

**Clarke County Public Hospital
and Clarke County Hospital Foundation
Osceola, Iowa**

COMBINED FINANCIAL REPORT

June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE COMBINED FINANCIAL STATEMENTS	4-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-11
COMBINED FINANCIAL STATEMENTS	
Combined statements of net position	12
Combined statements of revenues, expenses, and changes in net position	13
Combined statements of cash flows	14-15
Notes to combined financial statements	16-34
REQUIRED SUPPLEMENTARY INFORMATION	35
Schedule of comparative budgetary reporting	36
Schedule of the Hospital's proportionate share of the net pension liability	37
Schedule of Hospital pension contributions	38-39
Notes to required supplementary information – pension liability	40
INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION	41
SUPPLEMENTARY INFORMATION	
Analysis of patient receivables	42
Analysis of allowance for bad debts	42
Patient service revenue	43
Provisions for contractual adjustments and bad debts	44
Other revenue	44
Expenses	45
Comparative statistics	46
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	47-48
SCHEDULE OF FINDINGS	49-50

**Clarke County Public Hospital
and Clarke County Hospital Foundation
OFFICIALS
June 30, 2017**

Clarke County Public Hospital

BOARD OF TRUSTEES

Officers

Donald Waltz, Chair
Teresa Woods, Vice Chair and Treasurer
Kevin Klemesrud, Secretary

Members

Kelly Blanchard
Terry Jacobsen
Deborah Lundquist
David Selene

Expiration of term

December 31, 2022

December 31, 2018

December 31, 2020

December 31, 2018

December 31, 2020

December 31, 2022

December 31, 2020

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

Clarke County Hospital Foundation

BOARD OF DIRECTORS

Ron Schlichte, President
Elisabeth Reynoldson, Vice President
Brian Evans, Secretary/Treasurer
Dr. Jim Kimball
Dave Walkup
Rosie Brand



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the accompanying combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation, as of and for the years ended June 30, 2017 and 2016, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Clarke County Public Hospital and Clarke County Hospital Foundation, as of June 30, 2017 and 2016, 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 6-11 and the supplementary schedules and notes on pages 36-40 as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2017 on our consideration of Clarke County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Clarke County Public Hospital's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 21, 2017

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public Hospital, 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, 2017, 2016 and 2015. 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 report, 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 of the Hospital 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 increased by \$1,426,787 to \$37,608,894
- Total current assets increased by \$747,999 to \$11,131,506
- Total capital assets decreased by \$319,650 to \$24,543,757
- Total net position decreased by \$246,140 to \$10,807,557
- Total current and long-term debt increased by \$1,366,254 to \$18,438,148
- Net patient service revenue increased by \$1,178,010, or 6.4%, to \$19,464,976
- Operating expenses increased by \$1,810,197, or 9.5%, to \$20,879,889

Financial Analysis of the Hospital

The statements 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 is 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>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$11,131,506	\$10,383,507	\$14,813,364
Noncurrent assets whose use is limited	1,933,631	935,193	3,675,705
Capital assets	<u>24,543,757</u>	<u>24,863,407</u>	<u>15,662,384</u>
Total assets	<u>37,608,894</u>	<u>36,182,107</u>	<u>34,151,453</u>
Deferred outflows of resources	<u>1,680,129</u>	<u>927,210</u>	<u>976,194</u>
Current liabilities	4,305,130	3,998,828	7,815,196
Long-term debt, less current maturities	17,535,926	16,234,672	10,897,882
Other noncurrent liabilities	<u>5,300,779</u>	<u>4,279,506</u>	<u>3,609,855</u>
Total liabilities	<u>27,141,835</u>	<u>24,513,006</u>	<u>22,322,933</u>
Deferred inflows of resources	<u>1,339,631</u>	<u>1,542,614</u>	<u>2,425,099</u>
Net investment in capital assets	5,864,269	7,731,706	7,692,059
Unrestricted	<u>4,943,288</u>	<u>3,321,991</u>	<u>2,687,556</u>
Total net position	<u>\$10,807,557</u>	<u>\$11,053,697</u>	<u>\$10,379,615</u>

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		
	2017	2016	2015
Net patient service revenue	\$19,464,976	\$18,286,966	\$17,427,643
Other revenue	417,393	346,315	1,140,658
Total revenue	<u>19,882,369</u>	<u>18,633,281</u>	<u>18,568,301</u>
Salaries	7,149,815	6,670,921	6,591,198
Supplies and expenses	10,706,933	9,912,293	9,894,701
Provision for depreciation	3,023,141	2,486,478	2,435,086
Total operating expenses	<u>20,879,889</u>	<u>19,069,692</u>	<u>18,920,985</u>
Operating (loss)	<u>(997,520)</u>	<u>(436,411)</u>	<u>(352,684)</u>
County taxes	995,323	967,598	957,382
Interest income	25,252	28,859	53,874
Transfer from related foundation	254,000	187,000	175,000
Interest and financing expense	<u>(567,571)</u>	<u>(154,299)</u>	<u>(415,028)</u>
Total nonoperating gains	<u>707,004</u>	<u>1,029,158</u>	<u>771,228</u>
Excess (deficiency) of revenues over (under) expenses before restricted contributions	(290,516)	592,747	418,544
Restricted contributions	<u>44,376</u>	<u>81,335</u>	<u>54,191</u>
Change in net position	(246,140)	674,082	472,735
Total net position, beginning	<u>11,053,697</u>	<u>10,379,615</u>	<u>9,906,880</u>
Total net position, ending	<u>\$10,807,557</u>	<u>\$11,053,697</u>	<u>\$10,379,615</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in net position between June 30, 2017 and 2016.

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

Volume: Acute discharges for fiscal year 2017 were 213 compared to 207 in fiscal year 2016. Average length of stay was 2.6 days compared to 3.0 days in fiscal year 2016 as patient days decreased to 550 from 620 in 2016. Volume on the outpatient side indicated positive growth in 2017. In 2017, gross outpatient charges increased to \$22,231,831 compared to \$18,998,395 in 2016.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2017. Overall, gross patient service revenue increased to \$24,834,290 from \$21,430,570 in 2016. Emergency service, operating and recovery and diagnostic imaging reflected the most significant growth in 2017.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were a net deduction of \$5,369,314 in 2017 compared to \$3,143,604 in 2016, representing 21.6% and 14.7% of gross patient charges for 2017 and 2016, respectively.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Medicare	46%	48%	45%
Medicaid	19	20	19
Commercial insurance	30	28	31
Patients	<u>5</u>	<u>4</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$417,393 in 2017 compared to \$346,315 in 2016, primarily due to an increase in medical office building rental income.

Expenses

Approximately 34% of Hospital's expenses are for salaries. Total salaries increased by 7.2% to \$7,149,815 in 2017 from \$6,670,921 in 2016. The Hospital departments experiencing the most significant increase were physical therapy and surgical.

Approximately 51% of Hospital's expenses are for supplies and expenses, including employee benefits. Total supplies and expenses increased by 8.0% to \$10,706,933 in 2017 from \$9,912,293 in 2016. The Hospital departments experiencing the most significant increase were practitioner professional and plant operations.

