

**Jefferson County Hospital
d/b/a Jefferson County Health Center
Fairfield, Iowa**

FINANCIAL REPORT

June 30, 2017

CONTENTS

	<u>Page</u>
OFFICIALS	3
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS	4-5
MANAGEMENT'S DISCUSSION AND ANALYSIS	6-12
FINANCIAL STATEMENTS	
Statements of net position	13-14
Statements of revenues, expenses, and changes in net position	15
Statements of cash flows	16-17
Notes to financial statements	18-34
REQUIRED SUPPLEMENTARY INFORMATION	35
Budgetary comparison schedule of revenues, expenses and changes in net position, budget and actual	36
Schedule of funding progress for the retiree health plan	37
Schedule of the Hospital's proportionate share of the net pension liability	38
Schedule of Hospital pension contributions	39-40
Notes to required supplementary information – pension liability	41
INDEPENDENT AUDITOR'S REPORT ON THE OTHER SUPPLEMENTARY INFORMATION	42
OTHER SUPPLEMENTARY INFORMATION	43
Analysis of patient receivables	44
Analysis of allowance for uncollectibles	44
Inventories	45
Insurance coverage	46
Patient service revenue	47-48
Provisions for contractual and other adjustments	49
Other revenue	49
Nursing service expenses	50
Other professional service expenses	51-52
General service expenses	53
Fiscal and administrative service and unassigned expenses	54
Comparative revenues and expenses	55
Comparative statistics	56
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	57-58
SCHEDULE OF FINDINGS	59-60

**Jefferson County Hospital
d/b/a Jefferson County Health Center
OFFICIALS
June 30, 2017**

BOARD OF TRUSTEES

Expiration of term

Officers

Renee Rebling, Chair
Bob Keller, Vice Chair
Merlin Miller, Secretary/Treasurer

December 31, 2022
December 31, 2022
December 31, 2020

Members

Julie Greeson
Greg Hanshaw
Todd Reifsteck
Joneane Parker

December 31, 2020
December 31, 2018
December 31, 2018
December 31, 2020

CHIEF EXECUTIVE OFFICER

Bryan Hunger

CHIEF FINANCIAL OFFICER

Larry Peach

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jefferson County Hospital
d/b/a Jefferson County Health Center
Fairfield, Iowa

We have audited the accompanying financial statements of Jefferson County Hospital d/b/a Jefferson County Health Center, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital'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 Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Jefferson County Hospital d/b/a Jefferson County Health Center, as of June 30, 2017 and 2016, and the changes in its financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 20 to the financial statements, the Hospital changed its policy regarding the recording of inventories in 2017. Our opinion is not modified with respect to that matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison schedule of revenues, expenses and changes in net position, budget and actual, the schedule of funding progress for the retiree health plan, the schedule of the Hospital's proportionate share of the net position liability, and the schedule of Hospital pension contributions on pages 6-12, and 36 through 41, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2017, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 3, 2017

**JEFFERSON COUNTY HOSPITAL
d/b/a JEFFERSON COUNTY HEALTH CENTER**

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Jefferson County Health Center, we offer readers of the Jefferson County Health Center's financial statements this narrative overview and analysis of the financial performance of our Hospital during the fiscal years ended June 30, 2017, 2016 and 2015. Please read it in conjunction with the financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements and supplementary information of Jefferson County Health Center. 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 Jefferson County Health Center 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 Jefferson County Health Center'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 Jefferson County Health Center's creditors (liabilities). It also provides the basis for evaluating the capital structure of Jefferson County Health Center 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 Jefferson County Health Center's operations over the past year and can be used to determine whether Jefferson County Health Center 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 \$ 291,297 from FY 2016 to \$ 64,459,500, following a decrease in FY 2016 of \$ 719,163.
- Capital assets increased from FY 2016 by \$ 4,613,011, following an increase of \$ 441,260 in FY 2016.
- Total debt decreased from FY 2016 by \$ 1,892,342, following a decrease of \$ 770,000 in FY 2016.
- Net position increased in FY 2017 by \$857,973 and increased by \$ 645,761 in FY 2016.
- Net patient service revenue increased from FY 2016 by \$ 3,395,177. This followed an increase in FY 2016 of \$ 1,936,293.
- Expenses increased from FY 2016 by \$ 4,033,786 or 10%. This is due to increased services relating to the Medical Arts Clinic and Pharmacy as well as employee benefit costs.
- Total margin for both FY 2017 and 2016 was 2%.

FINANCIAL ANALYSIS OF THE HOSPITAL

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

NET ASSETS

A summary of the Hospital's statements of net position at June 30, 2017, 2016 and 2015, are presented in Table 1 below.

Table 1
Condensed Statements of Net Position

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Current and other assets	\$26,925,761	\$31,247,475	\$32,407,898
Capital assets	<u>37,533,739</u>	<u>32,920,728</u>	<u>32,479,468</u>
Total assets	<u>64,459,500</u>	<u>64,168,203</u>	<u>64,887,366</u>
Deferred outflows of resources	<u>5,440,289</u>	<u>3,236,142</u>	<u>1,895,731</u>
Long-term debt outstanding	30,467,658	32,360,000	33,130,000
Other liabilities	<u>15,579,978</u>	<u>11,715,032</u>	<u>9,535,343</u>
Total liabilities	<u>46,047,636</u>	<u>44,075,032</u>	<u>42,665,343</u>
Deferred inflows of resources	<u>1,161,555</u>	<u>1,496,688</u>	<u>2,930,890</u>
Total net position	<u>\$22,690,598</u>	<u>\$21,832,625</u>	<u>\$21,186,864</u>

REVENUES, EXPENSES, AND CHANGES IN NET POSITION

The following table presents a summary of the Jefferson County Health Center's historical revenues and expenses for each of the fiscal years ended June 30, 2017, 2016 and 2015.

Table 2

Condensed Statements of Revenue, Expenses, and Changes in net position

	Year ended June 30		
	2017	2016	2015
Total revenue	\$44,380,371	\$40,753,191	\$39,834,011
Expenses	<u>43,643,177</u>	<u>39,609,391</u>	<u>34,117,594</u>
Operating income	737,194	1,143,800	5,716,417
Non-operating gains (losses)	<u>79,515</u>	<u>(558,959)</u>	<u>(913,501)</u>
Excess of revenues over expenses	816,709	584,841	4,802,916
Other changes in net position-contributions	41,264	60,920	61,262
Total net position, beginning	<u>21,832,625</u>	<u>21,186,864</u>	<u>16,322,686</u>
Total net position, ending	<u>\$22,690,598</u>	<u>\$21,832,625</u>	<u>\$21,186,864</u>

Operating and Financial Performance

Volume: Acute inpatient admissions for fiscal year 2017 were 480 compared to 581 in fiscal year 2016. Acute patient days decreased by (14.7%) compared to FY 2016 because of the decreased admissions. Swing bed admissions fiscal year 2017 were 218 compared to 225 in fiscal year 2016. Swing bed patient days increased by (6.7%) due to an increase in average length of stay of 1.1 days. Outpatient visits increased by .2% to 69,831 visits in FY 2017. Operating room procedures were 6.3% above FY 2016's level due mainly to an increase in outpatient surgical procedures. Outpatient surgeries were (237) procedures or (29.0%) above prior year levels. Inpatient procedures were down 4 or (3.1%) from FY 2016 totals. Total operating room procedures in FY 2017 were 1,383 surgeries compared to 1,301 in FY 2016 with 90% of the surgeries being outpatient procedures.

Net Patient Service Revenue: Because of an increase in outpatient visits, net patient service revenues increased by \$3,395,177 or 10% compared to fiscal year 2016. During the fiscal year, Jefferson County Health Center's contractual allowances (the difference between billed charges and paid charges from third party payors) increased by \$ 2,172,725 or 7% over FY 2016. The majority of the increase came from Medicare contractual allowance increases reflecting increased inpatient and outpatient activity.

The following table presents the relative percentages of gross charges for patient services by payor for the years ended June 30, 2017, 2016 and 2015.

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2017	2016	2015
Medicare	52%	51%	53%
Wellmark	20%	20%	21%
Other Commercial Insurance	10%	12%	11%
Medicaid	16%	15%	13%
All other	<u>2%</u>	<u>2%</u>	<u>2%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Significant changes in operations from FY 2017:

Outpatient Revenue: There was an 8% or \$ 5,040,867 increase in outpatient revenue in FY 2017 compared to FY 2016. Increased outpatient revenues in Pharmacy, Medical Arts Clinic and Ophthalmology account for the increased revenues.

Salaries and Employee Benefits: FY 2017 showed a 17%, or \$ 3,201,530 increase in salary and employee benefit expenses compared to FY 2016. The primary reason for the increase is as salary expenses relating to Ophthalmology and Medical Arts and an increase in payroll tax expenses as compared to FY 2016.

