



Financial Statements  
June 30, 2017 and 2016



Buchanan County  
Health Center

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People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Board of Trustees and Health Center Officials

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<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Rob Robinson	Chairperson	2020
Carmen Mescher	Vice Chairperson	2018
Donnie Bloes	Secretary	2022
Anne McMillan	Treasurer	2020
Dennis Donlea	Trustee	2022
	<u>Health Center Officials</u>	
Steve Slessor	Chief Executive Officer	
Ben Stevens	Chief Financial Officer	
Tara McEnany	Chief Nursing Officer	



## Independent Auditor's Report

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

### Report on the Financial Statements

We have audited the accompanying financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), which comprise the statements of net position as of June 30, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Health Center's basic financial statements.

### 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Health Center'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 Health Center'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 the Health Center, as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Budgetary Comparison Information on pages 38 and 39, the Schedule of the Health Center's Proportionate Share of the Net Pension Liability, and the Schedule of the Health Center's Contributions on pages 40 through 42. 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2017 on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.



Dubuque, Iowa  
September 25, 2017

This discussion and analysis of the financial performance of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), provides an overall review of the Health Center's financial activities and balances as of and for the years ended June 30, 2017, 2016, and 2015. The intent of this discussion is to provide further information on the Health Center's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Health Center's financial statements, including the notes there to enhance their understanding of the Health Center's financial status.

### **Overview of the Financial Statements**

The financial statements are composed of the statements of net position; statements of revenues, expenses, and changes in net position; and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Health Center's finances.

The Health Center's financial statements offer short and long term information about its activities. The statements of net position include all of the Health Center's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to Health Center creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Health Center and assessing the liquidity and financial flexibility of the Health Center.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Health Center's operations over the past year and can be used to determine whether the Health Center has successfully recovered all of its costs through its patient and resident service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

## Financial Highlights

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Health Center and the changes in it. The Health Center's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Health Center's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Statement of Net Position at June 30, 2017, indicates total assets of \$52,781,898, total deferred outflows of resources of \$3,146,812, total liabilities of \$37,323,039, total deferred inflows of resources of \$1,425,927, and net position of \$17,179,744. The Statement of Net Position at June 30, 2016, indicates total assets of \$49,986,740, total deferred outflows of resources of \$2,050,431, total liabilities of \$34,513,651, total deferred inflows of resources of \$1,754,968, and net position of \$15,768,552. The Statement of Net Position at June 30, 2015, indicates total assets of \$32,083,473, total deferred outflows of resources of \$1,698,275, total liabilities of \$15,818,962, total deferred inflows of resources of \$3,316,101, and net position of \$14,646,685.
- The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2017 indicates total net patient and resident service revenue of \$25,666,461 increased 17.49% and total operating expenses of \$25,942,861 increased 15.59% from the previous year, resulting in operating income of \$375,781. Net non-operating revenues of \$1,035,411 brings the change in net position to \$1,411,192, a 25.79% increase from the prior year. The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2016 indicates total net patient and resident service revenue of \$21,845,940 increased 1.67% and total operating expenses of \$22,444,668 increased 3.53% from the previous year, resulting in operating income of \$383,901. Net non-operating revenues of \$737,966 brings the change in net position to \$1,121,867, a 34.60% decrease from the prior year. The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2015 indicates total net patient and resident service revenue of \$21,486,240 increased 4.21% and total operating expenses of \$21,679,435 decreased 1.52% from the previous year, resulting in operating income of \$774,808. Net non-operating revenues of \$940,463 brings the change in net position to \$1,715,271, a 280.86% increase from the prior year.
- The Health Center's current assets exceeded its current liabilities by \$10,976,757 at June 30, 2017, providing a 3.13 current ratio. The Health Center's current assets exceeded its current liabilities by \$9,907,864 at June 30, 2016, providing a 3.98 current ratio. The Health Center's current assets exceeded its current liabilities by \$10,091,958 at June 30, 2015, providing a 3.75 current ratio.
- The Health Center's total days of cash on hand at June 30, 2017 were 124 (not including project funds). The Health Center's total days of cash on hand at June 30, 2016 were 130 (not including project funds). The Health Center's total days of cash on hand at June 30, 2015 were 184.
- Gross outpatient charges increased 22.8% during fiscal year 2017. Gross outpatient charges increased 8.2% during fiscal year 2016. Gross outpatient charges increased 10.7% during fiscal year 2015.
- Nursing Home gross charges increased 15.5% during fiscal year 2017. Nursing Home gross charges decreased 11.6% during fiscal year 2016. Nursing Home gross charges increased 8.1% during fiscal year 2015.
- Net patient and resident days in accounts receivable were 68 days at June 30, 2017. Net patient and resident days in accounts receivable were 51 days at June 30, 2016. Net patient and resident days in accounts receivable were 54 days at June 30, 2015.

- Statistical information for the year ended June 30, 2017:
  - 12,977- Nursing Home patient days (6.0% increase)
  - 1,572 - Surgical Cases (16.9% increase)
  - 61,237 - Laboratory tests (18.1% increase)
  - 8,832 - Radiology visits (5.7% increase)
  - 23,776 - Physical Therapy modalities (1.3% increase)
  - 5,554 - Emergency Room patients (3.6% increase)
  - 682 - Acute Care patient days (1.4% decrease)
  - 994 - SNF Care patient days (29.8% increase)
- The Health Center's net position increased approximately \$1.411 million from June 30, 2016 to June 30, 2017. Net position increased approximately \$1.122 million from June 30, 2015 to June 30, 2016.
- Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$5,275,926 to retroactively report the net pension liability as of June 30, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014.



People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis

Condensed Financial Statements  
Statements of Net Position

	June 30,		
	2017	2016	2015
<b>Assets and Deferred Outflows of Resources</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 8,091,959	\$ 7,407,571	\$ 8,943,627
Assets limited as to use or restricted	1,523,349	916,493	68,987
Patient and resident receivables, net of estimated uncollectibles	4,793,219	3,069,723	3,197,879
Succeeding year property tax	1,114,076	1,098,342	1,052,813
Estimated third-party payor settlements	-	306,000	-
Other	611,171	431,941	496,055
Total current assets	<u>16,133,774</u>	<u>13,230,070</u>	<u>13,759,361</u>
Assets Limited as to Use or Restricted	<u>3,812,300</u>	<u>16,381,506</u>	<u>1,007,278</u>
Capital Assets, Net	<u>32,173,924</u>	<u>20,227,164</u>	<u>17,168,834</u>
<b>Other Assets</b>			
Intangible assets, net	513,900	-	-
Beneficial interest in charitable trust	148,000	148,000	148,000
Total other assets	<u>661,900</u>	<u>148,000</u>	<u>148,000</u>
Total assets	<u>52,781,898</u>	<u>49,986,740</u>	<u>32,083,473</u>
<b>Deferred Outflows of Resources</b>			
Unamortized excess of consideration paid as part of an acquisition	150,000	-	-
Pension related deferred outflows	2,996,812	2,050,431	1,698,275
Total deferred outflows of resources	<u>3,146,812</u>	<u>2,050,431</u>	<u>1,698,275</u>
Total assets and deferred outflows of resources	<u>\$ 55,928,710</u>	<u>\$ 52,037,171</u>	<u>\$ 33,781,748</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis

Condensed Financial Statements  
Statements of Net Position

	June 30,		
	2017	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 673,034	\$ 646,124	\$ 648,196
Accounts payable			
Trade	500,400	447,959	684,628
Construction	1,455,409	853,138	103,106
Estimated third-party payor settlements	843,000	-	944,000
Accrued expenses	1,685,174	1,374,985	1,287,473
Total current liabilities	<u>5,157,017</u>	<u>3,322,206</u>	<u>3,667,403</u>
Noncurrent Liabilities			
Deposits	1,828,600	1,795,100	1,899,200
Long-term debt, less current maturities	22,322,993	22,936,341	5,435,137
Net pension liability	8,014,429	6,460,004	4,817,222
Total noncurrent liabilities	<u>32,166,022</u>	<u>31,191,445</u>	<u>12,151,559</u>
Total liabilities	<u>37,323,039</u>	<u>34,513,651</u>	<u>15,818,962</u>
Deferred Inflows of Resources			
Deferred revenue for succeeding year property tax receivable	1,114,076	1,098,342	1,052,813
Pension related deferred inflows	175,048	545,229	1,853,479
Electronic health records incentive	-	-	274,237
Deferred revenue	136,803	111,397	135,572
Total deferred inflows of resources	<u>1,425,927</u>	<u>1,754,968</u>	<u>3,316,101</u>
Net Position			
Net investment in capital assets	11,161,067	11,230,575	9,186,301
Restricted	215,940	211,355	216,987
Unrestricted	5,802,737	4,326,622	5,243,397
Total net position	<u>17,179,744</u>	<u>15,768,552</u>	<u>14,646,685</u>
Total liabilities and net position	<u>\$ 55,928,710</u>	<u>\$ 52,037,171</u>	<u>\$ 33,781,748</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2017	2016	2015
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 25,666,461	\$ 21,845,940	\$ 21,486,240
Other operating revenues	652,181	982,629	968,003
Total Operating Revenues	<u>26,318,642</u>	<u>22,828,569</u>	<u>22,454,243</u>
Operating Expenses			
Salaries and wages	10,846,889	9,498,061	9,336,451
Supplies and other expenses	12,758,069	10,707,994	10,169,779
Depreciation and amortization	2,337,903	2,238,613	2,173,205
Total Operating Expenses	<u>25,942,861</u>	<u>22,444,668</u>	<u>21,679,435</u>
Operating Income	<u>375,781</u>	<u>383,901</u>	<u>774,808</u>
Nonoperating Revenues (Expenses)			
County tax revenue	1,113,097	1,069,809	1,029,292
Noncapital grants and contributions	4,320	17,364	4,070
Investment income	53,200	61,531	58,104
Interest and financing expense	(179,914)	(449,262)	(193,986)
Rental income	44,708	38,524	42,983
Net Nonoperating Revenues	<u>1,035,411</u>	<u>737,966</u>	<u>940,463</u>
Change in Net Position	<u>1,411,192</u>	<u>1,121,867</u>	<u>1,715,271</u>
Net Position, Beginning of Year	15,768,552	14,646,685	18,207,340
Restatement	<u>-</u>	<u>-</u>	<u>(5,275,926)</u>
Net Position Beginning of Year, as Restated	<u>15,768,552</u>	<u>14,646,685</u>	<u>12,931,414</u>
Net Position, End of Year	<u><u>\$ 17,179,744</u></u>	<u><u>\$ 15,768,552</u></u>	<u><u>\$ 14,646,685</u></u>

## Capital Assets

Significant capital purchases during the year ended June 30, 2017, included:

- \$12,732,000 in fees associated with the Master Facility Project
- \$255,000 in furniture, fixtures, and equipment related to the Medical Associates primary care practice acquisition
- \$92,000 in acute care nurses station
- \$89,500 in surgical endoscopy scopes
- \$80,000 in heat exchange circulating pumps

The Health Center is currently completing a hospital expansion project, which has a total estimated cost of \$26,055,000 and is expected to be completed by May 2018. The project is being funded with debt and internal funds.

## Long-Term Debt

Buchanan County Health Center had \$673,034 and \$22,322,993 respectively, in short-term and long-term debt at June 30, 2017. The Health Center had \$646,124 and \$22,936,341 respectively, in short-term and long-term debt at June 30, 2016 and \$648,196 and \$5,435,137, respectively, in short-term and long-term debt at June 30, 2015. The debt was incurred to update the facility (including the hospital expansion project) and to continue to invest in new equipment and technology.

## Economic and Other Factors and Next Year's Budget

The Health Center's Board and management considered many factors when preparing the fiscal year 2018 budget. Of primary consideration in the 2018 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- \$1,700,000 in routine capital and \$10,043,000 in strategic building related capital
- \$2,500,000 in additional incremental revenue from new hospital services
- Anticipation of new allocation percentages due to the building addition of 60,000 square feet
- Medicare and Medicaid reimbursement rates
- Managed care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Medicaid Expansion impacts on payor mix changes
- Nursing Care Center reimbursement
- Staffing benchmarks
- Employed provider and productivity opportunities
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Self-insured health insurance risks
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Pay-for-performance and quality indicators
- Technology advances

- Full implementation of the new electronic medical record system (EPIC)
- Medical staff issues
- Lower return on investments
- Implementation of Rural Health Clinic
- Implementation of 340b medication program

### **Summary**

The Health Center's Board of Trustees and Administrative Council continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our employees provide to every person they serve. We would also like to thank each member of the Health Center's medical staff for their dedication and support provided.

### **Contacting the Health Center's Finance Department**

The Health Center's financial statements are designed to present users with a general overview of the Health Center's finances and to demonstrate the Health Center's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Buchanan County Health Center  
1600 First Street East  
Independence, Iowa 50644

	2017	2016
<b>Assets and Deferred Outflows of Resources</b>		
<b>Current Assets</b>		
Cash and cash equivalents - Note 3	\$ 8,091,959	\$ 7,407,571
Assets limited as to use or restricted - Note 3		
Restricted project-related funds	1,455,409	853,138
Restricted under debt agreements	67,940	63,355
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,199,000 in 2017 and \$743,000 in 2016	4,793,219	3,069,723
Succeeding year property tax	1,114,076	1,098,342
Estimated third-party payor settlements	-	306,000
Other	118,793	12,666
Supplies	220,537	201,413
Prepaid expense	271,841	217,862
Total current assets	<u>16,133,774</u>	<u>13,230,070</u>
<b>Assets Limited as to Use or Restricted - Note 3</b>		
Investments		
Restricted project-related funds	3,811,770	16,380,976
By board for capital improvements	530	530
Total assets limited as to use or restricted	<u>3,812,300</u>	<u>16,381,506</u>
<b>Capital Assets - Note 4</b>		
Capital assets not being depreciated	15,931,104	4,797,672
Depreciable capital assets, net of accumulated depreciation	16,242,820	15,429,492
Total capital assets, net	<u>32,173,924</u>	<u>20,227,164</u>
<b>Other Assets</b>		
Intangible assets, net - Note 5	513,900	-
Beneficial interest in charitable trust	148,000	148,000
Total other assets	<u>661,900</u>	<u>148,000</u>
Total assets	<u>52,781,898</u>	<u>49,986,740</u>
<b>Deferred Outflows of Resources</b>		
Unamortized excess of consideration paid as part of an acquisition - Note 5	150,000	-
Pension related deferred outflows - Note 7	2,996,812	2,050,431
Total deferred outflows of resources	<u>3,146,812</u>	<u>2,050,431</u>
Total assets and deferred outflows of resources	<u>\$ 55,928,710</u>	<u>\$ 52,037,171</u>

See Notes to Financial Statements

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Net Position  
June 30, 2017 and 2016