Approximately 14% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$3,023,141 in 2017 from \$2,486,478 in 2016 as a result of capital improvements in 2017.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$707,004 from \$1,029,158 in 2016. The decrease is primarily from increased interest and financing expense.

Capital Assets

At the end of 2017, the Hospital had \$24,543,757 invested in capital assets, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in capital assets. In 2017, \$3,440,851 was spent to acquire capital assets.

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

**Table 4
Capital Assets**

	June 30		
	2017	2016	2015
Land	\$ 178,048	\$ 178,048	\$ 178,048
Land improvements	2,834,167	2,737,323	1,006,245
Building and fixed equipment	34,389,917	32,246,098	21,882,505
Major movable equipment	12,205,813	11,396,226	11,004,843
Medical office building	2,364,049	2,364,049	1,105,415
Construction in progress	—	531,995	3,424,943
Subtotal	<u>51,971,994</u>	<u>49,453,739</u>	<u>38,601,999</u>
Less accumulated depreciation	<u>(27,428,237)</u>	<u>(24,590,332)</u>	<u>(22,939,615)</u>
Capital assets	<u>\$24,543,757</u>	<u>\$24,863,407</u>	<u>\$15,662,384</u>

Debt Administration

At year end, the Hospital had \$18,438,148 in current and long-term debt an increase of \$1,366,254 over 2016. The net increase represents new borrowings of \$2,203,476 net of \$837,222 which was the required amount of principal payments on the long-term debt for fiscal year 2017. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Current and long-term debt represents approximately 68% of the Hospital's total liabilities as of year end.

Deferred Outflows and Inflows of Resources

As of June 30, 2017, the Hospital reported \$1,680,129 of deferred outflows of resources and \$1,339,631 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.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP basis are presented in the Required Supplementary Information. A comparison of the Hospital's fiscal year 2017 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 944,358	\$ 944,824	\$ (466)
Other revenues/receipts	<u>22,460,438</u>	<u>25,831,740</u>	<u>(3,371,302)</u>
	23,404,796	26,776,564	(3,371,768)
Expenses/expenditures	<u>21,949,661</u>	<u>26,289,000</u>	<u>(4,339,339)</u>
Net	<u>\$ 1,455,135</u>	<u>\$ 487,564</u>	<u>\$ 967,571</u>

Variances between actual and budgeted results for other revenues/receipts and expenses/expenditures is due to lower than expected outpatient services and salaries.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2018 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Clarke County Public 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 Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF NET POSITION**

	June 30	
	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 7,352,781	\$ 6,944,038
Assets whose use is limited-required for current liabilities	369,357	365,474
Patient receivables, less allowances for contractual adjustments and bad debts	2,030,440	1,711,890
Contributions receivable, current portion	143,755	152,770
Other receivables	41,464	40,718
Succeeding year property tax receivable	1,020,000	970,000
Inventories	255,356	259,989
Prepaid expenses	100,363	175,557
Total current assets	11,313,516	10,620,436
ASSETS WHOSE USE IS LIMITED		
Cash and cash equivalents		
Restricted for payment of construction costs, long-term debt, and interest	369,357	1,300,667
Designated by board for plant replacement and expansion	1,933,631	-
	2,302,988	1,300,667
Less assets whose use is limited and that are required for current liabilities	369,357	365,474
Noncurrent assets whose use is limited	1,933,631	935,193
CAPITAL ASSETS	51,971,994	49,453,739
Less accumulated depreciation and amortization	27,428,237	24,590,332
Total capital assets	24,543,757	24,863,407
OTHER ASSET		
Contributions receivable, noncurrent portion	216,245	307,230
Total assets	38,007,149	36,726,266
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	1,680,129	927,210
CURRENT LIABILITIES		
Current maturities of long-term debt	902,222	837,222
Accounts payable		
Trade	528,149	639,009
Construction	241,340	995,000
Accrued interest	47,543	42,555
Accrued employee compensation	715,595	629,604
Payroll taxes and amounts withheld from employees	150,281	155,438
Estimated third-party payor settlements	1,720,000	700,000
Total current liabilities	4,305,130	3,998,828
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	17,535,926	16,234,672
Net pension liability	5,300,779	4,279,506
Total long-term liabilities	22,836,705	20,514,178
Total liabilities	27,141,835	24,513,006
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	1,020,000	970,000
Pension related deferred inflows	319,631	572,614
Total deferred inflows of resources	1,339,631	1,542,614
NET POSITION		
Net investment in capital assets	5,864,269	7,731,706
Unrestricted	5,341,543	3,866,150
Total net position	\$11,205,812	\$11,597,856

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Year ended June 30	
	2017	2016
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2017 \$804,502; 2016 \$683,844	\$19,464,976	\$18,286,966
OTHER REVENUE	<u>452,822</u>	<u>375,730</u>
Total revenue	<u>19,917,798</u>	<u>18,662,696</u>
OPERATING EXPENSES		
Nursing service	5,658,726	5,220,409
Other professional service	5,087,498	4,847,645
General service	1,816,560	1,568,114
Fiscal and administrative service and unassigned expenses	5,313,601	4,963,903
Provision for depreciation	<u>3,023,141</u>	<u>2,486,478</u>
Total operating expenses	<u>20,899,526</u>	<u>19,086,549</u>
Operating (loss)	<u>(981,728)</u>	<u>(423,853)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	995,323	967,598
Interest income	25,313	28,952
Unrestricted contributions	1,715	4,124
Interest and financing expense	<u>(567,571)</u>	<u>(154,299)</u>
Total nonoperating gains (losses)	<u>454,780</u>	<u>846,375</u>
Excess (deficiency) of revenues over expenses before restricted contributions	(526,948)	422,522
RESTRICTED CONTRIBUTIONS	<u>134,904</u>	<u>426,696</u>
Change in net position	(392,044)	849,218
TOTAL NET POSITION		
Beginning	<u>11,597,856</u>	<u>10,748,638</u>
Ending	<u>\$11,205,812</u>	<u>\$11,597,856</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$20,166,426	\$15,644,467
Cash paid to suppliers for goods and services	(10,747,389)	(10,636,139)
Cash paid to employees for services	(7,063,824)	(6,719,768)
Other operating revenue received	<u>455,024</u>	<u>366,749</u>
Net cash provided by (used in) operating activities	<u>2,810,237</u>	<u>(1,344,691)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	992,375	969,471
Unrestricted contributions	<u>1,715</u>	<u>4,124</u>
Net cash provided by noncapital financing activities	<u>994,090</u>	<u>973,595</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(3,440,851)	(10,954,344)
Proceeds from issuance of long-term debt	2,203,476	6,155,494
Principal payments on long-term debt	(837,222)	(729,630)
Interest paid on long-term debt	(578,883)	(396,817)
Contributions received, restricted for purchase of equipment and related costs	<u>234,904</u>	<u>296,696</u>
Net cash (used in) capital and related financing activities	<u>(2,418,576)</u>	<u>(5,628,601)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>25,313</u>	<u>28,952</u>
Net cash provided by investing activities	<u>25,313</u>	<u>28,952</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,411,064	(5,970,745)
CASH AND CASH EQUIVALENTS		
Beginning	<u>8,244,705</u>	<u>14,215,450</u>
Ending	<u>\$ 9,656,769</u>	<u>\$ 8,244,705</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
COMBINED STATEMENTS OF CASH FLOWS (continued)**