Interest and Depreciation Expense: Interest expense decreased by \$ 760,050 from FY 2016 due to the decrease in the interest rate on debt that was refinanced in 2017. Depreciation expense increased by \$ 329,906 from FY 2016 levels due to increased equipment purchases.

CAPITAL ASSETS

At the end of fiscal year 2017, the Jefferson County Health Center has invested \$ 37,533,739 in capital assets. The increase in capital assets is due to an increase in construction in progress costs due to a building project and equipment purchases exceeding depreciation expense in FY 2017.

The following table summarizes Jefferson County Health Center's capital assets as of June 30, 2017, 2016 and 2015.

Table 4
Capital Assets
(in Thousands)

	<u>June 30,</u> <u>2017</u>	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
Land	\$ 1,168.3	\$ 1,168.3	\$ 1,168.3
Land improvements	2,297.8	2,292.2	2,292.2
Buildings	36,522.1	36,522.1	36,084.6
Major moveable equipment	17,545.6	13,578.2	12,282.0
Intangibles	986.0	986.0	589.3
Construction in progress	<u>5,901.7</u>	<u>1,689.0</u>	<u>135.3</u>
Subtotal	64,421.5	56,235.8	52,551.7
Less accumulated depreciation	<u>(26,887.7)</u>	<u>(23,315.0)</u>	<u>(20,072.2)</u>
Capital assets, net	<u>\$37,533.8</u>	<u>\$32,920.8</u>	<u>\$32,479.5</u>

DEBT ADMINISTRATION

Long-Term Debt

At year-end, Jefferson County Health Center had \$ 30,467,568 in long-term debt related to financing for a replacement facility and a capital lease. This has decreased from \$ 1,892,342 in fiscal year 2016. More detailed information about Jefferson County Health Center's outstanding debt is presented in the Notes to the Financial Statements. Note that total long term debt represents 134% of Jefferson County Health Center's equity as of year-end.

Deferred Outflows and Inflows of Resources

As of June 30, 2017, the Health Center reported \$ 5,440,289 of deferred outflows of resources and \$ 1,161,555 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 BUDGET

Net patient services revenues were 1% over budget for the fiscal year ended June 30, 2017. This was due to increased outpatient activity.

Other operating revenue was approximately \$ 163,000 over budget due mainly to more than expected 340B pharmacy program revenue.

Operating expenses were approximately \$ 773,000 or 2% under budget for the year.

The following table compares fiscal year 2017 actual to budget information.

Table 5
Budget vs. Actual
(In Thousands)

	<u>FY 2017 Budget</u>	<u>FY 2017 Actual</u>
Gross patient service revenue	\$75,066.2	\$77,088.1
Contractual adjustments and charity care	<u>32,050.0</u>	<u>33,633.4</u>
Net patient service revenue	43,016.2	43,454.7
Other operating revenue	<u>762.5</u>	<u>925.6</u>
Total operating revenue	<u>43,778.7</u>	<u>44,380.3</u>
Operating expenses	<u>44,416.1</u>	<u>43,643.1</u>
Operating income	(637.4)	737.2
Income from investments	283.9	280.9
Other non-operating gains (losses)	<u>824.2</u>	<u>(160.1)</u>
Excess of revenue over expenses	<u>\$ 470.7</u>	<u>\$ 858.0</u>

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

Jefferson County Health Center's Board and management considered many factors when setting the fiscal year 2018 budget. Of primary importance in setting the 2018 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors especially Wellmark Blue Cross, which is a significant payor
- Cost of supplies including escalating drug costs
- Workforce shortages especially among nursing and impact on salary costs
- Regulatory changes including healthcare reform
- Facility expansion and growth in demand for services and the need to make significant capital improvements to aging plan and equipment
- Physician recruitment, especially family practice physicians
- Cost associated with maintaining information technology systems in the Hospital especially electronic medical record systems required by the Federal government.

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Jefferson County Health Center; 2000 S. Main; Fairfield, Iowa 52556. Phone number 641-472-4111.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
STATEMENTS OF NET POSITION**

	June 30	
	2017	2016
CURRENT ASSETS		
Cash	\$11,413,450	\$16,398,827
Assets whose use is limited, required for current liabilities	1,687,322	3,928,089
Patient receivables, less allowance for contractual adjustments and uncollectibles 2017 \$4,144,397; 2016 \$3,115,715	9,158,810	6,456,043
Other receivables	151,998	188,185
Estimated third-party payor settlements	—	850,000
Inventories	982,135	381,362
Prepaid expenses	484,575	407,655
Succeeding year property tax receivable	<u>1,023,000</u>	<u>811,000</u>
Total current assets	<u>24,901,290</u>	<u>29,421,161</u>
ASSETS WHOSE USE IS LIMITED		
Restricted by bond indenture agreement		
Cash and cash equivalents	<u>1,687,322</u>	<u>4,095,917</u>
Restricted by donors for specific purposes		
Cash and cash equivalents	<u>314,197</u>	<u>282,431</u>
Total assets whose use is limited	<u>2,001,519</u>	<u>4,378,348</u>
Less assets whose use is limited, required for current liabilities	<u>1,687,322</u>	<u>3,928,089</u>
Noncurrent assets whose use is limited	<u>314,197</u>	<u>450,259</u>
CAPITAL ASSETS	64,421,466	56,235,736
Less accumulated depreciation	<u>26,887,727</u>	<u>23,315,008</u>
Total capital assets	<u>37,533,739</u>	<u>32,920,728</u>
OTHER ASSETS		
Other receivables	821,322	422,310
Investment in joint ventures	<u>888,952</u>	<u>953,745</u>
Total other assets	<u>1,710,274</u>	<u>1,376,055</u>
Total assets	<u>64,459,500</u>	<u>64,168,203</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	<u>5,440,289</u>	<u>3,236,142</u>

See Notes to Financial Statements.

	June 30	
	2017	2016
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 2,680,129	\$ 7,855,000
Accounts payable		
Trade	935,895	1,186,405
Construction	181,578	214,951
Accrued employee compensation	1,375,889	1,163,264
Payroll taxes and withholdings	172,910	316,041
Accrued interest	304,201	595,521
Estimated third-party payor settlements	1,000,000	—
Total current liabilities	<u>6,650,602</u>	<u>11,331,182</u>
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	27,787,529	24,505,000
Net pension liability	11,609,505	8,238,850
Total long-term liabilities	<u>39,397,034</u>	<u>32,743,850</u>
Total liabilities	<u>46,047,636</u>	<u>44,075,032</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	1,023,000	811,000
Pension related deferred inflows	138,555	685,688
Total deferred inflows of resources	<u>1,161,555</u>	<u>1,496,688</u>
NET POSITION		
Net investment in capital assets	7,020,226	560,728
Restricted		
By bond indenture agreement	1,687,322	4,095,917
For specific purpose by donors	314,197	282,431
Unrestricted	<u>13,668,853</u>	<u>16,893,549</u>
Total net position	<u>\$22,690,598</u>	<u>\$21,832,625</u>

Jefferson County Hospital
d/b/a Jefferson County Health Center
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 \$885,514; 2016 \$843,248	\$43,454,732	\$40,059,555
OTHER REVENUE	<u>925,639</u>	<u>693,636</u>
Total revenue	<u>44,380,371</u>	<u>40,753,191</u>
EXPENSES		
Nursing service	7,216,288	7,470,288
Other professional service	21,521,925	18,771,731
General service	2,594,381	2,447,030
Fiscal and administrative service and unassigned expenses	8,737,864	7,677,529
Provision for depreciation	<u>3,572,719</u>	<u>3,242,813</u>
Total expenses	<u>43,643,177</u>	<u>39,609,391</u>
Operating income	<u>737,194</u>	<u>1,143,800</u>
NONOPERATING GAINS (LOSSES)		
County taxes	838,964	863,972
Investment income	45,660	60,810
Interest and amortization expense	(1,040,316)	(1,800,366)
Equity in income of joint venture investments	235,207	316,477
Gain on sale of property and equipment	<u>-</u>	<u>148</u>
Total nonoperating (losses)	<u>79,515</u>	<u>(558,959)</u>
Excess of revenues over expenses before contributions	<u>816,709</u>	<u>584,841</u>
CONTRIBUTIONS	<u>41,264</u>	<u>60,920</u>
Change in net position	857,973	645,761
TOTAL NET POSITION		
Beginning	<u>21,832,625</u>	<u>21,186,864</u>
Ending	<u>\$22,690,598</u>	<u>\$21,832,625</u>