	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 9	\$ 673,034	\$ 646,124
Accounts payable		
Trade	500,400	447,959
Construction	1,455,409	853,138
Estimated third-party payor settlements	843,000	-
Accrued expenses		
Salaries and wages	191,152	480,137
Vacation	765,037	645,482
Payroll taxes and other	434,213	214,594
Interest	34,772	34,772
Self-insurance claims - Note 11	260,000	-
Total current liabilities	5,157,017	3,322,206
Noncurrent Liabilities		
Deposits	1,828,600	1,795,100
Long-term debt, less current maturities - Note 9	22,322,993	22,936,341
Net pension liability - Note 7	8,014,429	6,460,004
Total noncurrent liabilities	32,166,022	31,191,445
Total liabilities	37,323,039	34,513,651
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax receivable	1,114,076	1,098,342
Pension related deferred inflows - Note 7	175,048	545,229
Deferred revenue	136,803	111,397
Total deferred inflows of resources	1,425,927	1,754,968
Net Position		
Net investment in capital assets	11,161,067	11,230,575
Restricted		
Expendable for future capital acquisitions	-	-
Expendable for debt service	67,940	63,355
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	5,802,737	4,326,622
Total net position	17,179,744	15,768,552
Total liabilities, deferred inflows of resources, and net position	\$ 55,928,710	\$ 52,037,171

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Revenues, Expenses, and Changes in Net Position  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$941,074 in 2017 and \$762,162 in 2016)	\$ 25,666,461	\$ 21,845,940
Other operating revenues	<u>652,181</u>	<u>982,629</u>
Total operating revenues	<u>26,318,642</u>	<u>22,828,569</u>
Operating Expenses		
Salaries and wages	10,846,889	9,498,061
Employee benefits	3,820,648	2,991,148
Supplies and other expenses	8,937,421	7,716,846
Depreciation and amortization	<u>2,337,903</u>	<u>2,238,613</u>
Total operating expenses	<u>25,942,861</u>	<u>22,444,668</u>
Operating Income	<u>375,781</u>	<u>383,901</u>
Nonoperating Revenues (Expenses)		
County tax revenue	1,113,097	1,069,809
Noncapital grants and contributions	4,320	17,364
Investment income	53,200	61,531
Interest and financing expense	(179,914)	(449,262)
Rental income	<u>44,708</u>	<u>38,524</u>
Net nonoperating revenues	<u>1,035,411</u>	<u>737,966</u>
Change in Net Position	1,411,192	1,121,867
Net Position Beginning of Year	<u>15,768,552</u>	<u>14,646,685</u>
Net Position, End of Year	<u><u>\$ 17,179,744</u></u>	<u><u>\$ 15,768,552</u></u>



People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 25,117,371	\$ 20,699,921
Other receipts	546,054	981,233
Payments to and on behalf of employees	(14,357,348)	(12,420,899)
Payments to suppliers and contractors	<u>(8,637,461)</u>	<u>(8,262,625)</u>
Net Cash from Operating Activities	<u>2,668,616</u>	<u>997,630</u>
Noncapital Financing Activities		
County tax revenue received	1,113,097	1,069,809
Noncapital grants and contributions received	<u>4,320</u>	<u>17,364</u>
Net Cash from Noncapital Financing Activities	<u>1,117,417</u>	<u>1,087,173</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(13,578,551)	(4,339,029)
Proceeds from residency deposits	136,000	186,000
Payments of residency deposits	(102,500)	(290,100)
Proceeds from issuance of debt	-	18,993,301
Payment of principal on debt	(715,938)	(1,619,292)
Payment of interest on debt and financing costs	<u>(179,914)</u>	<u>(430,060)</u>
Net Cash from (used for) Capital and Capital Related Financing Activities	<u>(14,440,903)</u>	<u>12,500,820</u>
Investing Activities		
(Increase) decrease in assets limited as to use or restricted	11,962,350	(16,221,734)
Purchase of intangible assets	(571,000)	-
Consideration paid as part of an acquisition	(150,000)	-
Investment income received	53,200	61,531
Rental income received	<u>44,708</u>	<u>38,524</u>
Net Cash from (used for) Investing Activities	<u>11,339,258</u>	<u>(16,121,679)</u>
Net Change in Cash and Cash Equivalents	684,388	(1,536,056)
Cash and Cash Equivalents at Beginning of Year	<u>7,407,571</u>	<u>8,943,627</u>
Cash and Cash Equivalents at End of Year	<u>\$ 8,091,959</u>	<u>\$ 7,407,571</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Statements of Cash Flows  
Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of Operating Income to Net Cash from		
Operating Activities		
Operating income	\$ 375,781	\$ 383,901
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	2,337,903	2,238,613
Provision for bad debts	941,074	762,162
Changes in assets, deferred outflows, liabilities and deferred inflows		
Receivables	(2,770,697)	(635,402)
Estimated third-party payor settlements	1,149,000	(1,250,000)
Supplies	(19,124)	29,070
Prepaid expense	(53,979)	36,440
Trade accounts payable	135,200	(319,428)
Accrued expenses	310,189	68,310
Net pension liability	1,554,425	1,642,782
Deferred outflows of resources	(946,381)	(352,156)
Deferred inflows of resources	(344,775)	(1,606,662)
Net Cash from Operating Activities	\$ 2,668,616	\$ 997,630
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Amounts paid for capitalized interest	\$ 270,551	\$ 66,202
Equipment financed through capital lease arrangements	\$ 129,500	\$ 125,123
Supplemental Disclosure of Cash Flow Information		
Capital assets during the year financed through accounts payable	\$ 1,455,409	\$ 935,897

## **Note 1 - Organization and Significant Accounting Policies**

The financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Health Center are described below.

### **Reporting Entity**

The Health Center, located in Independence, Iowa, is a 25-bed public hospital and a 39-bed nursing care center, organized under Chapter 347A of the Iowa Code and governed by a five member Board of Trustees elected for alternating terms of six years. The Health Center also operates an independent living center (Oak View), which develops housing facilities within the Independence, Iowa area for retired individuals with a lifelong plan for independent living and dependent care.

For financial reporting purposes, the Health Center has included all funds, organizations, agencies, boards, commissions, and authorities. The Health Center 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 Health Center are such that exclusion would cause the Health Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability.

The Health Center has no component units which meet the GASB criteria.

### **Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

### **Basis of Presentation**

The statement of net position displays the Health Center's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

*Net investment in capital assets* consists of capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

*Restricted net position:*

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Health Center.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Health Center's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

### **Use of Estimates**

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

### **Cash and Cash Equivalents**

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated or restricted cash and investments. For purposes of the statements of cash flows, the Health Center does not consider internally designated or restricted cash and investments as cash and cash equivalents.

### **Patient and Resident Receivables**

Patient and resident receivables are uncollateralized patient, resident, and third-party payor obligations. Unpaid patient and resident receivables are not charged interest on amounts owed. Payments of patient and resident receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

Patient and resident accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Health Center analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients and residents who have third-party coverage, the Health Center analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients and residents (which includes both patients and residents without insurance and patients and residents with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Health Center records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients and residents are unable or unwilling to pay the portion of their bill for which they are financially responsible.

The difference between the standard rate (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Health Center's process for calculating the allowance for doubtful accounts for self-pay patients and residents has not significantly changed from June 30, 2016 to June 30, 2017. The Health Center does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Health Center has not significantly changed its charity care or uninsured discount policies during fiscal years 2016 or 2017.

### **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. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees 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 Trustees 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.

Property tax revenue recognized by the Health Center becomes due and collectible in September and March of the fiscal year; is based on January assessed property valuations; is for the tax accrual period July through June and reflects the tax asking contained in the budget certified by the County Auditor in March.

### **Supplies**

Supplies are stated at lower of average cost or market and are expensed when used.

