

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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Cash, Cash Equivalents and Investments

Polk County Health Services, Inc. does not have a formal investment policy. However, Polk County Health Services Foundation has a formal investment policy that allows the Foundation to invest in the certificates of deposit with the amount at any one financial institution not to exceed FDIC insurance, U.S. Treasury notes, bills or bonds, federal agency bonds and commercial paper rated A1 or P1, collateralized repurchase agreements maturing in 30 days or less where the security interest is perfected, collateralized mortgage, and other government or its agencies securitized debt obligations rated at least AAA and fixed income mutual funds.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 2. Cash, Cash Equivalents and Investments (Continued)

The Foundation's policy allows for an asset allocation to minimize risk complies with the following:

- Maximum term of any specific investment shall not exceed 60 months.
- A minimum of 15 percent of the portfolio shall be invested in 12-month increments.
- The Executive Director shall have the discretion to invest the remaining 25 percent of the portfolio in various maturities, not to exceed 60 months based on anticipated liquidity needs and to maximize investment yields.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2015, the Organization did not own any investments other than certificates of deposit. Certificates of deposit are considered deposit accounts and not subject to credit risk.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. It is the Foundation's policy to diversify so as to minimize the risk of large losses. As of June 30, 2015, the Organization did not own any investments other than certificates of deposit which are not subject to credit risk.

Custodial credit risk: Custodial credit risk is the risk that in the event of failure of a depository financial institution, the Organization may not be able to recover deposits or collateral securities. As of June 30, 2015, the carrying amount of deposits totaled \$4,902,061 with a bank balance of \$5,140,229. As of June 30, 2015, the Organization did not have any deposits or investments exposed to custodial credit risk through participation in the federal depository insurance program per Chapter 12C of the Iowa Code.

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015
Governmental activities				
Capital assets not being depreciated, land	\$ 1,250,482	\$ 50,727	\$ -	\$ 1,301,209
Capital assets, being depreciated:				
Buildings and improvements	9,029,143	515,507	(17,196)	9,527,454
Furniture and equipment	111,017	-	-	111,017
Total capital assets being depreciated	9,140,160	515,507	(17,196)	9,638,471
Less accumulated depreciation for:				
Buildings and improvements	(6,402,045)	(344,824)	16,635	(6,730,234)
Furniture and equipment	(66,514)	(8,972)	-	(75,486)
Total accumulated depreciation	(6,468,559)	(353,796)	16,635	(6,805,720)
Total capital assets being depreciated, net	2,671,601	161,711	(561)	2,832,751
Governmental activities, capital assets, net	\$ 3,922,083	\$ 212,438	\$ (561)	\$ 4,133,960

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Notes to Basic Financial Statements

Note 3. Capital Assets (Continued)

Depreciation expense was charged to governmental activities, functions/programs as follows:

Governmental activities:	
General governmental and administration	\$ 8,972
Group home services	344,824
Total depreciation expense, governmental activities	<u><u>\$ 353,796</u></u>

Note 4. Risk Management

The Organization 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 Organization assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Note 5. Compensated Absences Payable

The following is a summary of changes in compensated absences payable for the year ended June 30, 2015:

	Balance June 30, 2014	Additions	Retirements	Balance June 30, 2015	Due Within One Year
Vacation payable	\$ 77,064	\$ 63,576	\$ (68,067)	\$ 72,573	\$ 72,573
Sick leave payable	71,329	7,883	-	79,212	-
Compensated absences payable	<u>\$ 148,393</u>	<u>\$ 71,459</u>	<u>\$ (68,067)</u>	<u>\$ 151,785</u>	<u>\$ 72,573</u>

Note 6. Group Homes

The Organization leases group homes to various organizations. The leases are classified as operating leases and expire over the next five years. Lease arrangements are determined based upon the start-up expenditures incurred in preparing the group home, financing costs and return of administrative expenditures. These group homes had the following property balances as of June 30, 2015:

Land	\$ 1,301,209
Buildings and improvements	9,527,454
	<u>10,828,663</u>
Accumulated depreciation	(6,730,234)
	<u><u>\$ 4,098,429</u></u>

Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)

Notes to Basic Financial Statements

Note 6. Group Homes (Continued)

The following is a schedule of the approximate minimum future rentals on noncancelable operating leases as of June 30, 2015:

Year ending June 30:

2016	\$ 704,180
2017	599,347
2018	336,923
2019	193,984
2020	46,496
	<u>\$ 1,880,930</u>

Note 7. Related Party Transactions

The following indicates the financial support/funding the Organization received from Polk County for the year ended June 30, 2015:

Operational	\$ 1,294,376
Case management program	105,640
Capitation program services	386,716
Other	103,253
Total	<u>\$ 1,889,985</u>

In addition, the Organization paid Polk County for employee health insurance. The premiums paid for the year ended June 30, 2015 were \$107,545.

The agreements among the County, the Organization and the Lead Agencies providing Capitation (Integrated Services) contain a provision requiring the Organization to refund to the County any amounts in the Development Fund which exceed 10% of the subsequent fiscal year's anticipated total capitation payments. As a result of this agreement, the Organization owed Polk County \$103,513 as of June 30, 2015.

Note 8. Defined Benefit Pension Plan

The Organization participates in the multi-employer noncontributory defined benefit plan sponsored by United Way of Central Iowa covering all employees who meet the eligibility requirements. Employees become eligible to participate in the United Way of Central Iowa Retirement Plan when they attain age 21 and have completed at least 1,000 hours of service in a calendar year of employment. Contributions to the plan by the Organization for the year ended June 30, 2015 were \$229,544; total pension expense for the year ended June 30, 2015 was \$181,982. As of December 31, 2014, based on the most recent actuarial valuation performed of the United Way of Central Iowa Retirement Plan, the Plan was approximately 104 percent funded.

**Polk County Health Services, Inc.
(A Component Unit of Polk County, Iowa)**

Notes to Basic Financial Statements

Note 9. Defined Contribution Plan

The Organization participates in the multi-employer contributory 401(k) plan sponsored by United Way of Central Iowa covering all employees who meet the eligibility requirements. To be eligible, employees must be 21 years of age and are automatically enrolled after their first month of service, unless the employee opts out. The Organization matches 100 percent of the first 3 percent of the employee's salary contributed and 50 percent of the next 2 percent of the employee's salary contributed to the plan. Contributions to the plan by the Organization for the year ended June 30, 2015 were \$35,243.

Note 10. New Pronouncements

As of June 30, 2015, the Organization adopted the following Governmental Accounting Standards Board (GASB) statement:

- In June 2012, the GASB issued Statement No. 68 — *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The Organization determined that this Statement did not apply in the current year based on the nature of the pension plan.
- In January 2013, the GASB issued Statement No. 69 — *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The adoption of this Statement had no effect on the Organization in the current year.

As of June 30, 2015, the GASB had issued the following statements not yet implemented by the Organization. The statements which might impact the Organization are as follows:

- GASB Statement No. 72, *Fair Value Measurement and Application* issued in February 2015, will be effective for the Organization beginning with its year ending June 30, 2016. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair values is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, issued June 2015, will be effective for the Organization beginning with its fiscal year ending June 30, 2016— except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the Organization beginning with its fiscal year ending June 30, 2017. The Statement establishes requirements for pensions not covered by Statement Nos. 67 and 68 which are essentially the same requirements as Statement No. 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements.

The Organization's management has not yet determined the effect these statements will have on the Organization's financial statements.