See Notes to Financial Statements.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$42,601,965	\$38,429,772
Cash paid to suppliers for goods and services	(24,605,108)	(22,388,252)
Cash paid to employees for services	(15,492,684)	(13,856,233)
Other operating revenue received	351,036	528,379
Net cash provided by operating activities	<u>2,855,209</u>	<u>2,713,666</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	838,742	865,067
Net cash provided by noncapital financing activities	<u>838,742</u>	<u>865,067</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets and construction in progress	(7,245,103)	(3,469,122)
Principal payments on long-term debt	(33,300,487)	(770,000)
Proceeds from sale of capital assets	—	148
Proceeds on issuance of long-term debt	30,434,145	—
Interest paid on long-term debt	(1,331,636)	(1,811,787)
Contributions restricted for purchase of capital assets	41,264	60,920
Net cash (used in) capital and related financing activities	<u>(11,401,817)</u>	<u>(5,989,841)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in joint ventures	—	(161,490)
Distributions from investments in joint ventures	300,000	524,178
Investment income received	45,660	60,810
Net cash provided by investing activities	<u>345,660</u>	<u>423,498</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(7,362,206)</u>	<u>(1,987,610)</u>
CASH AND CASH EQUIVALENTS		
Beginning	<u>20,777,175</u>	<u>22,764,785</u>
Ending	<u>\$13,414,969</u>	<u>\$20,777,175</u>

See Notes to Financial Statements.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2017	2016
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 737,194	\$ 1,143,800
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	3,572,719	3,242,813
Change in assets, liabilities, deferred outflows and deferred inflows		
Patient receivables	(2,702,767)	120,217
Other receivables, net of noncapital financing activities	(574,603)	(165,257)
Inventories	(600,773)	9,212
Prepaid expenses	(76,920)	(8,665)
Deferred outflows of resources	(2,204,147)	(1,340,411)
Accounts payable, net of capital assets payable	(250,510)	(123,328)
Accrued employee compensation	212,625	202,725
Payroll taxes and withholdings	(143,131)	64,070
Net estimated third-party payor settlements	1,850,000	(1,750,000)
Net pension liability	3,370,655	2,732,692
Deferred inflows of resources	(335,133)	(1,414,202)
Net cash provided by operating activities	<u>\$ 2,855,209</u>	<u>\$ 2,713,666</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE STATEMENT OF NET POSITION		
Per statement of net position		
Current assets	\$11,413,450	\$16,398,827
Assets whose use is limited		
Restricted by bond indenture agreement	1,687,322	4,095,917
Restricted by donors for specific purpose	<u>314,197</u>	<u>282,431</u>
Total per statement of cash flows	<u>\$13,414,969</u>	<u>\$20,777,175</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of equipment through capital lease	<u>\$ 974,000</u>	<u>\$ —</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO 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 Jefferson County, which is governed by a seven member Board of Trustees.

Reporting Entity

For financial reporting purposes, Jefferson County Hospital d/b/a Jefferson County Health Center has included all funds, organizations, 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. Jefferson County Hospital has no material component units which meet the Governmental Accounting Standards Board criteria.

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 Hospital has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and mutual funds to be cash equivalents.

Electronic Health Record Incentive Payments

The Hospital has received payments from the Medicare and Medicaid programs under the Electronic Health Records (EHR) Incentive Program. To qualify for EHR incentive payments, the Hospital must meet designated EHR meaningful use criteria. These incentive payments are reported in other revenue in the financial statements.

Intangibles

Intangibles acquired in connection with a medical clinic, are being amortized over a ten year period using the straight-line method.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income

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

<u>Type</u>	<u>Method</u>
Open-end mutual funds Mutual Funds	Fair value determined by current share price

Investments in certain partnerships are accounted for using the equity method under which the net income of the partnerships is recognized as investment income and added to the investment account.

Investment income includes interest income and the net increase (decrease) in the fair value of investments. Investment income is reported as nonoperating gains.

Inventories

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

Capital Assets

Capital asset acquisitions are recorded at cost. Capital assets donated for Hospital operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using these asset lives:

Land improvements	5 to 25 years
Buildings	5 to 40 years
Equipment	3 to 20 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.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Net Position

Net position is presented in the following components:

Net investment in capital assets

Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the revenue bonds payable and capital lease 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 or contributors, or laws or regulations of other governments.

Unrestricted

Unrestricted net position has no externally imposed restrictions on use.

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

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.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2017, disbursements did not exceed the amount budgeted.

Statements of 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 operating revenues and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses. Operating expenses are all expenses incurred to provide health care services.

Credit Policy

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

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, disclosure of contingent 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 reclassifications have been made to the 2016 financial statements in order to conform to the 2017 presentation with no effect on the change in net position.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2017 and 2016 were covered by federal depository insurance, or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. The investments listed below are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

The Hospital's investments at June 30, 2017 are as follows:

	<u>Maturities</u>	<u>Fair value</u>
Mutual funds	Daily	\$ <u>314,197</u>

The Hospital uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The fair value measurements for the Mutual Funds were determined using the quoted prices in active markets. (Level 1 inputs)

The Hospital had no other investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

NOTE 3 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2017</u>	<u>2016</u>
Receivable from patients	\$ 3,108,091	\$ 2,184,970
Receivable from insurance carriers	3,483,515	2,833,970
Receivable from Medicare	4,979,135	2,965,901
Receivable from Medicaid	<u>1,732,466</u>	<u>1,586,917</u>
Total patient receivables	13,303,207	9,571,758
Less allowances for contractual and other adjustments	<u>(4,144,397)</u>	<u>(3,115,715)</u>
Totals	<u>\$ 9,158,810</u>	<u>\$ 6,456,043</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 ASSETS RESTRICTED BY BOND INDENTURE AGREEMENT

Assets restricted by the bond indenture agreement include funds that are required to be funded under the terms of the agreement. The previous agreement required, among other things, the maintenance of the "Bond Sinking Fund", the "Debt Service Reserve Fund" and the "Interest Fund" (a "Taxable Early Interest Account" and a "Tax-Exempt Early Interest Account"). The current agreement requires the maintenance of a "Bond Sinking Fund". There are provisions outlined in the agreement regarding deposit requirements in the various funds. Following are the changes in these funds for the year ended June 30, 2017:

	<u>Bond Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Interest Fund</u>	<u>Total</u>
BALANCE , beginning	\$ 743,272	\$2,604,195	\$ 748,450	\$ 4,095,917
Deposits	3,014,086	—	28,452,339	31,466,425
Investment income	11,568	1,008	288	12,864
Fees	(885)	—	—	(885)
Principal payments	(880,000)	—	(32,360,000)	(33,240,000)
Interest payments	(389,662)	—	(257,337)	(646,999)
Transfers	(811,057)	(2,605,203)	3,416,260	—
BALANCE , ending	<u>\$1,687,322</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,687,322</u>

NOTE 5 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 as 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 cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. Beginning April 1, 2016, the Iowa Medicaid Program 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 will no longer be subject to a final settlement based on actual costs incurred. The Hospital will annually negotiate Medicaid payment rates with the managed care organizations. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2016.

Other

The Hospital has also entered into payment agreements with Wellmark and other certain commercial insurance carriers and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge and discounts from established charges.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2017 and 2016 follows:

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2017</u>
Land	\$ 1,168,335	\$ —	\$ —	\$ —	\$ 1,168,335
Land improvements	2,292,206	—	—	5,552	2,297,758
Buildings	36,522,099	—	—	—	36,522,099
Equipment	13,578,161	1,342,051	—	2,625,393	17,545,605
Intangibles	985,998	—	—	—	985,998
Construction and equipment installations in progress	<u>1,688,937</u>	<u>6,843,679</u>	<u>—</u>	<u>(2,630,945)</u>	<u>5,901,671</u>
Totals	56,235,736	8,185,730	—	—	64,421,466
Less accumulated depreciation and amortization	<u>(23,315,008)</u>	<u>(3,572,719)</u>	<u>—</u>	<u>—</u>	<u>(26,887,727)</u>
Net capital assets	<u>\$32,920,728</u>	<u>\$4,613,011</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$37,533,739</u>

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2016</u>
Land	\$ 1,168,335	\$ —	\$ —	\$ —	\$ 1,168,335
Land improvements	2,292,206	—	—	—	2,292,206
Buildings	36,084,563	5,183	—	432,353	36,522,099
Equipment	12,281,937	934,966	—	361,258	13,578,161
Intangibles	589,348	396,650	—	—	985,998
Construction and equipment installations in progress	<u>135,274</u>	<u>2,479,892</u>	<u>(132,618)</u>	<u>(793,611)</u>	<u>1,688,937</u>
Totals	52,551,663	3,816,691	(132,618)	—	56,235,736
Less accumulated depreciation and amortization	<u>(20,072,195)</u>	<u>(3,242,813)</u>	<u>—</u>	<u>—</u>	<u>(23,315,008)</u>
Net capital assets	<u>\$32,479,468</u>	<u>\$ 573,878</u>	<u>\$ (132,618)</u>	<u>\$ —</u>	<u>\$32,920,728</u>