### **Assets Limited as to Use or Restricted**

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Health Center for its stated purposes. Restricted funds also include assets which are restricted by debt agreements. The current portion of restricted project-related funds corresponds to amounts included as construction payables within current liabilities.

### **Investment Income**

Interest on cash and deposits is included in nonoperating revenues when earned.

### **Pensions**

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

### **Capital Assets**

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation and amortization in the financial statements. Interest expense incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of capital assets are as follows:

Land improvements	10-20 years
Buildings and improvements	5-40 years
Equipment	3-15 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

### **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. The Health Center's 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. The Health Center's items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, deferred nursing home charges which will be recognized in the month which the services are rendered, and unrecognized items not yet charged to pension expense.

### **Compensated Absences**

Health Center employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the statement of net position based on pay rates that are in effect at June 30, 2017 and 2016.

### **Deposits**

The Health Center enters into residency agreements with the tenants of the Oak View independent living units. At the time a residency agreement is signed, the tenant must pay the full amount of an entrance payment. Based upon the schedule in place at the time a residency agreement was signed, a portion of the entrance payment is recognized as income, and the remaining percentage of the entrance payment is fully refundable upon termination. The refundable amounts are shown as deposits payable under noncurrent liabilities on the statement of net position.

### **Operating Revenues and Expenses**

The Health Center's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Nonexchange revenues, including interest income, taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services.

### **Net Patient and Resident Service Revenue**

The Health Center has agreements with third-party payors that provide for payments to the Health Center at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. 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.

The Health Center recognizes patient and resident service revenue associated with services provided to patients and residents who have third-party coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients and residents that do not qualify for charity care, the Health Center recognizes revenue on the basis of its standard rates for services provided on the basis of discounted rates, if negotiated.

On the basis of historical experience, a certain portion of the Health Center's uninsured patients will be unable or unwilling to pay for services provided. As a result, the Health Center records a provision for bad debts related to uninsured patients in the period the services are provided.

### **Charity Care and Community Benefits**

The Health Center provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Health Center's charity care policy were \$46,903 and \$66,151 for the years ended June 30, 2017 and 2016. Total direct and indirect costs related to these foregone charges were \$23,000 and \$34,000 at June 30, 2017 and 2016, based on an average ratio of cost to gross charges.

In addition, the Health Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients, and for some services the payments are less than the cost of rendering the services provided.

The Health Center also commits significant time and resources to endeavors and critical services which meet otherwise unfulfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable.

### **Electronic Health Record Incentive Payments**

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningfully use certified Electronic Health Records (EHR) technology.

#### *Medicare*

To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Health Center recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance the Health Center will comply with the conditions attached to the incentive payments. The Health Center recognized \$0 and \$274,237 of incentive payments during the years ended June 30, 2017 and 2016.

EHR incentive revenues are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive revenues recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur.



### **Grants and Contributions**

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after net nonoperating revenues, if applicable.

### **Financing Costs**

Financing costs are expensed as incurred.

### **Advertising Costs**

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$101,221 and \$106,038 for advertising costs for the years ended June 30, 2017 and 2016.

## **Note 2 - Net Patient and Resident Service Revenue**

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

**Medicare:** The Health Center is licensed as a Critical Access Hospital (CAH). The Health Center is reimbursed for most inpatient and outpatient services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Health Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2015. Clinical services are paid on a cost basis or a fixed fee schedule.

### **Medicaid:**

**Health Center:** Prior to April 1, 2016, inpatient and outpatient services rendered to Medicaid program beneficiaries are primarily paid based on a cost reimbursement methodology.

The Health Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Health Center and audits thereof by the Medicaid fiscal intermediary. The Health Center's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2014. As of April 1, 2016, inpatient and outpatient services rendered to Medicaid program beneficiaries are primarily based on a prospective payment methodology through Medicaid Managed Care Organizations.

**Nursing Care Center:** Routine services rendered to nursing care center residents who are beneficiaries of the Medicaid program are paid according to a schedule of prospectively determined daily rates.

**Other Payors:** The Health Center has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Health Center under these agreements may include prospectively determined rates and discounts from established charges.

Concentration of gross revenues by major payor accounted for the following percentages of the Health Center's patient and resident service revenues for the years ended June 30, 2017 and 2016:

	2017	2016
Medicare	49%	47%
Medicaid	14%	14%
Blue Cross	19%	17%
Other Commercial	13%	16%
Self-Pay	5%	6%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient and resident service revenue for the years ended June 30, 2017 and 2016, increased approximately \$106,000 and \$148,000 due to prior-year retroactive adjustments in excess of amounts previously estimated and years that are no longer subject to audits, reviews, and investigations.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Health Center may incur a liability for a claims overpayment at a future date. The Health Center is unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Health Center's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Health Center and CMS.

**Note 3 - Deposits and Investments**

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

The Health Center 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as deposits and investments in this note.

At June 30, 2017 and 2016 the Health Center's carrying amounts of deposits and investments are as follows:

	2017	2016
Checking, Savings, and Money Market Accounts	\$ 13,427,608	\$ 24,705,570
Included in the Following Statements of Net Position Captions:		
Cash and Cash Equivalents	\$ 8,091,959	\$ 7,407,571
Assets Limited as to Use or Restricted - current assets	1,523,349	916,493
Assets Limited as to Use or Restricted	3,812,300	16,381,506
	\$ 13,427,608	\$ 24,705,570

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Health Center are:

1. Safety: Safety and preservation of principal in the overall portfolio.
2. Liquidity: Maintaining the necessary liquidity to match expected liabilities.
3. Return: Obtaining a reasonable return.

The Health Center attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

**Note 4 - Capital Assets**

Capital assets activity for the years ended June 30, 2017 and 2016 was as follows:

	June 30, 2016 Balance	Additions	Transfers and Retirements	June 30, 2017 Balance
<b>Capital Assets Not Being Depreciated</b>				
Land	\$ 1,312,504	\$ -	\$ -	\$ 1,312,504
Construction in progress	3,485,168	13,094,131	(1,960,699)	14,618,600
<b>Total capital assets not being depreciated</b>	<b>4,797,672</b>	<b>\$ 13,094,131</b>	<b>\$ (1,960,699)</b>	<b>15,931,104</b>
<b>Capital Assets Being Depreciated</b>				
Land improvements	1,492,089	\$ -	\$ 99,793	1,591,882
Buildings	22,446,572	102,878	1,475,314	24,024,764
Equipment	11,805,025	1,030,553	385,592	13,221,170
<b>Total capital assets being depreciated</b>	<b>35,743,686</b>	<b>\$ 1,133,431</b>	<b>\$ 1,960,699</b>	<b>38,837,816</b>
<b>Less Accumulated Depreciation for</b>				
Land improvements	401,923	\$ 69,955	\$ -	471,878
Buildings	11,821,331	946,906	-	12,768,237
Equipment	8,090,940	1,263,941	-	9,354,881
<b>Total accumulated depreciation</b>	<b>20,314,194</b>	<b>\$ 2,280,802</b>	<b>\$ -</b>	<b>22,594,996</b>
<b>Total Capital Assets Being Depreciated, Net</b>	<b>15,429,492</b>			<b>16,242,820</b>
<b>Total Capital Assets, Net</b>	<b>\$ 20,227,164</b>			<b>\$ 32,173,924</b>

Construction in progress at June 30, 2017, represents costs incurred to date for the hospital expansion project. The hospital expansion project, which has a total estimated cost of \$26,055,000, is anticipated to be completed by May 2018. This project will be funded with an \$18,055,000 United States Department of Agriculture (USDA) Direct Loan, a \$4,000,000 bank loan, a \$1,000,000 Buchanan County Trust loan, and \$3,000,000 in internal funds.