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (981,728)	\$ (423,853)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	3,023,141	2,486,478
Changes in assets, liabilities, deferred outflows and deferred inflows		
Patient receivables	(318,550)	142,621
Other receivables	2,202	(8,981)
Estimated third-party payor settlements	1,020,000	(2,785,120)
Inventories	4,633	(25,468)
Prepaid expenses	75,194	(175,557)
Pension related deferred outflows	(752,919)	48,984
Pension related deferred inflows	(252,983)	(912,485)
Accounts payable, net of capital assets	(110,860)	(258,770)
Accrued employee compensation	85,991	(48,847)
Payroll taxes and amounts withheld from employees	(5,157)	(53,344)
Net pension liability	<u>1,021,273</u>	<u>669,651</u>
Net cash provided by (used in) operating activities	<u>\$2,810,237</u>	<u>\$(1,344,691)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE STATEMENTS OF NET POSITION		
Per statements of net position		
Current assets, cash and cash equivalents	\$7,352,781	\$6,944,038
Assets whose use is limited, cash and cash equivalents		
Restricted for payment of construction costs, long-term debt and interest	369,357	1,300,667
Designated by board for plant replacement and expansion	<u>1,933,631</u>	<u>—</u>
Totals per statements of cash flows	<u>\$9,655,769</u>	<u>\$8,244,705</u>

See Notes to Combined Financial Statements.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Clarke County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Clarke County Public 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 Clarke County Hospital Foundation.

The Foundation is a legally separate nonprofit corporation primarily organized and operated for the benefit and support of the Hospital. The Hospital is the sole member of the corporation. The accounts and transactions of the Foundation are included within these financial statements as required by accounting principles generally accepted in the United States of America.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

The Foundation is a private nonprofit organization that reports under Financial Accounting Standards Board standards. 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.

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

Cash and Cash Equivalents

Cash and cash equivalents include money market funds and all certificates of deposit.

Contributions Receivable

Contributions, including unconditional promises to give, are recognized as receivables and contributions in the period received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met. An allowance for uncollectible contributions is provided based upon management's judgment, including such factors as; prior collection history, type of contribution, and nature of fundraising activity.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions Receivable (continued)

Unconditional contributions that are expected to be collected within one year are recorded at their net realizable value. Unconditional contributions that are expected to be collected in future years are recorded at fair value using present value techniques. Amortization of the discount is included in contribution revenue.

Inventories

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

Assets Whose Use is Limited

Assets whose use is limited consists primarily of funds designated by the Board of Trustees for the improvement, replacement, and expansion of capital assets. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes. Gifts and bequests whose use is restricted are also included in restricted assets.

Capital Assets

Capital asset 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.

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Net Pension Liability

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

Deferred Outflows of Resources

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

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statement of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and unamortized items related to the Hospital's pension plan.

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 liabilities 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.

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

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.

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 revenue and expenses. Property taxes, interest, financing expense and peripheral or incidental transactions are reported as nonoperating gains and losses.

Interest

Interest costs related to construction debt are capitalized and included with costs of the project.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Credit Policy

The Hospital grants credit to patients, substantially all of whom are residents of the County.

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.

Reclassifications

Certain amounts have been reclassified in the 2016 financial statements in order to conform with the 2017 presentation, with no effect on net position.

NOTE 2 CASH AND CASH EQUIVALENTS

The Hospital's deposits at June 30, 2017 were entirely covered by federal depository insurance, collateralized securities, 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 Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district and common stocks.

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.

NOTE 3 PATIENT RECEIVABLES

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

	Year ended June 30	
	2017	2016
Medicare	\$1,206,580	\$ 976,955
Medicaid	425,516	256,362
Commercial insurance	997,306	854,824
Patients	<u>881,038</u>	<u>933,749</u>
Total patient receivables	3,510,440	3,021,890
Less allowances for contractual adjustments and bad debts	<u>1,480,000</u>	<u>1,310,000</u>
Net patient receivables	<u>\$2,030,440</u>	<u>\$1,711,890</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 4 CONTRIBUTIONS RECEIVABLE

The Foundation has conducted a capital campaign, the purpose of which is to raise funds in order to assist with certain Hospital capital improvements. Contributions receivable as of June 30, 2017 are collectible as follows:

Year ending June 30

2018		\$ 143,755
2019		141,561
2020		134,022
2021		<u>50,000</u>
		469,338
Less discount to present value		27,038
Less allowance for doubtful accounts		<u>82,300</u>
Net contributions receivable		<u>\$ 360,000</u>
Balance, beginning of year		\$ 460,000
New pledges made		105,307
Payments received		(192,127)
(Increase) in allowance for doubtful accounts		(22,180)
Decrease in present value of discount		<u>9,000</u>
Balance, end of year		<u>\$ 360,000</u>

Contributions receivable are reduced to the present value of estimated cash flows using a discount rate of 3.25%.

NOTE 5 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of construction costs, long-term debt and interest are as follows at June 30, 2017:

	<u>Construction Fund</u>	<u>Sinking Fund</u>	<u>Total</u>
Balance, beginning	\$ 935,193	\$ 365,474	\$1,300,667
Proceeds from issuance of long-term debt	2,203,476	-	2,203,476
Transfers from (to) current assets, cash	(854,482)	1,177,835	323,353
Interest earned	1,201	2,155	3,356
Payments for construction, principal and interest	<u>(2,285,388)</u>	<u>(1,176,107)</u>	<u>(3,461,495)</u>
Balance, ending	<u>\$ -</u>	<u>\$ 369,357</u>	<u>\$ 369,357</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 6 CAPITAL ASSETS

A summary of capital assets and related accumulated depreciation follows:

	<u>June 30, 2017</u>		<u>June 30, 2016</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 178,048	\$ -	\$ 178,048	\$ -
Land improvements	2,834,167	571,768	2,737,323	349,399
Building	29,688,096	13,148,411	27,544,277	11,450,652
Fixed equipment	4,701,821	3,465,642	4,701,821	3,299,312
Major movable equipment	12,205,813	10,032,372	11,396,226	9,454,680
Medical office building	2,364,049	210,044	2,364,049	36,289
Construction in progress	<u>-</u>	<u>-</u>	<u>531,995</u>	<u>-</u>
Totals	<u>\$51,971,994</u>	<u>\$27,428,237</u>	<u>\$49,453,739</u>	<u>\$24,590,332</u>

During the year ended June 30, 2016 the Hospital completed Phase IIA of the Hospital's capital improvement plan. The completed phase consisted of new construction to the south end of the Hospital including space for a primary care physician's office, specialty clinics and outpatient services as well as the construction of a new ambulance garage. Phase IIA was completed in May, 2016 at a cost of approximately \$14,200,000.