Construction and equipment installation in progress at June 30, 2017 consisted of costs incurred for an addition to the Hospital for an imaging department and consolidating clinic departments. The total approximate project cost as of June 30, 2017 is \$6,000,000, with approximately \$345,000 yet to be completed as of June 30, 2017. The project is anticipated to be funded with current reserves and revenue bonds.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG TERM DEBT

The Board of Trustees of the Jefferson County Hospital adopted a resolution authorizing the issuance of revenue bonds to provide financing for the constructing and equipping a replacement hospital for the Jefferson County Hospital and constructing and equipping and improving medical office space located on the Hospital's campus. The bonds issued are as follows:

- Jefferson County Hospital Revenue Refunding Bonds, Series 2016A dated August 1, 2016. The bonds mature serially through August 2020. Interest is payable February 1 and August 1 each year at an annual rate of 3%. The bonds will be callable at the option of the Hospital on and after February 1, 2018 at par plus accrued interest. The balance at June 30, 2017 is \$6,090,000.
- Jefferson County Hospital Revenue Refunding Bonds, Series 2016B dated August 1, 2016. The bonds mature serially through August 2028. Interest is payable February 1 and August 1 each year at the annual rate of 3%. The bonds will be callable at the option of the Hospital on or after February 1, 2018 at par plus accrued interest. The balance at June 30, 2017 is \$18,415,000.
- Jefferson County Hospital Revenue Bonds, Series 2017 dated January 3, 2017. The bonds mature serially through August 2023, with the initial payment due August 2017. Interest is payable on February 1 and August 1 each year at annual rates ranging from 1.45% to 2.50%. Bonds maturing on or after August 1, 2020 are subject to redemption. The balance at June 30, 2017 is \$5,095,000.

The agreements also require the maintenance of certain funds during the term of the agreements (See Note 4).

The Hospital entered into a capital lease agreement related to an MRI unit. The lease is payable in monthly installments of \$17,500 including interest at approximately 3%. The lease is payable through February 2022. The balance on the agreement is \$913,513 at June 30, 2017. The agreement is collateralized by leased equipment.

As to the above Hospital Revenue Bonds as of June 30, 2016, the Hospital has pledged all future revenue to pay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital and to provide financing for the constructing and equipping of a replacement hospital. The revenues are pledged through August 2028. The remaining principal and interest on the obligations as of June 30, 2017 is \$34,707,712 based on the payment schedule as of June 30, 2017. The following is a comparison of the pledged revenues and the principal and interest requirements of the Bonds for the years ended June 30, 2017 and 2016:

	Year ended June 30	
	2017	2016
Change in net position	\$ 857,973	\$ 645,761
Provision for depreciation	3,572,719	3,242,813
Interest expense	1,040,316	1,800,366
Loss on sale of property	—	(148)
Pledged revenues	<u>\$5,471,008</u>	<u>\$5,688,792</u>
Principal and interest requirements - *	<u>\$3,542,474</u>	<u>\$2,570,366</u>

* - Based on bonds outstanding as of June 30, 2017.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG TERM DEBT (continued)

Principal and interest maturities of long-term debt at June 30, 2017 are summarized as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,680,129	\$ 862,345	\$ 3,542,474
2019	2,750,760	782,338	3,533,098
2020	2,831,562	707,128	3,538,690
2021	2,912,540	627,694	3,540,234
2022	2,928,522	544,429	3,472,951
2023-2027	12,720,000	1,538,965	14,258,965
2028-2029	<u>3,690,000</u>	<u>111,300</u>	<u>3,801,300</u>
Total	30,513,513	5,174,199	35,687,712
Less current maturities	2,680,129	<u>862,345</u>	<u>3,542,474</u>
Less discount	<u>45,855</u>		
Total long-term debt	<u>\$27,787,529</u>	<u>\$4,311,854</u>	<u>\$32,145,238</u>

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>	<u>Amounts due within one year *</u>
Hospital Revenue Refunding Bonds (Series 2007B)	\$ 7,780,000	\$ —	\$ 7,780,000	\$ —	\$ —
Hospital Revenue Bonds (Series 2007C)	24,580,000	—	24,580,000	—	—
Hospital Revenue Bonds (Series 2016A)	—	6,970,000	880,000	6,090,000	1,815,000
Hospital Revenue Bonds (Series 2016B)	—	18,415,000	—	18,415,000	—
Hospital Revenue Bonds (Series 2017)	—	5,095,000	—	5,095,000	680,000
Capital lease payable	—	<u>974,000</u>	<u>60,487</u>	<u>913,513</u>	<u>185,129</u>
Totals	<u>\$32,360,000</u>	<u>\$31,454,000</u>	<u>\$33,300,487</u>	<u>\$30,513,513</u>	<u>\$2,680,129</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>	<u>Amounts due within one year *</u>
Hospital Revenue Refunding Bonds (Series 2007B)	\$ 8,550,000	\$ —	\$ 770,000	\$ 7,780,000	\$ 810,000
Hospital Revenue Bonds (Series 2007C)	<u>24,580,000</u>	<u>—</u>	<u>—</u>	<u>24,580,000</u>	<u>—</u>
Totals	<u>\$33,130,000</u>	<u>\$ —</u>	<u>\$ 770,000</u>	<u>\$32,360,000</u>	<u>\$ 810,000</u>

* - Based on bonds outstanding as of June 30, 2016.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 CONTINGENCIES

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 additional 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 9 PENSION PLAN

Plan Description

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

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

Pension Benefits

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

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

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

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

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 PENSION PLAN (continued)

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 pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2017 and 2016 were \$1,385,836 and \$1,186,677, respectively.

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

At June 30, 2017 and 2016, the Hospital reported a liability of \$11,609,505 and \$8,238,850, 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:

	Measurement Date		Change
	2016	2015	
Hospital's proportionate share	0.184474%	0.166762%	0.017712%

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 PENSION PLAN (continued)

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

For the years ended June 30, 2017 and 2016, the Hospital recognized pension expense of \$1,807,758 and \$1,164,756, respectively. At June 30, 2017 and 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2017 Totals</u>		<u>2016 Totals</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 102,605	\$ 138,555	\$ 124,479	\$ —
Change in assumptions	177,125	—	226,836	—
Net difference between projected and actual earnings on pension plan investments	1,653,988	—	—	685,688
Change in proportion and difference between Hospital contributions and proportionate share of contributions	2,120,735	—	1,698,150	—
Hospital contributions subsequent to the measurement date	<u>1,385,836</u>	<u>—</u>	<u>1,186,677</u>	<u>—</u>
Totals	<u>\$5,440,289</u>	<u>\$ 138,555</u>	<u>\$3,236,142</u>	<u>\$ 685,688</u>

\$1,385,836 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 ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending June 30,</u>	<u>Total</u>
2018	\$ 847,508
2019	847,508
2020	1,406,999
2021	761,207
2022	<u>52,676</u>
Totals	<u>\$3,915,898</u>

There were no non-employer contributing entities at IPERS.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 PENSION PLAN (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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 Mortality Tables for Males or Females 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 Real Rate of Return</u>
Core Plus Fixed Income	28%	1.90%
Domestic Equity	24	5.85
International Equity	16	6.32
Private Equity/Debt	11	10.31
Real Estate	8	3.87
Credit Opportunities	5	4.48
US TIPS	5	1.36
Other Real Assets	2	6.42
Cash	<u>1</u>	(0.26)
Total	<u>100%</u>	

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 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%)
Health Center's proportionate share of the net pension liability	<u>\$18,782,607</u>	<u>\$11,609,505</u>	<u>\$5,555,312</u>

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2017 and 2016, the Hospital reported payables to the defined benefit pension plan of \$50,163 and \$136,137, respectively, for legally required employer contributions and \$-0- and \$70,052, respectively, for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

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>\$ 196,694</u>	<u>\$ 247,865</u>
Equivalent percentage of charity care patients to all patients served	<u>0.3%</u>	<u>0.4%</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 EMPLOYEE BENEFITS

The Hospital has developed a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$65,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$2,400,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2017 and 2016 was \$1,859,792 and \$1,988,381, respectively.

NOTE 12 HOSPITAL 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 for the past three years.

NOTE 13 ROBERT A. RYAN, M.D. ENDOWED SCHOLARSHIP FUND

This fund was established through a donation received from Robert A. Ryan, M.D. The investment is to be maintained in perpetuity and the income only to be used for a nursing scholarship for a member of the senior class graduating from Fairfield High School, Fairfield, Iowa or from another high school in the area. At June 30, 2017 and 2016, the balance of the fund was being maintained in mutual funds with a total balance of \$65,497 and \$57,163, respectively.