Interest paid during the years ended June 30, 2017 and 2016, were reported as follows:

	2017	2016
<b>Interest Costs</b>		
Capitalized as part of construction project	\$ 270,551	\$ 66,202
Recognized as interest expense	142,655	196,772
<b>Total</b>	<b>\$ 413,206</b>	<b>\$ 262,974</b>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Notes to Financial Statements  
June 30, 2017 and 2016

	<u>June 30, 2015 Balance</u>	<u>Additions</u>	<u>Transfers and Retirements</u>	<u>June 30, 2016 Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 1,312,504	\$ -	\$ -	\$ 1,312,504
Construction in progress	685,482	3,451,906	(652,220)	3,485,168
Total capital assets not being depreciated	<u>1,997,986</u>	<u>\$ 3,451,906</u>	<u>\$ (652,220)</u>	<u>4,797,672</u>
Capital Assets Being Depreciated				
Land improvements	596,824	\$ 895,265	\$ -	1,492,089
Buildings	21,927,179	-	519,393	22,446,572
Equipment	10,722,426	949,772	132,827	11,805,025
Total capital assets being depreciated	<u>33,246,429</u>	<u>\$ 1,845,037</u>	<u>\$ 652,220</u>	<u>35,743,686</u>
Less Accumulated Depreciation for				
Land improvements	346,403	\$ 55,520	\$ -	401,923
Buildings	10,891,856	929,475	-	11,821,331
Equipment	6,837,322	1,253,618	-	8,090,940
Total accumulated depreciation	<u>18,075,581</u>	<u>\$ 2,238,613</u>	<u>\$ -</u>	<u>20,314,194</u>
Total Capital Assets Being Depreciated, Net	<u>15,170,848</u>			<u>15,429,492</u>
Total Capital Assets, Net	<u>\$ 17,168,834</u>			<u>\$ 20,227,164</u>

**Note 5 - Other Assets**

During the year ended June 30, 2017, the Health Center purchased assets and acquired the operations of a physician clinic. Changes in the carrying amount of excess consideration paid as part of the acquisition at June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Balance, Beginning of Year	\$ -	\$ -
Excess consideration paid as part of acquisition	150,000	-
Balance, End of Year	<u>\$ 150,000</u>	<u>\$ -</u>

See Footnote 6 for assets acquired as part of the purchase agreement.

Intangible assets as of June 30, 2017 and 2016 consist of:

	2017	2016
Medical Records		
Cost	\$ 571,000	\$ -
Accumulated Amortization	(57,100)	-
	\$ 513,900	\$ -

The Medical records are being amortized over a five-year period using the straight-line method.

#### **Note 6 - Clinic Acquisition**

During the year ended June 30, 2017, the Health Center purchased assets and acquired the operations of a physician clinic for \$976,000. Following are the assets that were purchased as part of the transaction. The remaining \$150,000 has been recorded as consideration paid as part of acquisition.

	2017
Medical Records	\$ 571,000
Furniture and equipment	255,000
Total assets	\$ 826,000

#### **Note 7 - Pension Plan**

*Plan Description* - Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Health Center, except for those covered by another retirement system. Employees of the Health Center are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by IPERS. IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

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

*Pension Benefits* – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012, which use 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. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 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 salary.

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

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

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In fiscal years 2017 and 2016, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the Health Center contributed 8.93% of covered payroll for a total rate of 14.88%. In fiscal years 2017 and 2016, pursuant to the required rate, protection occupation members contributed 6.56% of covered payroll and the Health Center contributed 9.84% of covered payroll for a total rate of 16.40%.

The Health Center's contributions to IPERS for the years ended June 30, 2017 and 2016 were \$958,029 and \$829,834.

*Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - At June 30, 2017 and 2016, the Health Center reported a liability of \$8,014,429 and \$6,460,004 for its proportionate share of the net pension liability. The Health Center's 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 that date. The Health Center's proportion of the net pension liability was based on the Health Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2016, the Health Center's collective proportion was 0.127348 percent, which was a decrease of 0.000034 from its proportion measured as of June 30, 2015 of 0.130756 percent.

For the years ended June 30, 2017 and 2016, the Health Center recognized pension expense of \$1,171,520 and \$812,210. At June 30, 2017 and 2016, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual experience	\$ 70,793	\$ 97,077	\$ 97,761	\$ 2,011
Changes of Assumptions	122,208	19	178,148	31
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,151,541	-	-	543,187
Changes in Proportion and Differences Between Health Center Contributions and Proportionate Share of Contributions	694,241	77,952	950,592	-
Health Center Contributions Subsequent to the Measurement Date	958,029	-	823,930	-
Total	<u>\$ 2,996,812</u>	<u>\$ 175,048</u>	<u>\$ 2,050,431</u>	<u>\$ 545,229</u>



The \$958,029 in 2017 and \$823,930 in 2016 reported as deferred outflows of resources related to pensions resulting from the Health Center's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017 and 2016 actuarial valuations. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	2017	2016
2017	\$ -	\$ 73,854
2018	393,429	73,854
2019	393,429	73,854
2020	740,680	427,546
2021	349,048	32,164
2022	(12,851)	-
	\$ 1,863,735	\$ 681,272

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 and 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary Increases (effective June 30, 2010)	4.00 to 17.00 percent average, including inflation. Rates vary by membership group.
Long-Term Investment Rate of Return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan, investment expense, including inflation.
Wage Growth (effective June 30, 1996)	4.00 percent per annum, based on 3.00 percent inflation and 1.00 percent real wage inflation.

The actuarial assumptions used in the June 30, 2017 and 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-Plus Fixed Income	28%	1.09%
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%
U.S. TIPS	5%	1.36%
Other Real Assets	2%	6.42%
Cash	1%	(0.26%)
	<u>100%</u>	

*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 Health Center 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 Health Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate* - The following presents the Health Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Health Center'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.

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June 30, 2017 and 2016

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Health Center's Proportionate Share of the Net Pension Liability at June 30, 2016	\$ 13,002,327	\$ 8,014,429	\$ 3,804,624
Health Center's Proportionate Share of the Net Pension Liability at June 30, 2015	\$ 11,358,916	\$ 6,460,004	\$ 2,325,030

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

*Payables to the Pension Plan* - At June 30, 2017 and 2016, the Health Center reported payables to the defined benefit pension plan of \$131,858 and \$100,017 for legally required employer contributions and \$76,561 and \$39,541 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

#### Note 8 - Lease Obligations

The Health Center leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense for all operating leases for the years ended June 30, 2017 and 2016 was \$232,047 and \$138,666. The capitalized leased assets consist of:

	2017	2016
Equipment	\$ 786,346	\$ 656,846
Less Accumulated Amortization	(410,410)	(278,373)
	\$ 375,936	\$ 378,473

Minimum future lease payments for the capital lease is as follows:

Years Ending June 30,	
2018	\$ 196,689
2019	179,648
2020	36,774
2021	10,340
2022	5,455
Total Minimum Lease Payments	428,906
Less interest	(15,841)
Present Value of Minimum Lease Payments - Note 9	\$ 413,065

**Note 9 - Long-Term Debt**

A summary of changes in the Health Center's long-term debt for the years ended June 30, 2017 and 2016 is as follows:

	June 30, 2016 Balance	Additions	Payments	June 30, 2017 Balance	Amounts Due Within One Year
2.95% hospital promissory note, Payable to Bank Iowa, due in monthly installments of \$19,315, through April 1, 2018, with balloon payment in 2018	\$ 1,429,052	\$ -	\$ 191,636	\$ 1,237,416	\$ 197,338
0% hospital promissory note, payable to Independence Light & Power, due in monthly installments of \$4,285, through August 15, 2017	60,000	-	51,428	8,572	8,572
Hospital revenue note, series 2004, maturity date of May 1, 2025, interest only payments through August 1, 2006, with principal payments starting September 1, 2006 (A)	2,678,543	-	271,301	2,407,242	279,202
Hospital Revenue Note, Series 2015, maturity date December 1, 2045, interest only payments through December 2018. (B)	938,301	-	63,569	874,732	-
Hospital Revenue Notes, Series 2016, maturity date on December 1, 2018. (C)	18,055,000	-	-	18,055,000	-
Capital Lease obligations- Note 8	421,569	129,500	138,004	413,065	187,922
	<u>\$ 23,582,465</u>	<u>\$ 129,500</u>	<u>\$ 715,938</u>	22,996,027	<u>\$ 673,034</u>
Less Current Maturities				(673,034)	
Long-Term Debt, Less Current Maturities				<u>\$ 22,322,993</u>	

People's Memorial Hospital  
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Notes to Financial Statements  
June 30, 2017 and 2016

	June 30, 2015 Balance	Additions	Payments	June 30, 2016 Balance	Amounts Due Within One Year
2.95% hospital promissory note, payable to Bank Iowa, due in monthly installments of \$19,315, through April 1, 2018, with balloon payment in 2018	\$ 1,614,721	\$ -	\$ 185,669	\$ 1,429,052	\$ 191,644
0% hospital promissory note, payable to Independence Light & Power, due in monthly installments of \$4,285 through August 15, 2017	111,429	-	51,429	60,000	51,431
Hospital revenue note, series 2004, maturity date of May 1, 2025, interest only payments through August 1, 2006, with principal payments starting September 1, 2006 (A)	2,943,872	-	265,329	2,678,543	272,370
Hospital revenue note, series 2009, refunded during 2016.	990,134	-	990,134	-	-
Hospital Revenue Note, Series 2015, maturity date December 1, 2045, interest only payments through December 2018. (B)	-	938,301	-	938,301	-
Hospital Revenue Notes, Series 2016, maturity date December 1, 2018. (C)	-	18,055,000	-	18,055,000	-
Capitalized lease obligation - Note 8	423,177	125,123	126,731	421,569	130,679
	<u>\$ 6,083,333</u>	<u>\$ 19,118,424</u>	<u>\$ 1,619,292</u>	23,582,465 (646,124)	<u>\$ 646,124</u>
Less Current Maturities					
Long-Term Debt, Less Current Maturities				<u>\$ 22,936,341</u>	

- (A) The interest rate on this note is 2.48%. According to the loan documents, in December 2018 (interest rate adjustment date), the rate will adjust to a rate equal to 102% of the Federal Home Loan Bank Eighth District Seven-Year Fixed Rate Advance as posted on the Federal Home Loan Bank of Des Moines website.

- (B) The Hospital Revenue Note, Series 2015, was issued for a total amount of \$4,970,000. The proceeds to date were used to refund the remaining balance of the Series 2009 revenue note. Remaining funds will be drawn and used to help fund the building project. The Health Center shall pay interest only payments on this note through December 2018, at a rate of 2.95%. Beginning January 1, 2019 the Health Center will pay monthly installments of principal and interest at an initial rate of 3.10% until maturity at December 1, 2045. The interest rate will be adjusted on each of the following interest rate adjustment dates: January 1, 2023, January 1, 2030, and January 1, 2038. Interest rates will be adjusted to the average Federal Home Loan Bank Eleventh District Seven-Year Advance Rate for the week immediately preceding an interest rate adjustment date as published by the Federal Home Loan Bank Board.
- (C) The Hospital Revenue Notes, Series 2016, were issued for a total amount of \$18,055,000, for the Health Center's building project. The Health Center shall pay interest only payments on this debt at a rate of 1.5% until completion of construction, estimated to be completed by December 2018. The notes will be refunded with USDA Direct Loan Notes, which will have an interest rate of 2.375% until maturity in 2046.

The Health Center is subject to certain covenants under the debt agreements above.

Long-term debt maturities are as follows:

Years Ending June 30	Principal	Interest	Total
2018	\$ 673,034	\$ 397,115	\$ 1,070,149
2019	903,608	458,902	1,362,510
2020	1,025,068	510,543	1,535,611
2021	1,024,899	484,279	1,509,178
2022	1,046,515	457,778	1,504,293
2023-2027	3,877,364	1,948,022	5,825,386
2028-2032	3,099,329	1,560,135	4,659,464
2033-2037	3,495,755	1,163,707	4,659,462
2038-2042	3,943,126	716,339	4,659,465
2043-2047	3,907,329	215,489	4,122,818
	<u>\$ 22,996,027</u>	<u>\$ 7,912,309</u>	<u>\$ 30,908,336</u>

The maturity schedule above is presented based on the expected refunding of USDA Direct Loan Notes.

Substantially all of the outstanding debt is secured by the net revenues and property of the Health Center.

**Note 10 - Concentration of Credit Risk**

The Health Center grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at June 30, 2017 and 2016 was as follows:

	2017	2016
Medicare	42%	40%
Medicaid	11%	12%
Blue Cross	14%	18%
Commerical Insurance	17%	14%
Other Third-Party Payors, Patients, and Residents	16%	16%
	100%	100%

**Note 11 - Contingencies**

**Risk Management**

The Health Center 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. This coverage has not changed significantly from the previous year. The Health Center 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.

**Malpractice Insurance**

The Health Center has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

**Litigation, Claims, and Disputes**

The Health Center is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Health Center.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time.

Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient and resident services.

The Health Center is currently investigating a compliance issue occurring in the normal course of its business. As the Health Center is currently in the discovery stage of this process, no potential liability has been accrued as of June 30, 2017 and 2016.

**Self-Funded Health Plan**

The Health Center is self-funded for health benefits for eligible employees and their dependents. The Health Center, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred by not reported claims that will be paid by the Health Center. The Health Center has stop loss insurance to cover catastrophic claims in excess of \$60,000 per covered person.

The Health Center expenses amounts representing the employer’s portion of actual claims paid, adjusted for the estimates of liabilities related to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued expenses in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities during the past year are as follows:

Year	<u>Beginning Liability</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2017	\$ -	\$ 1,159,358	\$ (899,358)	\$ 260,000





Required Supplementary Information  
June 30, 2017 and 2016



**People's Memorial Hospital**  
**d/b/a Buchanan County Health Center**  
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position  
 – Budget and Actual (Cash Basis)  
 Required Supplementary Information  
 Year Ended June 30, 2017

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 1,113,097	\$ -	\$ 1,113,097	\$ 1,098,342	\$ 14,755
Estimated Other Revenues/Receipts	<u>26,420,870</u>	<u>(655,217)</u>	<u>25,765,653</u>	<u>27,898,915</u>	<u>(2,133,262)</u>
	27,533,967	(655,217)	26,878,750	28,997,257	(2,118,507)
Expenses/Disbursements	<u>26,122,775</u>	<u>12,033,937</u>	<u>38,156,712</u>	<u>46,105,058</u>	<u>7,948,346</u>
Net	1,411,192	(12,689,154)	(11,277,962)	(17,107,801)	<u>\$ 5,829,839</u>
Balance, Beginning of Year	<u>15,768,552</u>	<u>8,937,018</u>	<u>24,705,570</u>	<u>(5,731,611)</u>	
Balance, End of Year	<u>\$ 17,179,744</u>	<u>\$ (3,752,136)</u>	<u>\$ 13,427,608</u>	<u>\$ (22,839,412)</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Health Center preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Health Center on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2017.