Phase IIB of the Hospital's capital improvement plan consists of relocating, renovating and expanding emergency services and certain support services of the Hospital. The majority of the work was completed in November, 2016 at a cost of approximately \$2,300,000.

Interest expense of approximately \$16,000 and \$260,000 was capitalized during the years ended June 30, 2017 and 2016, respectively.

A summary of changes in capital assets for the year ended June 30, 2017 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 178,048	\$ -	\$ -	\$ -	\$ 178,048
Land improvements	2,737,323	-	-	96,844	2,834,167
Building	27,544,277	115,491	-	2,028,328	29,688,096
Fixed equipment	4,701,821	-	-	-	4,701,821
Major movable equipment	11,396,226	742,325	185,236	252,498	12,205,813
Medical office building	2,364,049	-	-	-	2,364,049
Construction in progress	<u>531,995</u>	<u>1,845,675</u>	<u>-</u>	<u>(2,377,670)</u>	<u>-</u>
Totals	49,453,739	2,703,491	185,236	-	51,971,994
Less accumulated depreciation	<u>(24,590,332)</u>	<u>(3,023,141)</u>	<u>(185,236)</u>	<u>-</u>	<u>(27,428,237)</u>
Net capital assets	<u>\$24,863,407</u>	<u>\$ (319,650)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,543,757</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 6 CAPITAL ASSETS (continued)

A summary of changes in capital assets for the year ended June 30, 2016 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 178,048	\$ -	\$ -	\$ -	\$ 178,048
Land improvements	1,006,245	-	-	1,731,078	2,737,323
Building and fixed equipment	21,882,505	-	6,235	10,369,828	32,246,098
Major movable equipment	11,004,843	366,962	325,640	350,061	11,396,226
Medical office building	1,105,415	-	503,886	1,762,520	2,364,049
Construction in progress	<u>3,424,943</u>	<u>11,320,539</u>	<u>-</u>	<u>(14,213,487)</u>	<u>531,995</u>
Totals	38,601,999	11,687,501	835,761	-	49,453,739
Less accumulated depreciation	<u>(22,939,615)</u>	<u>(2,486,478)</u>	<u>(835,761)</u>	<u>-</u>	<u>(24,590,332)</u>
Net capital assets	<u>\$15,662,384</u>	<u>\$ 9,201,023</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$24,863,407</u>

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Hospital Revenue Note, Series 2013	\$ 5,000,000	\$ 5,000,000
Hospital Revenue Refunding Bond, Series 2014A	1,615,000	1,615,000
Hospital Revenue Bond, Series 2014B	8,525,000	6,321,524
Hospital Revenue Refunding Bond, Series 2015	1,290,000	1,905,000
Rural Economic Development Notes	<u>2,008,148</u>	<u>2,230,370</u>
	18,438,148	17,071,894
Less current maturities	<u>902,222</u>	<u>837,222</u>
Long-term debt, net of current maturities	<u>\$17,535,926</u>	<u>\$16,234,672</u>

Hospital Revenue Note, Series 2013

The Hospital has issued Hospital Revenue Note, Series 2013, in the original amount of \$5,000,000. The Note was issued with Clarke County, Iowa who issued General Obligation Bonds in the same amount. The Note is payable to the County solely from future revenues of the Hospital and is guaranteed by Central Iowa Hospital Corporation, d/b/a Unity Point Health-Des Moines. The Note is due serially each June 1, 2030 through 2033, at interest rates of 4% to 4.5%. Interest on the Note is payable semiannually. At June 30, 2017, the remaining balance on the Note was \$5,000,000.

The Hospital Revenue Note, Series 2013, requires certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for each of the next five years is approximately \$217,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Hospital Revenue Note at June 30, 2017.

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

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Hospital Revenue Refunding Bond, Series 2014A

The Hospital has issued Hospital Revenue Refunding Bond, Series 2014A, in the original amount of \$1,615,000. The bond is payable solely from future revenues of the Hospital and is guaranteed by Central Iowa Hospital Corporation, d/b/a Unity Point Health-Des Moines. The bond is due serially each June 1, 2030 through 2034 at an interest rate of 4.9%. At June 30, 2017 the remaining balance of the bond was \$1,615,000.

The Hospital Revenue Refunding Bond, Series 2014A, requires certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for each of the next five years is approximately \$79,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Refunding Bond as of June 30, 2017.

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

Hospital Revenue Bond, Series 2014B

The Hospital has issued Hospital Revenue Bond, Series 2014B, in the original amount not to exceed \$8,525,000 to be issued intermittently through advances requested by the Hospital. The bond is payable solely from future revenues of the Hospital and is guaranteed by Central Iowa Hospital Corporation, d/b/a Unity Point Health-Des Moines. The bond is due serially each June 1, 2020 through 2029 at an initial interest rate of 2.89%. The interest rate will be adjusted on June 1, 2024 to a rate equal to the five year Treasury Rate plus 2.2%, times 65%. At June 30, 2017 the amount advanced and outstanding on the bond was \$8,525,000.

The Hospital Revenue Bond, Series 2014B, requires certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for each of the next two years is approximately \$250,000. Funding requirements for each of the following three years is approximately \$850,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bond as of June 30, 2017.

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

Hospital Revenue Refunding Bonds, Series 2015

The Hospital has issued Hospital Revenue Refunding Bonds, Series 2015A and 2015B, in the original amounts of \$750,000 and \$1,755,000, respectively. The bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2019, at an interest rate of 2.16%. At June 30, 2017 the remaining balance of the bonds was \$1,290,000.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Hospital Revenue Refunding Bonds, Series 2015 (continued)

The Hospital Revenue Refunding Bonds, Series 2015A and 2015B, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for each of the next two years is approximately \$660,000.

The amounts set aside as assets whose uses is limited for payment of long-term debt and interest meet the requirements of the Bonds as of June 30, 2017.

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

Rural Economic Development Notes

The Hospital has entered into two Rural Economic Development Notes with Clarke Electrical Cooperative, Inc. and Central Iowa Power Cooperative in the amount of \$2,000,000 and \$360,000, respectively. The Notes are payable solely from future revenues of the Hospital and are guaranteed by Central Iowa Hospital Corporation, d/b/a Unity Point Health-Des Moines. The Notes bear no interest and are due serially each June 1, 2016 through 2025. At June 30, 2017 the remaining balance of the notes was \$2,008,148.

The Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The net revenues are pledged through June, 2034. As of June 30, 2017 the remaining principal and interest was \$24,964,738. The following is a comparison of the pledged net revenues and the principal and interest requirements for the years ended June 30, 2017 and 2016:

	Year ended June 30	
	2017	2016
Change in net position, Hospital only	\$ (246,140)	\$ 674,082
Provision for depreciation	3,023,141	2,486,478
Interest expense	567,571	154,299
 Pledged net revenues	 \$3,344,572	 \$3,314,859
 Principal and interest requirements	 \$1,416,106	 \$1,126,447

Aggregate maturities required on long-term debt are as follows:

Year ending June 30	Principal	Interest	Total
2018	\$ 902,222	\$ 570,509	\$ 1,472,731
2019	922,222	556,793	1,479,015
2020	887,222	542,645	1,429,867
2021	912,222	522,355	1,434,577
2022	932,222	503,908	1,436,130
2023-2027	5,032,038	2,205,943	7,237,981
2028-2032	6,030,000	1,422,984	7,452,984
2033-2034	2,820,000	201,453	3,021,453
Total	18,438,148	6,526,590	24,964,738
Less current maturities	902,222	570,509	1,472,731
 Totals	 \$17,535,926	 \$5,956,081	 \$23,492,007

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2017 follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>
Hospital Revenue Note, Series 2013	\$ 5,000,000	\$ —	\$ —	\$ 5,000,000
Hospital Revenue Refunding Bond, Series 2014A	1,615,000	—	—	1,615,000
Hospital Revenue Bond, Series 2014B	6,321,524	2,203,476	—	8,525,000
Hospital Revenue Refunding Bond, Series 2015	1,905,000	—	615,000	1,290,000
Rural Economic Development Notes	<u>2,230,370</u>	<u>—</u>	<u>222,222</u>	<u>2,008,148</u>
Totals	<u>\$17,071,894</u>	<u>\$2,203,476</u>	<u>\$ 837,222</u>	<u>\$18,438,148</u>

A summary of changes in long-term debt for the year ended June 30, 2016 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>
Hospital Revenue Note, Series 2013	\$ 5,000,000	\$ —	\$ —	\$ 5,000,000
Hospital Revenue Refunding Bond, Series 2014A	1,615,000	—	—	1,615,000
Hospital Revenue Bond, Series 2014B	166,030	6,155,494	—	6,321,524
Hospital Revenue Refunding Bond, Series 2015	2,505,000	—	600,000	1,905,000
Rural Economic Development Notes	<u>2,360,000</u>	<u>—</u>	<u>129,630</u>	<u>2,230,370</u>
Totals	<u>\$11,646,030</u>	<u>\$6,155,494</u>	<u>\$ 729,630</u>	<u>\$17,071,894</u>

NOTE 8 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.)

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

Pension Benefits (continued)

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

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

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

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

Disability and Death Benefits

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

Contributions

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 2017, pursuant to the required rate, Regular members contributed 5.95 percent of covered payroll and the Hospital contributed 8.93 percent for a total rate of 14.88 percent. Protection occupation members contributed 6.56 percent of covered payroll and the hospital contributed 9.84 percent for a total rate of 16.40 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2017 and 2016 were \$630,265 and \$582,175, respectively.

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

At June 30, 2017 and 2016, the Hospital reported a liability of \$5,300,779 and \$4,279,506, respectively, for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2016 and 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. 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:

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

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

	Measurement Date		Change
	June 30		
	2017	2016	
Hospital's proportionate share	0.084229%	0.086621%	(0.002392%)

For the years ended June 30, 2017 and 2016, the Hospital recognized pension expense of \$645,636 and \$388,329, respectively. The Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Pension Related Deferred			
	Outflows of Resources		Inflows of Resources	
	2017	2016	2017	2016
Difference between expected and actual experience	\$ 46,624	\$ 65,429	\$ 71,478	\$ 9,800
Change in assumptions	80,486	119,230	111	150
Net difference between projected and actual earnings on pension plan investments	811,219	-	-	383,199
Change in proportion and difference between Hospital contributions and proportionate share of contributions	111,535	160,376	248,042	179,465
Hospital contributions subsequent to the measurement date	<u>630,265</u>	<u>582,175</u>	<u>-</u>	<u>-</u>
Totals	<u>\$1,680,129</u>	<u>\$ 927,210</u>	<u>\$ 319,631</u>	<u>\$ 572,614</u>

\$630,265 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, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,

2018	\$ 85,100
2019	85,100
2020	371,140
2021	201,856
2022	<u>(12,963)</u>
Totals	<u>\$ 730,233</u>

There were no non-employer contributing entities at IPERS.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Rate of inflation	3.00 percent
Rate of salary increases, including inflation	4.00 to 17.00 percent
Wage Growth Rate	4.00 percent
Payroll Increase Rate	4.00 percent
Long-term Rate of Return, net of investment expense, including inflation	7.50 percent
Municipal Bond Index Rate	
Prior Measurement Date	3.82 percent
Measurement Date	3.01 percent
Single Equivalent Interest Rate, net of investment expense, including inflation	
Prior Measurement Date	7.50 percent
Measurement Date	7.50 percent

Mortality rates were based on the RP-2000 Generational Mortality Tables with adjustments for mortality improvements based on Projection Scale AA.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Core Plus Fixed Income	28%	1.90
US Equity	24	5.85
International Equity	16	6.32
Private Equity	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
TIPS	5	1.36
Other Real Assets	2	6.42
Cash	<u>1</u>	(0.26)
Total	<u>100%</u>	

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 8 PENSION PLAN (continued)

Discount Rate

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

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

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's proportionate share of the net pension liability	\$8,783,432	\$5,300,779	\$2,361,640

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017 and 2016, the Hospital reported payables to the defined benefit pension plan of approximately \$61,000 and \$76,000, respectively, for legally required employer contributions and \$41,000 and \$19,000, respectively, for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE 9 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 beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for Medicare services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. Beginning April 1, 2016, Iowa Medicaid has transitioned management of the program to managed care organizations. As a result, the Hospital is reimbursed using rates which are prospectively set by contracts with managed care organizations and is no longer subject to a final settlement based on actual costs incurred. 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, 2016.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 9 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 rates.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital had a net estimated third-party payor settlement liability of \$1,720,000 as of June 30, 2017. The Hospital received revised notices of program reimbursement for the Hospital's June 30, 2010, 2012, and 2013 Medicare cost reports. The Medicare Administrative Contractor disallowed claimed costs computed through home office cost reports filed by Central Iowa Hospital Corporation. As a result of the disallowed costs, the notices requested approximately \$1,950,000 be paid back to the Medicare program. The Hospital has paid the requested amounts and recorded the amounts as an offset against the estimated third-party payor settlement liability until the Hospital can appeal the adjustments which it believes will be reversed.

The following illustrates the Hospital's patient service revenue at its established rates less charity care and provisions for contractual adjustments and bad debts:

	Year ended June 30	
	2017	2016
Gross patient service revenue		
Inpatient and swing bed	\$ 2,677,484	\$ 2,456,906
Outpatient	<u>22,231,831</u>	<u>18,998,395</u>
	24,909,315	21,455,301
Charity care charges foregone, based on established rates	<u>(75,025)</u>	<u>(24,731)</u>
Total gross patient services revenue	<u>24,834,290</u>	<u>21,430,570</u>
Provision for contractual adjustments and bad debts		
Contractual adjustments		
Medicare and Medicaid	2,016,051	424,342
Other	2,548,761	2,035,418
Bad debts	<u>804,502</u>	<u>683,844</u>
Total provision for contractual adjustments and bad debts	<u>5,369,314</u>	<u>3,143,604</u>
Total net patient service revenue	<u>\$19,464,976</u>	<u>\$18,286,966</u>

NOTE 10 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, 2017 and 2016.