NOTE 14 CLINKINBEARD EDUCATION FUND

This fund was established through a donation, with the investment maintained in a mutual fund. The fund is to be used for employees furthering their education. As of June 30, 2017 and 2016, the balance of the fund was \$248,700 and \$225,268, respectively.

NOTE 15 INVESTMENT IN JOINT VENTURES

The Hospital has varying interests in several joint ventures engaged in providing various health care services. The investments are accounted for using the equity method. The Hospital has recorded its share of the joint ventures' income of \$180,996 in 2017 and \$316,477 in 2016.

NOTE 16 ELECTRONIC HEALTH RECORD INCENTIVE PAYMENTS

The Hospital has met the EHR meaningful use criteria and has received payments from the Medicare and Medicaid programs. Payments received and included in other revenue total \$92,830 and \$29,811 for the years ended June 30, 2017 and 2016, respectively.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 17 OTHER POST EMPLOYMENT BENEFITS (OPEB)

The Hospital operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are 163 active and 2 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefit plans are self-insured and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB, liability. The contribution requirements of plan members are established and may be amended by the Hospital. The Hospital currently finances the retiree benefit plan on a pay-as-you-go basis.

The Hospital's annual OPEB cost is calculated based on the annual required contribution, ARC, of the Hospital, an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the Hospital's annual OPEB cost for June 30, 2017, the amount actually contributed to the plan and changes in the Hospital's net OPEB obligation:

Annual required contribution, ARC	\$ 12,456
Interest on net OPEB obligation	665
Adjustment to annual required contribution	<u>(908)</u>
Annual OPEB cost	12,213
Contributions made	<u>(3,452)</u>
Increase in net OPEB obligation	8,761
Net OPEB obligation, beginning of year	<u>32,033</u>
Net OPEB obligation, end of year	<u>\$ 40,794</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2010. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2017.

For the year ended June 30, 2017, the Hospital contributed \$3,452 to the plan. The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2017, 2016 and 2015 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2015	\$ 12,213	<u>28%</u>	\$ 23,548
June 30, 2016	\$ 12,213	<u>28%</u>	\$ 32,033
June 30, 2017	\$ 12,213	<u>28%</u>	\$ 40,794

As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2015 through June 30, 2017, the actuarial accrued liability was \$91,928 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$91,928. As of June 30, 2017, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NOTES TO FINANCIAL STATEMENTS**

NOTE 17 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2014 actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the Hospital's funding policy. The projected annual medical trend rate is 7.5%. The ultimate medical trend rate is 4.0%. The medical trend rate is reduced 0.5% each year until reaching the 4.0% ultimate trend rate.

Mortality rates are from the SOA RPH2014 Total Dataset Mortality Fully Generational Scale MP-2014.

Projected claim costs of the medical plan are approximately \$1,067 per month for retirees. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 18 TAX ABATEMENTS

The City of Fairfield, Iowa has entered into certain tax abatement agreements to encourage urban renewal projects in designated areas. As a result, property tax revenues available to the Health Center were reduced by \$3,425 for the year ended June 30, 2017 under the agreements entered into by the City.

NOTE 19 OTHER RECEIVABLES

The Hospital has recorded as other receivables amounts loaned to physicians. The loans are collateralized by insurance loan agreements on insurance policies owned by the physicians where the Hospital has been assigned an interest by an instrument of assignment filed with an insurance company. The loans will be repaid by proceeds of the life insurance policies in a future period which cannot be determined as of June 30, 2017.

NOTE 20 INVENTORIES

In conjunction with a computer conversion in 2017, the Hospital changed its policy regarding the recording of Operating Room inventory. In previous years, Operating Room inventory was expensed. During 2017, the Hospital established an Operating Room inventory. The effect of this change in policy was to increase inventories by approximately \$552,000. Prior year inventory balances could not be determined.

REQUIRED SUPPLEMENTARY INFORMATION

Jefferson County Hospital
d/b/a Jefferson County Health Center
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION, BUDGET AND ACTUAL
Year ended June 30, 2017

The following is a comparison of actual expenditures to budget:

	Reported amounts (GAAP basis)					
	*General funds	Donor- restricted funds	Total (memorandum only)	Budget basis adjustments	Budget basis	Budget
Amount to be raised by taxation	\$ 838,964	\$ —	\$ 838,964	\$ —	\$ 838,964	\$ 811,091
Other revenue/receipts	<u>43,630,420</u>	<u>31,766</u>	<u>43,662,186</u>	<u>1,040,316</u>	<u>44,702,502</u>	<u>45,280,442</u>
	44,469,384	31,766	44,501,150	1,040,316	45,541,466	46,091,533
Expenses/expenditures	<u>43,643,177</u>	<u>—</u>	<u>43,643,177</u>	<u>493,183</u>	<u>44,136,360</u>	<u>45,639,165</u>
Net	826,207	31,766	857,973	547,133	1,405,106	452,368
Balance, beginning	<u>21,550,194</u>	<u>282,431</u>	<u>21,832,625</u>	<u>(1,643,359)</u>	<u>20,189,266</u>	<u>23,491,889</u>
Balance, ending	<u>\$22,376,401</u>	<u>\$ 314,197</u>	<u>\$22,690,598</u>	<u>\$(1,096,226)</u>	<u>\$21,594,372</u>	<u>\$23,944,257</u>

*Includes unrestricted net position, net position invested in capital assets, net of related debt and restricted by bond indenture agreement net position.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for all funds following required public notice and hearings. The annual 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 difference between budget and GAAP bases is that IPERS pension contributions are recorded on the budget basis, while IPERS pension expense is recorded on the GAAP basis.

For the year ended June 30, 2017, the Hospital's expenditures did not exceed the budgeted amount.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
(In Thousands)**

Required Supplementary Information

Fiscal year ended	Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b - a)/c)
2013	July 1, 2011	\$ <u>—</u>	\$ <u>25</u>	\$ <u>25</u>	<u>0.0%</u>	\$ <u>8,625</u>	<u>.3%</u>
2014	July 1, 2011	\$ <u>—</u>	\$ <u>25</u>	\$ <u>25</u>	<u>0.0%</u>	\$ <u>9,554</u>	<u>.3%</u>
2015	July 1, 2014	\$ <u>—</u>	\$ <u>92</u>	\$ <u>92</u>	<u>0.0%</u>	\$ <u>12,176</u>	<u>.8%</u>
2016	July 1, 2014	\$ <u>—</u>	\$ <u>92</u>	\$ <u>92</u>	<u>0.0%</u>	\$ <u>14,037</u>	<u>.7%</u>
2017	July 1, 2014	\$ <u>—</u>	\$ <u>92</u>	\$ <u>92</u>	<u>0.0%</u>	\$ <u>16,339</u>	<u>.6%</u>

See Note 17 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

Jefferson County Hospital
d/b/a Jefferson County Health Center
SCHEDULE OF THE HOSPITAL'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	Year ended June 30		
	2017	2016	2015
Hospital's proportion of the net pension liability	0.184474%	0.166762%	0.138837%
Hospital's proportionate share of the net pension liability	\$11,610	\$8,239	\$5,506
Hospital's total payroll	\$16,339	\$14,037	\$12,176
Hospital's proportionate share of the net pension liability as a percentage of its total payroll	71.1%	58.7%	45.2%
Plan fiduciary net position as a percentage of the total pension liability	81.0%	85.0%	88.0%

See accompanying notes to required supplementary information - pension liability.