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

**People's Memorial Hospital**  
**d/b/a Buchanan County Health Center**  
 Schedule of the Health Center's Proportionate Share of the Net Pension Liability  
 Required Supplementary Information  
 Year Ended June 30, 2017

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	<u>2017</u>	<u>2016</u>	<u>2015</u>
Health Center's Cumulative Proportion of the Net Pension Liability	0.127348%	0.130756%	0.121466%
Health Center's Cumulative Proportionate Share of the Net Pension Liability	\$ 8,014,429	\$ 6,460,003	\$ 4,817,222
Health Center's Covered-Employee Payroll	\$ 9,219,172	\$ 9,051,343	\$ 8,366,448
Health Center's Cumulative Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	86.93%	71.37%	59.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.82%	85.19%	87.61%

The amounts reported are measured as of June 30, 2016, 2015, and 2014 (measurement dates).

Note: GASB Statement No. 68 requires ten years of information to be presented in this schedule. However, until a full 10-year trend is compiled, the Health Center will present information for those years for which information is available.

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	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutorily Required Contribution	\$ 958,029	\$ 829,834	\$ 810,487	\$ 725,371
Contributions in Relation to the Statutorily Required Contribution	<u>(958,029)</u>	<u>(829,834)</u>	<u>(810,487)</u>	<u>(725,371)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Health Center's Covered-Employee Payroll	\$ 10,728,208	\$ 9,219,172	\$ 9,051,343	\$ 8,366,448
Contributions as a Percentage of Covered-Employee Payroll	8.93%	8.93%	8.93%	8.67%

**People's Memorial Hospital**  
**d/b/a Buchanan County Health Center**  
 Schedule of the Health Center's Contributions – Last 10 Fiscal Years  
 Required Supplementary Information  
 Year Ended June 30, 2017

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<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
\$ 595,514	\$ 546,645	\$ 449,353	\$ 420,674	\$ 372,209	\$ 351,204
<u>(595,514)</u>	<u>(546,645)</u>	<u>(449,353)</u>	<u>(420,674)</u>	<u>(372,209)</u>	<u>(351,204)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 7,379,356	\$ 7,865,396	\$ 6,757,188	\$ 6,624,787	\$ 6,152,215	\$ 6,107,896
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

*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 Unfunded Actuarial Liability (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.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



Federal Awards Reports in Accordance with Uniform  
Guidance and Supplementary Information  
June 30, 2017 and 2016







## Independent Auditor's Report on Supplementary Information

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

We have audited the financial statements of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), as of and for the years ended June 30, 2017 and 2016, and our report thereon dated September 25, 2017, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, patient and resident receivables, collection statistics, supplies and prepaid expense, insurance, and statistical information are presented for the purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards for the year ended June 30, 2017 on page 57 is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the financial statements. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, supplies and prepaid expense, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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 schedules of net patient and resident service revenue, other operating revenues, operating expenses, and supplies and prepaid expense, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole. The schedules of patient and resident receivables, collection statistics, insurance, and statistical information have 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 them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa  
September 25, 2017

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Net Patient and Resident Service Revenue  
Years Ended June 30, 2017 and 2016

	2017	2016
Patient and Resident Service Revenue		
Routine services - hospital	\$ 2,716,486	\$ 2,101,202
Routine services - nursing care center	2,661,011	2,304,241
Operating and recovery rooms	5,955,871	4,426,360
Central services and supply	1,469,309	1,454,496
Emergency services and wound/urgent care	11,163,177	9,372,948
Laboratory and blood bank	6,149,988	5,322,489
Cardiac rehab	224,931	204,957
Electrocardiology	420,600	463,780
Sleep studies	524,133	455,434
Radiology	10,389,794	9,281,017
Pharmacy	3,589,028	2,384,207
Anesthesiology	1,421,001	1,067,007
Respiratory therapy	744,952	501,989
Physical therapy	2,724,942	2,607,989
Occupational therapy	295,259	252,799
Speech therapy	105,031	99,669
Ambulance	149	-
Primary care clinic	1,675,076	-
	52,230,738	42,300,584
Charity care (charges foregone)	(46,903)	(66,151)
Total patient and resident service revenue*	\$ 52,183,835	\$ 42,234,433
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 8,584,215	\$ 6,751,395
Outpatient revenue	43,646,523	35,549,189
Charity care (charges foregone)	(46,903)	(66,151)
Total patient and resident service revenue	52,183,835	42,234,433
Contractual Adjustments	(25,521,039)	(19,560,759)
Policy Discounts	(55,261)	(65,572)
Net Patient and Resident Service Revenue	26,607,535	22,608,102
Provision for Bad Debts	(941,074)	(762,162)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 25,666,461	\$ 21,845,940

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Other Operating Revenues  
Years Ended June 30, 2017 and 2016

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	2017	2016
Other Operating Revenues		
Wellness Center fees	\$ 234,377	\$ 219,278
Other	137,040	14,879
Oakview income, less adjustments to deposits	115,597	290,548
Outpatient clinic	85,590	89,930
Cafeteria	67,933	66,244
Grants	11,644	27,513
Medicare EHR incentive revenue	-	274,237
 Total Other Operating Revenues	 \$ 652,181	 \$ 982,629

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2017 and 2016

	2017	2016
Nursing Administration		
Salaries and wages	\$ 374,020	\$ 153,168
Supplies and other expenses	12,290	2,442
	<u>386,310</u>	<u>155,610</u>
Routine Nursing Services		
Salaries and wages	2,190,313	2,137,910
Supplies and other expenses	305,571	310,117
	<u>2,495,884</u>	<u>2,448,027</u>
Social Services		
Salaries and wages	74,938	134,706
Supplies and other expenses	1,076	2,815
	<u>76,014</u>	<u>137,521</u>
Operating and Recovery Rooms		
Salaries and wages	648,831	563,232
Supplies and other expenses	725,349	630,615
	<u>1,374,180</u>	<u>1,193,847</u>
Central Services and Supply		
Salaries and wages	117,508	106,974
Supplies and other expenses	183,446	163,315
	<u>300,954</u>	<u>270,289</u>
Emergency Services		
Salaries and wages	1,344,450	1,080,354
Supplies and other expenses	1,679,609	1,445,256
	<u>3,024,059</u>	<u>2,525,610</u>
Laboratory and Blood Bank		
Salaries and wages	443,119	407,463
Supplies and other expenses	612,202	499,537
	<u>1,055,321</u>	<u>907,000</u>
Electrocardiology		
Supplies and other expenses	17,922	20,015
Sleep Studies		
Supplies and other expenses	78,052	69,379
Radiology		
Salaries and wages	618,683	605,589
Supplies and other expenses	570,918	533,370
	<u>1,189,601</u>	<u>1,138,959</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2017 and 2016

	2017	2016
Pharmacy		
Salaries and wages	\$ 218,721	\$ 203,416
Supplies and other expenses	887,276	674,103
	<u>1,105,997</u>	<u>877,519</u>
Anesthesiology		
Supplies and other expenses	<u>469,296</u>	<u>404,229</u>
Respiratory Therapy		
Salaries and wages	115,431	111,414
Supplies and other expenses	22,256	20,291
	<u>137,687</u>	<u>131,705</u>
Physical Therapy		
Salaries and wages	771,046	780,167
Supplies and other expenses	50,031	64,092
	<u>821,077</u>	<u>844,259</u>
Speech Therapy		
Supplies and other expenses	<u>58,602</u>	<u>57,915</u>
Occupational Therapy		
Salaries and wages	59,434	41,000
Supplies and other expenses	17,369	53,917
	<u>76,803</u>	<u>94,917</u>
Ambulance		
Supplies and other expenses	<u>1,569</u>	<u>-</u>
Independent Living		
Salaries and wages	68,340	93,427
Supplies and other expenses	44,370	48,490
	<u>112,710</u>	<u>141,917</u>
Outpatient Clinic		
Salaries and wages	109,844	130,664
Supplies and other expenses	8,410	7,283
	<u>118,254</u>	<u>137,947</u>
Primary Care		
Salaries and wages	1,022,814	-
Supplies and other expenses	260,382	-
	<u>1,283,196</u>	<u>-</u>