	2017	2016
Charges foregone, based on established rates	\$ <u>75,025</u>	\$ <u>24,731</u>
Equivalent percentage of charity care patients to all patients served	<u>0.30%</u>	<u>0.12%</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 11 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, 2017 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 12 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 13 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

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 other post employment benefits have been judged by management to be immaterial to the financial statements.

NOTE 14 MANAGEMENT AGREEMENT

The Hospital has a management agreement with Central Iowa Hospital Corporation (CIHC), doing business as UnityPoint Health - Des Moines, under which CIHC provides administrative and general services to the Hospital in addition to critical access hospital network agreement with CIHC to serve as a referral hospital with participation in the credentialing and quality process. The management and administrative services involves a range of services including key administrative positions, participation in purchasing, laundry, and delivery service arrangements, resource and expertise provided on compliance, education, and strategic decision making along with printing and publicity assistance. Hospital department leaders including clinical departments are able to utilize experts from CIHC for questions or assistance when needed. In addition to administrative and general services, the Hospital receives a number of other additional services from CIHC and Iowa Health System (IHS). CIHC's sole corporate member is Central Iowa Health System (CIHS). CIHS's sole corporate member is IHS (currently known as UnityPoint Health). Additional services provided by CIHC and IHS include pharmacy services, an electronic health record right-to-use along with support, sleep study services, mobile diagnostic services, biotech services, medical coding and dictation services. The amount paid to CIHC and IHS for services provided during the years ended June 30, 2017 and 2016 were approximately \$1,540,000 and \$1,620,000, respectively. CIHC has guaranteed certain issuances of the Hospital's long-term debt up to a maximum of \$17,500,000, see Note 6.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 15 OFFICE SPACE LEASE

The Hospital entered a lease agreement on May 20, 2016 to lease office space to Iowa Physicians Clinic Medical Foundation. The agreement expires May, 2026. At June 30, 2017, future minimum lease payments receivable under the agreement are as follows:

2018	\$ 220,752
2019	220,752
2020	220,752
2021	220,752
2022	220,752
2023-2026	<u>735,840</u>
	<u>\$1,839,600</u>

Leasing income with the Iowa Physician Clinic Medical Foundation for the years ended June 30, 2017 and 2016 totaled \$250,198 and \$119,323, respectively.

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 16 CONDENSED COMBINING INFORMATION

Condensed combining information for the Hospital and the Foundation as of and for the year ended June 30, 2017 is presented below.

	As of and for the year ended June 30, 2017			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Blended</u>
Statements of Net Position				
Assets	\$37,608,894	\$ 398,255	\$ —	\$38,007,149
Deferred outflows of resources	1,680,129	—	—	1,680,129
Liabilities	(27,141,835)	—	—	(27,141,835)
Deferred inflows of resources	<u>(1,339,631)</u>	<u>—</u>	<u>—</u>	<u>(1,339,631)</u>
Net position	<u>\$10,807,557</u>	<u>\$ 398,255</u>	<u>\$ —</u>	<u>\$11,205,812</u>
Statements of Revenues, Expenses and Changes in Net Position				
Net patient service and other revenues	\$19,882,369	\$ 35,429	\$ —	\$19,917,798
Operating expenses				
Salaries, supplies and other expenses	(17,856,748)	(273,637)	254,000	(17,876,385)
Depreciation expense	<u>(3,023,141)</u>	<u>—</u>	<u>—</u>	<u>(3,023,141)</u>
Operating (loss)	(997,520)	(238,208)	254,000	(981,728)
Nonoperating gains (losses)				
County taxes	995,323	—	—	995,323
Unrestricted contributions	254,000	1,715	(254,000)	1,715
Interest and financing expense	(567,571)	—	—	(567,571)
Other	25,252	61	—	25,313
Restricted contributions	<u>44,376</u>	<u>90,528</u>	<u>—</u>	<u>134,904</u>
Change in net position	(246,140)	(145,904)	—	(392,044)
Beginning net position	<u>11,053,697</u>	<u>544,159</u>	<u>—</u>	<u>11,597,856</u>
Ending net position	<u>\$10,807,557</u>	<u>\$ 398,255</u>	<u>\$ —</u>	<u>\$11,205,812</u>
Statements of Cash Flows				
Net cash provided by (used in)				
Operating activities	\$ 2,794,445	\$ 15,792	\$ —	\$ 2,810,237
Noncapital financing activities	1,246,375	(252,285)	—	994,090
Capital and related financing activities	(2,609,104)	190,528	—	(2,418,576)
Investing activities	<u>25,252</u>	<u>61</u>	<u>—</u>	<u>25,313</u>
	1,456,968	(45,904)	—	1,411,064
Beginning cash and cash equivalents	<u>8,160,546</u>	<u>84,159</u>	<u>—</u>	<u>8,244,705</u>
Ending cash and cash equivalents	<u>\$ 9,617,514</u>	<u>\$ 38,255</u>	<u>\$ —</u>	<u>\$ 9,655,769</u>

**Clarke County Public Hospital
and Clarke County Hospital Foundation
NOTES TO COMBINED FINANCIAL STATEMENTS**

NOTE 16 CONDENSED COMBINING INFORMATION (continued)

Condensed combining information for the Hospital and the Foundation as of and for the year ended June 30, 2016 is presented below.

	As of and for the year ended June 30, 2016			
	<u>Hospital</u>	<u>Foundation</u>	<u>Eliminations</u>	<u>Blended</u>
Statements of Net Position				
Assets	\$36,182,107	\$ 544,159	\$ —	\$36,726,266
Deferred outflows of resources	927,210	—	—	927,210
Liabilities	(24,513,006)	—	—	(24,513,006)
Deferred inflows of resources	<u>(1,542,614)</u>	<u>—</u>	<u>—</u>	<u>(1,542,614)</u>
Net position	<u>\$11,053,697</u>	<u>\$ 544,159</u>	<u>\$ —</u>	<u>\$11,597,856</u>
Statements of Revenues, Expenses and Changes in Net Position				
Net patient service and other revenues	\$18,633,281	\$ 29,415	\$ —	\$18,662,696
Operating expenses				
Salaries, supplies and other expenses	(16,583,214)	(203,857)	187,000	(16,600,071)
Depreciation expense	<u>(2,486,478)</u>	<u>—</u>	<u>—</u>	<u>(2,486,478)</u>
Operating (loss)	(436,411)	(174,442)	187,000	(423,853)
Nonoperating gains (losses)				
County taxes	967,598	—	—	967,598
Unrestricted contributions	187,000	4,124	(187,000)	4,124
Interest and financing expense	(154,299)	—	—	(154,299)
Other	28,859	93	—	28,952
Restricted contributions	<u>81,335</u>	<u>345,361</u>	<u>—</u>	<u>426,696</u>
Change in net position	674,082	175,136	—	849,218
Beginning net position	<u>10,379,615</u>	<u>369,023</u>	<u>—</u>	<u>10,748,638</u>
Ending net position	<u>\$11,053,697</u>	<u>\$ 544,159</u>	<u>\$ —</u>	<u>\$11,597,856</u>
Statements of Cash Flows				
Net cash provided by (used in)				
Operating activities	\$ (1,357,249)	\$ 12,558	\$ —	\$ (1,344,691)
Noncapital financing activities	1,156,471	(182,876)	—	973,595
Capital and related financing activities	(5,843,962)	215,361	—	(5,628,601)
Investing activities	<u>28,859</u>	<u>93</u>	<u>—</u>	<u>28,952</u>
	(6,015,881)	45,136	—	(5,970,745)
Beginning cash and cash equivalents	<u>14,176,427</u>	<u>39,023</u>	<u>—</u>	<u>14,215,450</u>
Ending cash and cash equivalents	<u>\$ 8,160,546</u>	<u>\$ 84,159</u>	<u>\$ —</u>	<u>\$ 8,244,705</u>