Jefferson County Hospital
d/b/a Jefferson County Health Center
SCHEDULE OF HOSPITAL PENSION CONTRIBUTIONS
Iowa Public Employees' Retirement System
(In Thousands)
Required Supplementary Information

	Year ended June 30			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily required contribution	\$ 1,386	\$ 1,187	\$ 1,063	\$ 841
Contributions in relation to the statutorily required contribution	<u>1,386</u>	<u>1,187</u>	<u>1,063</u>	<u>841</u>
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Hospital's total payroll	\$16,339	\$14,037	\$12,176	\$9,554
Contributions as a percentage of covered-employee payroll	8.5%	8.5%	8.7%	8.8%

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>
\$ 728	\$ 647	\$ 515	\$ 468	\$ 520	\$ 466
<u>728</u>	<u>647</u>	<u>515</u>	<u>468</u>	<u>520</u>	<u>466</u>
\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
\$8,625	\$8,068	\$7,414	\$7,316	\$8,293	\$7,747
8.4%	8.0%	6.9%	6.4%	6.3%	6.0%

**Jefferson County Hospital
d/b/a Jefferson County Health Center
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.



DENMAN & COMPANY, LLP

INDEPENDENT AUDITOR'S REPORT ON THE OTHER SUPPLEMENTARY INFORMATION

The Board of Trustees
Jefferson County Hospital
d/b/a Jefferson County Health Center
Fairfield, Iowa

We have audited the financial statements of Jefferson County Hospital d/b/a Jefferson County Health Center as of and for the years ended June 30, 2017 and 2016, and our report thereon dated November 3, 2017, which appears on pages 4 and 5, contains an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The following supplementary information, which is the responsibility of management, is presented for the 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. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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. We previously audited the years ended June 30, 2014 through 2015, and expressed unmodified opinions on those financial statements.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 3, 2017

OTHER SUPPLEMENTARY INFORMATION

**Jefferson County Hospital
d/b/a Jefferson County Health Center
ANALYSIS OF PATIENT RECEIVABLES**

Age of accounts (by date of discharge)	Amounts June 30		Percent to total June 30	
	2017	2016	2017	2016
0 – 30 days (includes patients in Hospital at end of year)	\$ 5,757,094	\$4,452,706	49.61%	56.25%
31 – 60 days	1,839,207	1,159,462	15.85	14.65
61 – 90 days	834,423	448,428	7.19	5.66
Over 90 days	<u>3,173,593</u>	<u>1,855,321</u>	<u>27.35</u>	<u>23.44</u>
	<u>11,604,317</u>	<u>7,915,917</u>	<u>100.00%</u>	<u>100.00%</u>
Physician Clinics	<u>1,698,890</u>	<u>1,655,841</u>		
Total receivables	<u>13,303,207</u>	<u>9,571,758</u>		
Allowances				
Contractual				
Medicare	1,946,900	1,226,000		
Medicaid and Commercial insurance	1,601,800	1,174,000		
Uncollectibles	570,000	330,000		
Physician Clinic	<u>25,697</u>	<u>385,715</u>		
Total allowances	<u>4,144,397</u>	<u>3,115,715</u>		
Totals	<u>\$ 9,158,810</u>	<u>\$6,456,043</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	Amounts Year ended June 30		Percent of net patient service revenue Year ended June 30	
	2017	2016	2017	2016
BALANCE, beginning	\$ 330,000	\$ 330,000		
ADD				
Provision for bad debts	885,514	843,248	2.04%	2.10%
DEDUCT				
Accounts written off	<u>(645,514)</u>	<u>(843,248)</u>	1.49%	2.10%
BALANCE, ending	<u>\$ 570,000</u>	<u>\$ 330,000</u>		

**Jefferson County Hospital
d/b/a Jefferson County Health Center
INVENTORIES**

	<u>June 30</u>		<u>Increase (decrease)</u>
	<u>2017</u>	<u>2016</u>	
Storeroom	\$ 631,656	\$ 85,036	\$ 546,620
Pharmacy	335,392	281,324	54,068
Dietary	<u>15,087</u>	<u>15,002</u>	<u>85</u>
Totals	<u>\$ 982,135</u>	<u>\$ 381,362</u>	<u>\$ 600,773</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
INSURANCE COVERAGE
June 30, 2017**

<u>Insurer</u>	<u>Coverage Type</u>	<u>Effective Dates</u>	<u>Coverage Amount</u>
Chubb	Directors and Officers	July 2016 to July 2017	\$2,000,000
Travelers	Employee Honesty Bond	May 2017 to May 2018	\$500,000/Discovery
Midwest Medical Insurance	Physician Liability	August 2016 to August 2017	
	Each claim		\$3,000,000
	Total facility		\$5,000,000
	Each claim – Surgeon	January 2017 to January 2018	\$2,000,000
	Aggregate – Surgeon		\$4,000,000
Pro Assurance	Physician Liability (Surgeon)	August 2016 to August 2017	
	Each claim		\$2,000,000
	Aggregate		\$4,000,000
Midwest Medical Insurance	Hospital General Liability/ Medical Professional Liability	May 2017 to May 2018	
	Each claim		\$1,000,000
	Aggregate		\$3,000,000
Midwest Medical Insurance	Umbrella Excess Liability	May 2017 to May 2018	
	Each claim		\$7,000,000
	Aggregate		\$7,000,000
Travelers	Business Auto	May 2017 to May 2018	\$1,000,000
Travelers	Building and Contents Business Interruption	May 2017 to May 2018	\$60,487,493 \$45,250,000
Travelers	Builder's Risk	April 2017 to October 2017	\$5,268,000
Midwest Medical Insurance	Hospital Cyber Liability	May 2017 to May 2018	
	Each claim		\$100,000

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
PATIENT SERVICE REVENUE**

	Total		
	Year ended June 30		Increase
	2017	2016	(decrease)
DAILY PATIENT SERVICES			
Medical and surgical	\$ 3,531,773	\$ 3,621,327	\$ (89,554)
Critical care unit	75,503	51,395	24,108
Swing bed	<u>1,557,930</u>	<u>1,383,573</u>	<u>174,357</u>
	<u>5,165,206</u>	<u>5,056,295</u>	<u>108,911</u>
OTHER NURSING SERVICES			
Operating and recovery rooms	12,029,119	11,211,936	817,183
Central supply	193,450	203,817	(10,367)
Emergency services	<u>7,452,611</u>	<u>7,350,007</u>	<u>102,604</u>
	<u>19,675,180</u>	<u>18,765,760</u>	<u>909,420</u>
OTHER PROFESSIONAL SERVICES			
Laboratory and blood bank	9,801,609	9,697,750	103,859
Electrocardiology	559,894	511,065	48,829
Radiology	3,509,163	3,651,446	(142,283)
CT scans	4,105,128	4,102,484	2,644
Magnetic resonance imaging	1,728,793	1,945,733	(216,940)
Pharmacy	13,617,392	10,759,437	2,857,955
Anesthesiology	1,650,584	1,680,020	(29,436)
Respiratory therapy	1,090,224	1,391,918	(301,694)
Physical therapy	1,690,488	1,650,191	40,297
Speech therapy	157,076	163,442	(6,366)
Occupational therapy	488,390	386,763	101,627
Oncology	1,404,379	1,178,998	225,381
Medical arts	8,452,315	6,214,271	2,238,044
Physician clinic	2,135,334	2,762,836	(627,502)
Fairfield clinic	—	575,270	(575,270)
Sleep lab	813,877	881,002	(67,125)
Urology	18,160	120,927	(102,767)
Ophthalmology	954,514	—	954,514
Pediatrics	1,785	—	1,785
Rheumatology	<u>68,654</u>	<u>75,806</u>	<u>(7,152)</u>
	<u>52,247,759</u>	<u>47,749,359</u>	<u>4,498,400</u>
	77,088,145	71,571,414	5,516,731
Charity care charges foregone, based on established rates	<u>(196,694)</u>	<u>(247,865)</u>	<u>51,171</u>
Total gross patient service revenue	76,891,451	71,323,549	5,567,902
Provisions for contractual and other adjustments	<u>(33,436,719)</u>	<u>(31,263,994)</u>	<u>(2,172,725)</u>
Net patient service revenue	<u>\$43,454,732</u>	<u>\$40,059,555</u>	<u>\$3,395,177</u>

Inpatient			Outpatient		
Year ended June 30		Increase (decrease)	Year ended June 30		Increase (decrease)
2017	2016		2017	2016	
\$ 3,531,773	\$ 3,621,327	\$ (89,554)	\$ —	\$ —	\$ —
75,503	51,395	24,108	—	—	—
<u>1,557,930</u>	<u>1,383,573</u>	<u>174,357</u>	<u>—</u>	<u>—</u>	<u>—</u>
<u>5,165,206</u>	<u>5,056,295</u>	<u>108,911</u>	<u>—</u>	<u>—</u>	<u>—</u>
2,484,629	1,909,326	575,303	9,544,490	9,302,610	241,880
151,752	194,055	(42,303)	41,698	9,762	31,936
<u>42,449</u>	<u>67,314</u>	<u>(24,865)</u>	<u>7,410,162</u>	<u>7,282,693</u>	<u>127,469</u>
<u>2,678,830</u>	<u>2,170,695</u>	<u>508,135</u>	<u>16,996,350</u>	<u>16,595,065</u>	<u>401,285</u>
471,890	536,947	(65,057)	9,329,719	9,160,803	168,916
17,755	12,836	4,919	542,139	498,229	43,910
114,591	136,575	(21,984)	3,394,572	3,514,871	(120,299)
144,694	118,299	26,395	3,960,434	3,984,185	(23,751)
40,396	23,121	17,275	1,688,397	1,922,612	(234,215)
1,077,146	1,070,378	6,768	12,540,246	9,689,059	2,851,187
193,772	197,110	(3,338)	1,456,812	1,482,910	(26,098)
676,698	864,593	(187,895)	413,526	527,325	(113,799)
393,317	396,744	(3,427)	1,297,171	1,253,447	43,724
35,404	30,315	5,089	121,672	133,127	(11,455)
317,608	237,864	79,744	170,782	148,899	21,883
329	—	329	1,404,050	1,178,998	225,052
—	—	—	8,452,315	6,214,271	2,238,044
—	—	—	2,135,334	2,762,836	(627,502)
—	—	—	—	575,270	(575,270)
—	—	—	813,877	881,002	(67,125)
—	—	—	18,160	120,927	(102,767)
—	—	—	954,514	—	954,514
—	—	—	1,785	—	1,785
—	—	—	68,654	75,806	(7,152)
<u>3,483,600</u>	<u>3,624,782</u>	<u>(141,182)</u>	<u>48,764,159</u>	<u>44,124,577</u>	<u>4,639,582</u>
<u>\$11,327,636</u>	<u>\$10,851,772</u>	<u>\$ 475,864</u>	<u>\$65,760,509</u>	<u>\$60,719,642</u>	<u>\$5,040,867</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