Required Supplementary Information

Clarke County Public Hospital
SCHEDULE OF COMPARATIVE BUDGETARY REPORTING
Required Supplementary Information
Year ended June 30, 2017

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Hospital prepares its annual budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between budget and GAAP basis are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service payments are recorded as expenditures on the County Hospital budget basis.

For the year ended June 30, 2017, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital budget</u>
Amount to be raised by taxation	\$ 995,323	\$ (50,965)	\$ 944,358	\$ 944,824
Other revenues/receipts	<u>19,638,426</u>	<u>2,822,012</u>	<u>22,460,438</u>	<u>25,831,740</u>
	20,633,749	2,771,047	23,404,796	26,776,564
Expenses/expenditures	<u>20,879,889</u>	<u>1,069,772</u>	<u>21,949,661</u>	<u>26,289,000</u>
Net	(246,140)	1,701,275	1,455,135	487,564
Balance, beginning	<u>11,053,697</u>	<u>(3,866,603)</u>	<u>7,187,094</u>	<u>5,526,692</u>
Balance, ending	<u>\$10,807,557</u>	<u>\$ (2,165,328)</u>	<u>\$ 8,642,229</u>	<u>\$ 6,014,256</u>

Clarke County Public Hospital
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	June 30		
	2017	2016	2015
Hospital's proportion of the net pension liability	0.084229%	0.086621%	0.091022%
Hospital's proportionate share of the net pension liability	\$5,301	\$4,280	\$3,610
Hospital's total covered payroll	\$7,150	\$6,671	\$6,591
Hospital's proportionate share of the net pension liability as a percentage of its total covered payroll	74%	64%	55%
Plan fiduciary net position as a percentage of the total pension liability	81%	85%	88%

See accompanying notes to required supplementary information – pension liability.

Clarke County Public Hospital
SCHEDULE OF HOSPITAL PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	<u>Year ended June 30</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 630	\$ 582	\$ 578	\$ 579
Contributions in relation to the statutorily required contribution	<u>630</u>	<u>582</u>	<u>578</u>	<u>579</u>
Contribution deficiency (excess)	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
Hospital's total covered payroll	\$7,150	\$6,671	\$6,591	\$6,665
Contributions as a percentage of total payroll	8.8%	8.7%	8.8%	8.7%

See accompanying notes to required supplementary information – pension liability.

Year ended June 30

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 527	\$ 472	\$ 407	\$ 357	\$ 349	\$ 285
<u>527</u>	<u>472</u>	<u>407</u>	<u>357</u>	<u>349</u>	<u>285</u>
<u>\$ —</u>					
\$6,262	\$5,949	\$5,864	\$5,536	\$5,392	\$4,718
8.4%	7.9%	6.9%	6.4%	6.5%	6.0%

Clarke County Public Hospital
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
Year ended June 30, 2017

CHANGES OF BENEFIT TERMS

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

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

CHANGES OF ASSUMPTIONS

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

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

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

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

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



INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation as of and for the years ended June 30, 2017 and 2016, and our report thereon dated August 21, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 4-5. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. That 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, that information is fairly stated in all material respects in relation to the financial statements as a whole. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 21, 2017

**Clarke County Public Hospital
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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
0 - 30 (includes patients in Hospital at end of year)	\$2,025,996	\$1,491,402	57.70%	49.35%
31 - 60 days	407,900	375,632	11.62	12.43
61 - 90 days	249,423	288,517	7.11	9.55
91 - 120 days	237,392	189,136	6.76	6.26
121 - 150 days	110,847	137,742	3.16	4.56
151 - 270 days	221,731	263,501	6.32	8.72
271 and over	<u>257,151</u>	<u>275,960</u>	<u>7.33</u>	<u>9.13</u>
Totals	<u>3,510,440</u>	<u>3,021,890</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	114,500	25,500		
Medicaid	187,800	101,600		
Other	397,700	342,900		
Bad debts	<u>780,000</u>	<u>840,000</u>		
Total allowances	<u>1,480,000</u>	<u>1,310,000</u>		
Totals	<u>\$2,030,440</u>	<u>\$1,711,890</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 53,329</u>	<u>\$ 49,964</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>38</u>	<u>34</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>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
BALANCE , beginning	\$ 840,000	\$ 700,000		
ADD				
Provision for bad debts	804,502	683,844	4.13%	3.74%
Recoveries of accounts previously written off	<u>110,357</u>	<u>43,175</u>	.57	.24
	1,754,859	1,427,019		
DEDUCT				
Accounts written off	<u>974,859</u>	<u>587,019</u>	5.01	3.21
BALANCE , ending	<u>\$ 780,000</u>	<u>\$ 840,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2017, with comparative totals for 2016

	<u>2017</u>			<u>2016</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Acute care	\$ 719,400	\$ -	\$ 719,400	\$ 729,121
Skilled care	251,405	-	251,405	215,985
Extended care	517,120	-	517,120	400,320
	<u>1,487,925</u>	<u>-</u>	<u>1,487,925</u>	<u>1,345,426</u>
OTHER NURSING SERVICE				
Observation room	3,801	348,195	351,996	267,474
Operating and recovery rooms	37,238	1,614,728	1,651,966	1,129,672
Emergency service	37,956	5,654,723	5,692,679	4,476,649
Emergency service professional	4,479	811,252	815,731	891,119
Central supply	12,895	87,910	100,805	81,345
Ambulance	18,961	934,118	953,079	880,756
	<u>115,330</u>	<u>9,450,926</u>	<u>9,566,256</u>	<u>7,727,015</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	305,055	3,167,015	3,472,070	3,113,184
Electrocardiographic	2,652	76,109	78,761	144,286
Cardiac rehabilitation	-	179,005	179,005	153,970
Respiratory therapy	-	116,776	116,776	127,561
Diagnostic imaging	149,026	4,856,135	5,005,161	4,186,534
Pharmacy	535,606	3,400,259	3,935,865	3,894,945
CRNA professional	4,490	143,824	148,314	111,603
Speech therapy	2,784	7,182	9,966	10,885
Physical therapy	54,260	360,520	414,780	367,063
Occupational therapy	11,340	20,801	32,141	39,953
Practitioner professional	9,016	358,568	367,584	210,436
Practitioner professional technical	-	94,711	94,711	22,440
	<u>1,074,229</u>	<u>12,780,905</u>	<u>13,855,134</u>	<u>12,382,860</u>
Totals	\$ <u>2,677,484</u>	\$ <u>22,231,831</u>	24,909,315	21,455,301
Charity care charges foregone, based on established rates			<u>(75,025)</u>	<u>(24,731)</u>
Total gross patient service revenue			24,834,290	21,430,570
Provisions for contractual adjustments and bad debts			<u>(5,369,314)</u>	<u>(3,143,604)</u>
Total net patient service revenue			<u>\$19,464,976</u>	<u>\$18,286,966</u>

**Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Contractual adjustments		
Medicare and Medicaid	\$2,016,051	\$ 424,342
Other	2,548,761	2,035,418
Provision for bad debts	<u>804,502</u>	<u>683,844</u>
Totals	<u>\$5,369,314</u>	<u>\$3,143,604</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2017</u>	<u>2016</u>
Electronic health records meaningful use incentive revenue	\$ -	\$ 63,723
Meals	48,829	51,419
Medical office building rental income	236,814	119,323
Miscellaneous	<u>131,750</u>	<u>111,850</u>
Totals	<u>\$ 417,393</u>	<u>\$ 346,315</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2017, with comparative totals for 2016

	2017			2016
	Salaries	Other	Total	Total
NURSING SERVICE				
Nursing administration	\$ 36,271	\$ 290,180	\$ 326,451	\$ 216,608
Medical and surgical	1,925,816	254,643	2,180,459	2,049,756
Operating and recovery rooms	471,239	166,385	637,624	560,820
Emergency service	860,728	109,756	970,484	917,105
Emergency service – professional	–	1,364,958	1,364,958	1,313,067
Implantable supply	–	15,645	15,645	19,164
Central supply	–	19,126	19,126	18,167
Ambulance	110,921	33,058	143,979	125,722
Total nursing service	<u>3,404,975</u>	<u>2,253,751</u>	<u>5,658,726</u>	<u>5,220,409</u>
OTHER PROFESSIONAL SERVICE				
Professional service administration	161,344	133,375	294,719	234,052
Laboratory	391,460	571,510	962,970	892,730
Electrocardiographic	12,151	7,275	19,426	17,602
Cardiac rehabilitation	63,226	10,874	74,100	71,445
Respiratory therapy	7,146	56,185	63,331	70,079
Diagnostic imaging	379,230	423,314	802,544	834,531
Pharmacy	111,885	315,917	427,802	408,355
Drugs and intravenous	–	908,983	908,983	959,692
CRNA professional	–	170,500	170,500	114,675
Speech therapy	–	6,074	6,074	5,032
Physical therapy	250,603	23,528	274,131	359,810
Occupational therapy	96,064	33,549	129,613	118,164
Specialty clinic	5,945	700	6,645	36,555
Practitioner professional	21,857	517,146	539,003	287,274
Practitioner professional technical	27,544	52,361	79,905	13,062
Medical office building	–	11,898	11,898	16,032
Health information	104,919	30,560	135,479	195,465
Quality improvement and utilization management	149,876	30,499	180,375	213,090
Total other professional service	<u>1,783,250</u>	<u>3,304,248</u>	<u>5,087,498</u>	<u>4,847,645</u>
GENERAL SERVICE				
Dietary	185,620	301,533	487,153	459,667
Plant operations	306,601	630,393	936,994	752,444
Environmental services	277,495	68,142	345,637	311,072
Laundry and linen	–	46,776	46,776	44,931
Total general service	<u>769,716</u>	<u>1,046,844</u>	<u>1,816,560</u>	<u>1,568,114</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	175,224	929,611	1,104,835	1,131,441
Human resources	132,881	67,121	200,002	182,875
Marketing	19,482	44,600	64,082	66,230
Business office	539,719	163,575	703,294	621,746
Information services	235,153	675,728	910,881	1,024,111
Purchasing	89,415	14,152	103,567	118,217
Community fitness center	–	–	–	891
FICA	–	513,646	513,646	490,203
IPERS	–	645,636	645,636	388,329
Group health, life, and disability insurance	–	899,364	899,364	766,920
Insurance	–	148,657	148,657	156,083
Total fiscal and administrative service and unassigned expenses	<u>1,191,874</u>	<u>4,102,090</u>	<u>5,293,964</u>	<u>4,947,046</u>
PROVISION FOR DEPRECIATION				
	–	3,023,141	3,023,141	2,486,478
Total expenses	<u>\$ 7,149,815</u>	<u>\$13,730,074</u>	<u>\$20,879,889</u>	<u>\$19,069,692</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS
(Unaudited)**

	Year ended June 30	
	2017	2016
STAFFED BEDS	25	25
PATIENT DAYS		
Acute (including hospice)	550	620
Swing bed		
Skilled	653	561
Extended (including respite)	3,232	2,502
DISCHARGES		
Acute (including hospice)	213	207
Swing bed		
Skilled	62	53
Extended (including respite)	57	39
AVERAGE LENGTH OF STAY		
Acute (including hospice)	2.6	3.0
Swing bed		
Skilled	10.5	10.6
Extended (including respite)	56.7	64.2
OCCUPANCY PERCENT	48.6%	40.3%
DAILY CENSUS		
Acute	1.5	1.7
Swing bed		
Skilled	1.8	1.5
Extended care	8.8	6.8
AMBULANCE: Number of runs	971	948
CARDIAC REHAB: Number of sessions	878	743
EMERGENCY/OUTPATIENT		
Number of emergency visits	4,866	4,768
Number of outpatient visits	<u>19,495</u>	<u>16,503</u>
Total outpatient visits	24,361	21,271
LABORATORY: Number of tests	35,626	33,861
OPERATING PROCEDURES		
Inpatient	7	3
Outpatient	397	292
PHYSICAL THERAPY: Number of treatments	11,243	8,561
DIAGNOSTIC IMAGING: Procedures	8,735	7,560



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

Board of Trustees
Clarke County Public Hospital
Osceola, 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 combined financial statements of Clarke County Public Hospital and Clarke County Hospital Foundation, as of and for the year ended June 30, 2017, and the related notes to the combined financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated August 21, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from 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, 2017 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.

Purpose of this Report

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 21, 2017

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2017**

Part I—Findings Related to the Financial Statements

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

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2017**

Part II—Findings Related to Required Statutory Reporting

17-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2017.

17-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

17-II-C TRAVEL EXPENSES

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

17-II-D BUSINESS TRANSACTIONS

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

17-II-E BOARD MINUTES

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

17-II-F 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.