	Year ended June 30		Increase
	2017	2016	
Contractual adjustments			
Medicare	\$17,928,049	\$15,750,521	\$2,177,528
Medicaid	6,856,529	6,855,028	1,501
Wellmark	5,087,241	4,979,764	107,477
Provision for bad debts	885,514	843,248	42,266
Discounts and other adjustments	<u>2,679,386</u>	<u>2,835,433</u>	<u>(156,047)</u>
Totals	<u>\$33,436,719</u>	<u>\$31,263,994</u>	<u>\$2,172,725</u>

OTHER REVENUE

	Year ended June 30		Increase (decrease)
	2017	2016	
Electronic health records meaningful use incentive revenue	\$ 92,830	\$ 29,811	\$ 63,019
340(b) program revenue	356,663	179,672	176,991
Employee and guest meals	161,620	142,958	18,662
Lifeline	62,658	69,395	(6,737)
Specialty clinics rent	52,075	49,849	2,226
Rental income, net	66,890	29,633	37,257
Miscellaneous, net	<u>132,903</u>	<u>192,318</u>	<u>(59,415)</u>
Totals	<u>\$ 925,639</u>	<u>\$ 693,636</u>	<u>\$ 232,003</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
NURSING SERVICE EXPENSES**

	Year ended June 30		Increase
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
ADMINISTRATIVE			
Salaries	\$ 139,110	\$ 193,070	\$ (53,960)
Supplies and expense	<u>19,572</u>	<u>29,757</u>	<u>(10,185)</u>
	<u>158,682</u>	<u>222,827</u>	<u>(64,145)</u>
MEDICAL AND SURGICAL			
Salaries	1,864,487	1,753,039	111,448
Supplies and expense	<u>297,357</u>	<u>233,180</u>	<u>64,177</u>
	<u>2,161,844</u>	<u>1,986,219</u>	<u>175,625</u>
CRITICAL CARE UNIT			
Salaries	<u>11,227</u>	<u>13,961</u>	<u>(2,734)</u>
OPERATING AND RECOVERY ROOMS			
Salaries	868,539	884,482	(15,943)
Professional fees	131,353	35,475	95,878
Supplies and expense	<u>874,513</u>	<u>1,511,927</u>	<u>(637,414)</u>
	<u>1,874,405</u>	<u>2,431,884</u>	<u>(557,479)</u>
CENTRAL SUPPLY			
Salaries	80,093	59,798	20,295
Supplies and expense	<u>87,010</u>	<u>87,095</u>	<u>(85)</u>
	<u>167,103</u>	<u>146,893</u>	<u>20,210</u>
EMERGENCY SERVICES			
Salaries	919,518	843,630	75,888
Professional fees	1,762,948	1,655,328	107,620
Supplies and expense	<u>160,561</u>	<u>169,546</u>	<u>(8,985)</u>
	<u>2,843,027</u>	<u>2,668,504</u>	<u>174,523</u>
Totals	<u>\$7,216,288</u>	<u>\$7,470,288</u>	<u>\$ (254,000)</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
OTHER PROFESSIONAL SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
LABORATORY AND BLOOD BANK			
Salaries	\$ 621,676	\$ 586,421	\$ 35,255
Professional fees	275,789	272,118	3,671
Supplies and expense	<u>894,450</u>	<u>805,239</u>	<u>89,211</u>
	<u>1,791,915</u>	<u>1,663,778</u>	<u>128,137</u>
ELECTROCARDIOLOGY			
Salaries	65,745	36,830	28,915
Supplies and expense	<u>36,793</u>	<u>32,130</u>	<u>4,663</u>
	<u>102,538</u>	<u>68,960</u>	<u>33,578</u>
RADIOLOGY			
Salaries	650,913	627,342	23,571
Professional fees	262,873	257,589	5,284
Supplies and expense	<u>481,104</u>	<u>465,202</u>	<u>15,902</u>
	<u>1,394,890</u>	<u>1,350,133</u>	<u>44,757</u>
CT SCANS			
Professional fees	—	2,905	(2,905)
Supplies and expense	<u>302,881</u>	<u>264,693</u>	<u>38,188</u>
	<u>302,881</u>	<u>267,598</u>	<u>35,283</u>
MAGNETIC RESONANCE IMAGING			
Professional fees	270,064	367,375	(97,311)
Supplies and expenses	<u>12,947</u>	<u>10,723</u>	<u>2,224</u>
	<u>283,011</u>	<u>378,098</u>	<u>(95,087)</u>
PHARMACY			
Salaries	436,122	410,993	25,129
Drugs	5,056,727	4,269,699	787,028
Supplies and expense	<u>113,383</u>	<u>79,436</u>	<u>33,947</u>
	<u>5,606,232</u>	<u>4,760,128</u>	<u>846,104</u>
ANESTHESIOLOGY			
Professional fees	583,352	630,306	(46,954)
Supplies and expense	<u>5,339</u>	<u>28,769</u>	<u>(23,430)</u>
	<u>588,691</u>	<u>659,075</u>	<u>(70,384)</u>
OPHTHALMOLOGY			
Salaries	359,215	—	359,215
Supplies and expense	<u>17,034</u>	<u>11,870</u>	<u>5,164</u>
	<u>376,249</u>	<u>11,870</u>	<u>364,379</u>
RESPIRATORY THERAPY			
Salaries	117,827	93,775	24,052
Oxygen	23,274	23,352	(78)
Supplies and expense	<u>23,418</u>	<u>18,741</u>	<u>4,677</u>
	<u>164,519</u>	<u>135,868</u>	<u>28,651</u>
PHYSICAL THERAPY			
Salaries	—	13,488	(13,488)
Professional fees	872,325	813,189	59,136
Supplies and expense	<u>15,397</u>	<u>21,976</u>	<u>(6,579)</u>
	<u>887,722</u>	<u>848,653</u>	<u>39,069</u>
SPEECH THERAPY			
Professional fees	<u>35,776</u>	<u>35,789</u>	<u>(13)</u>

Jefferson County Hospital
d/b/a Jefferson County Health Center
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
OCCUPATIONAL THERAPY			
Professional fees	\$ 246,826	\$ 193,051	\$ 53,775
Supplies and expense	<u>3,291</u>	<u>2,255</u>	<u>1,036</u>
	<u>250,117</u>	<u>195,306</u>	<u>54,811</u>
PHYSICIANS CLINIC			
Salaries	1,173,576	1,236,802	(63,226)
Contract labor	267,562	308,932	(41,370)
Supplies and expense	<u>86,084</u>	<u>90,511</u>	<u>(4,427)</u>
	<u>1,527,222</u>	<u>1,636,245</u>	<u>(109,023)</u>
WALK IN CLINIC			
Salaries	180,850	161,488	19,362
Supplies and expense	<u>9,567</u>	<u>22,346</u>	<u>(12,779)</u>
	<u>190,417</u>	<u>183,834</u>	<u>6,583</u>
FAIRFIELD CLINIC			
Salaries	12,815	330,995	(318,180)
Supplies and expense	<u>115,793</u>	<u>200,739</u>	<u>(84,946)</u>
	<u>128,608</u>	<u>531,734</u>	<u>(403,126)</u>
MEDICAL RECORDS			
Salaries	404,087	402,111	1,976
Supplies and expense	<u>60,386</u>	<u>116,762</u>	<u>(56,376)</u>
	<u>464,473</u>	<u>518,873</u>	<u>(54,400)</u>
QUALITY ASSURANCE			
Salaries	245,711	250,780	(5,069)
Supplies and expense	<u>18,493</u>	<u>44,394</u>	<u>(25,901)</u>
	<u>264,204</u>	<u>295,174</u>	<u>(30,970)</u>
MEDICAL ARTS			
Salaries	4,897,678	3,081,572	1,816,106
Supplies and expense	<u>900,901</u>	<u>726,913</u>	<u>173,988</u>
	<u>5,798,579</u>	<u>3,808,485</u>	<u>1,990,094</u>
SLEEP LAB			
Salaries	119,598	130,917	(11,319)
Supplies and expense	<u>26,546</u>	<u>20,086</u>	<u>6,460</u>
	<u>146,144</u>	<u>151,003</u>	<u>(4,859)</u>
RHEUMATOLOGY			
Salaries	21,170	15,705	5,465
Supplies and expense	<u>68,173</u>	<u>62,933</u>	<u>5,240</u>
	<u>89,343</u>	<u>78,638</u>	<u>10,705</u>
ONCOLOGY			
Salaries	354,974	324,597	30,377
Supplies and expense	<u>660,021</u>	<u>658,259</u>	<u>1,762</u>
	<u>1,014,995</u>	<u>982,856</u>	<u>32,139</u>
UROLOGY			
Supplies and expense	<u>93,833</u>	<u>196,720</u>	<u>(102,887)</u>
DIALYSIS			
Salaries	18,095	5,385	12,710
Supplies and expense	<u>1,471</u>	<u>7,528</u>	<u>(6,057)</u>
	<u>19,566</u>	<u>12,913</u>	<u>6,653</u>
Totals	<u>\$21,521,925</u>	<u>\$18,771,731</u>	<u>\$2,750,194</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
DIETARY			
Salaries	\$ 383,702	\$ 359,275	\$ 24,427
Food	189,412	187,047	2,365
Supplies and expense	<u>130,141</u>	<u>140,129</u>	<u>(9,988)</u>
	<u>703,255</u>	<u>686,451</u>	<u>16,804</u>
PLANT OPERATION AND MAINTENANCE			
Salaries	412,667	394,340	18,327
Utilities	553,536	466,370	87,166
Supplies and expense	<u>304,129</u>	<u>326,144</u>	<u>(22,015)</u>
	<u>1,270,332</u>	<u>1,186,854</u>	<u>83,478</u>
BIO MEDICAL			
Supplies and expense	<u>31,362</u>	<u>38,528</u>	<u>(7,166)</u>
HOUSEKEEPING			
Salaries	320,021	290,193	29,828
Supplies and expense	<u>110,415</u>	<u>136,024</u>	<u>(25,609)</u>
	<u>430,436</u>	<u>426,217</u>	<u>4,219</u>
LAUNDRY AND LINEN			
Supplies and expense	<u>158,996</u>	<u>108,980</u>	<u>50,016</u>
Totals	<u>\$2,594,381</u>	<u>\$2,447,030</u>	<u>\$ 147,351</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
FISCAL AND ADMINISTRATIVE SERVICE			
Salaries			
Administrative	\$ 426,583	\$ 354,016	\$ 72,567
Fiscal and accounting	740,224	664,615	75,609
Purchasing and stores	139,367	138,347	1,020
Public relations	68,789	56,044	12,745
Data processing	202,839	192,006	10,833
Human resources	82,013	131,020	(49,007)
Data processing expense	482,565	400,667	81,898
Human resources supplies and expenses	69,275	51,396	17,879
Professional fees	17,844	22,878	(5,034)
Office supplies and expenses	765,560	601,458	164,102
Telephone	40,047	65,758	(25,711)
Collection fees	100,596	297,729	(197,133)
Purchasing and stores expense	21,440	18,605	2,835
Public relations expense	8,561	13,194	(4,633)
UNASSIGNED EXPENSES			
Physician recruiting	104,953	104,449	504
Insurance	242,771	240,246	2,525
Employee benefits			
FICA	1,069,737	946,035	123,702
IPERS	2,005,211	1,164,756	840,455
Group health insurance	1,859,792	1,988,381	(128,589)
Group disability insurance	60,671	62,870	(2,199)
Workers' compensation	201,239	150,536	50,703
Other employee benefits	27,787	12,523	15,264
Totals	<u>\$8,737,864</u>	<u>\$7,677,529</u>	<u>\$1,060,335</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
COMPARATIVE REVENUES AND EXPENSES**

	Year ended June 30			
	2017	2016	2015	2014
NET PATIENT SERVICE REVENUE	\$43,454,732	\$40,059,555	\$38,123,262	\$28,509,169
OTHER REVENUE	<u>925,639</u>	<u>693,636</u>	<u>1,710,749</u>	<u>2,731,770</u>
Total revenue	<u>44,380,371</u>	<u>40,753,191</u>	<u>39,834,011</u>	<u>31,240,939</u>
EXPENSES				
Salaries	16,339,231	14,037,037	12,175,713	9,553,772
Supplies, professional fees and other expenses	23,731,227	22,329,541	18,857,152	15,450,140
Provision for depreciation	<u>3,572,719</u>	<u>3,242,813</u>	<u>3,084,729</u>	<u>2,766,503</u>
Total expenses	<u>43,643,177</u>	<u>39,609,391</u>	<u>34,117,594</u>	<u>27,770,415</u>
Operating income	<u>737,194</u>	<u>1,143,800</u>	<u>5,716,417</u>	<u>3,470,524</u>
NONOPERATING GAINS (LOSSES)				
County taxes	838,964	863,972	856,845	853,414
Investment income and equity in net income of joint venture investments	280,867	377,287	332,734	298,176
Interest and amortization expense	(1,040,316)	(1,800,366)	(2,105,136)	(1,866,383)
Gain (loss) on sale of property and equipment	<u>-</u>	<u>148</u>	<u>2,056</u>	<u>(78,178)</u>
Total nonoperating (losses)	<u>79,515</u>	<u>(558,959)</u>	<u>(913,501)</u>	<u>(792,971)</u>
Excess of revenues over expenses before contributions	816,709	584,841	4,802,916	2,677,553
CONTRIBUTIONS	<u>41,264</u>	<u>60,920</u>	<u>61,262</u>	<u>30,228</u>
Change in net position	<u>\$ 857,973</u>	<u>\$ 645,761</u>	<u>\$ 4,864,178</u>	<u>\$ 2,707,781</u>

**Jefferson County Hospital
d/b/a Jefferson County Health Center
COMPARATIVE STATISTICS
(unaudited)**

	Year ended June 30	
	<u>2017</u>	<u>2016</u>
PATIENT DAYS		
Adult and pediatric	1,683	1,973
Swing bed	<u>2,407</u>	<u>2,255</u>
Total patient days	<u>4,090</u>	<u>4,228</u>
ADMISSIONS		
Adult and pediatric	480	581
Swing bed	<u>218</u>	<u>225</u>
Total admissions	<u>698</u>	<u>806</u>
DISCHARGES		
Adult and pediatric	495	582
Swing bed	<u>216</u>	<u>225</u>
Total discharges	<u>711</u>	<u>807</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.40	3.39
Swing bed	11.14	10.02
BEDS		
Adult and pediatric	25	25
OCCUPANCY PERCENT		
Adult and pediatric	18.44%	21.56%
Swing bed	26.38%	24.64%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$119,054	\$109,452
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	77	59



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

To the Board of Trustees
Jefferson County Hospital
d/b/a Jefferson County Health Center
Fairfield, Iowa

We have audited, 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, the financial statements of Jefferson County Hospital d/b/a Jefferson County Health Center, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Jefferson County Hospital's basic financial statements, and have issued our report thereon dated November 3, 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. We consider the deficiency described in Part I of the Schedule of Findings to be a significant deficiency.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency described in the accompanying schedule of findings that we consider to be a significant deficiency.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 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. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's 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
November 3, 2017

**Jefferson County Hospital
d/b/a Jefferson County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2017**

Part I—Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCY

Bank Reconciliation

Condition

The Hospital implemented a new computer software system during the fiscal year. Due to the complexity of the computer conversion, the bank reconciliation for the general checking account was not prepared on a timely basis throughout the portion of the year in which the software was in use.

Cause

The general checking account bank reconciliation was not prepared on a timely basis.

Effect

The lack of the preparation of a bank reconciliation could affect the Hospital's ability to prevent, detect and correct errors on a timely basis.

Recommendation

We recommend the bank reconciliation be prepared monthly.

Response

The Hospital has implemented procedures to reconcile the general checking account each month.

Conclusion

Response accepted.

**Jefferson County Hospital
d/b/a Jefferson County Health Center
SCHEDULE OF FINDINGS
Year ended June 30, 2017**

Part II—Findings Related to Required Statutory Reporting

17-II-A CERTIFIED BUDGET

Based on a comparison of actual operating expenses with budget basis expenditures, it appears the Hospital did not exceed its 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.