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Operating Expenses  
Years Ended June 30, 2017 and 2016

	2017	2016
Medical Records		
Salaries and wages	\$ 294,056	\$ 344,081
Supplies and other expenses	59,419	52,494
	353,475	396,575
Dietary		
Salaries and wages	294,164	330,062
Supplies and other expenses	367,867	402,931
	662,031	732,993
Plant Operation and Maintenance		
Salaries and wages	336,816	349,687
Supplies and other expenses	791,701	791,806
	1,128,517	1,141,493
Housekeeping		
Salaries and wages	342,015	361,391
Supplies and other expenses	122,914	138,438
	464,929	499,829
Laundry and Linen		
Salaries and wages	29,957	31,910
Supplies and other expenses	146,273	127,898
	176,230	159,808
Administrative Services		
Salaries and wages	1,372,389	1,531,446
Supplies and other expenses	1,310,857	1,121,447
	2,683,246	2,652,893
Unassigned Expenses		
Depreciation and amortization	2,337,903	2,238,613
Insurance	132,394	74,651
Employee benefits	3,820,648	2,991,148
	6,290,945	5,304,412
Total Operating Expenses	\$ 25,942,861	\$ 22,444,668

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Patient and Resident Receivables and Collection Statistics (Unaudited)  
June 30, 2017 and 2016

**Analysis of Aging**

<u>Days Since Discharge</u>	<u>2017</u>		<u>2016</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30 Days	\$ 5,162,341	51.48%	\$ 4,381,580	64.27%
1 - 2 Months	1,779,878	17.75%	1,210,139	17.75%
2 - 3 Months	1,331,119	13.27%	424,997	6.23%
3 - 4 Months	484,787	4.83%	174,090	2.55%
4 - 5 Months	303,105	3.02%	132,853	1.95%
Over 5 Months	966,595	9.64%	494,232	7.25%
	<u>10,027,825</u>	<u>100.0%</u>	<u>6,817,891</u>	<u>100.0%</u>
Less: Allowance for Doubtful Accounts	(1,199,490)		(743,020)	
Allowance for Contractual Adjustments	(4,035,116)		(3,005,148)	
Net	<u>\$ 4,793,219</u>		<u>\$ 3,069,723</u>	

	<u>2017</u>	<u>2016</u>
<b>Collection Statistics</b>		
Net accounts receivable - patients and residents	\$ 4,793,219	\$ 3,069,723
Number of days charges outstanding (1)	64	48
Uncollectible accounts (2)	\$ 1,009,997	\$ 854,586
Percentage of uncollectible accounts to total charges	1.9%	2.0%

(1) Based on average daily net patient and resident service revenue for April, May, and June.

(2) Includes provision for bad debts, charity care, and collection fees.

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Supplies and Prepaid Expense  
June 30, 2017 and 2016

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	2017	2016
Supplies		
Pharmacy	\$ 140,990	\$ 123,026
Central stores	63,674	61,527
Dietary	15,873	16,860
Total	\$ 220,537	\$ 201,413
Prepaid Expense		
Insurance	\$ 922	\$ 47,359
Other	270,919	170,503
Total	\$ 271,841	\$ 217,862



People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedule of Insurance in Force at June 30, 2017 (Unaudited)

Company	Description	Amount of Coverage	Annual Premium	Expiration Date
Regent Insurance QBE	Building and contents	\$ 65,921,184	\$ 46,214	6/30/2017
	Blanket earnings and expense	\$ 30,532,984		
	Earthquake	\$ 5,000,000		
	Employee dishonesty	\$ 500,000		
Regent Insurance QBE	Auto liability	\$ 1,000,000	\$ 3,129	6/30/2017
	Medical payments	\$ 5,000		
ProAssurance	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 15,000	6/30/2017
ProAssurance	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 2,515	6/30/2017
ProAssurance	Excess umbrella liability	\$ 4,000,000	\$ 4,000	6/30/2017
ProAssurance	Excess umbrella professional liability	\$ 4,000,000	\$ 6,332	6/30/2017
Travelers	Directors' and officers' liability	\$ 2,000,000	\$ 13,880	6/30/2017

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedules of Statistical Information (Unaudited)  
Years Ended June 30, 2017 and 2016

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	<u>2017</u>	<u>2016</u>
Patient Days		
Hospital		
Acute	682	692
Swing-bed	994	766
Nursing Care Center	12,977	12,242
Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
Percentage of Occupancy		
Hospital	18%	16%
Nursing Care Center	91%	86%
Discharges		
Hospital		
Acute	227	208
Swing-bed	83	75
Nursing Care Center	29	38
Average Length of Stay		
Hospital		
Acute	3.0	3.3
Swing-bed	12.0	10.2
Nursing Care Center	447	322



**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***

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, 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 People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center), which comprise the statement of net position as of June 30, 2017, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 25, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Health Center'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 Health Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Health Center'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 Health Center's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2017-A and 2017-B that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

## **The Health Center's Responses to Findings**

The Health Center's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The Health Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the responses.

## **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 Health Center'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 Health Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Dubuque, Iowa  
September 25, 2017



## **Independent Auditor's Report on Compliance for Its Major Federal Program and Report on Internal Control over Compliance Required by The Uniform Guidance**

The Board of Trustees  
People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Independence, Iowa

### **Report on Compliance for Its Major Federal Program**

We have audited People's Memorial Hospital, d/b/a Buchanan County Health Center's (Health Center's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Health Center's major federal program for the year ended June 30, 2017. The Health Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

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

## Opinion on Its Major Federal Program

In our opinion, the Health Center complied, in all material respects with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

## Report on Internal Control over Compliance

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

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

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

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



Dubuque, Iowa  
September 25, 2017

People's Memorial Hospital  
d/b/a Buchanan County Health Center  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

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Federal Grantor/ Pass-through Grantor/ Program Title	CFDA Number	Agency Pass-through Number	Program Expenditures
U.S. Department of Agriculture Community Facilities Loans and Grants	10.776		<u>\$ 18,055,000</u>

**Note A - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (schedule) includes the federal grant activity of People's Memorial Hospital, d/b/a Buchanan County Health Center (Health Center) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Health Center received a federal award directly from a federal agency. No federal financial assistance has been provided to a subrecipient.

The purpose of the schedule is to present a summary of those activities of the Health Center for the year ended June 30, 2017, which the United States government has financed. For the purpose of the schedule, federal awards included all federal assistance entered into directly between the Health Center and the federal government and subawards from nonfederal organizations made under federally sponsored agreements. Since the Schedule presents only a select portion of the activities of the Health Center, it is not intended to, and does not present the statement of net position, statements of revenue, expenses, and changes in net position, and cash flows of the Health Center.

**Note B - Significant Accounting Policies**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Subpart E – Cost Principles of the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Health Center's summary of significant accounting policies is presented in Note 1 to the financial statements.

The Health Center has not elected to use the 10% de minimis cost rate.

**Note C – Community Facilities Loans and Grants Program**

As of June 30, 2017 and 2016, the Health Center had interim financing with an outstanding balance of \$18,055,000 which will be converted to a USDA direct loan once construction is completed. Approximately \$3,963,000 in loan proceeds are held in trust as of June 30, 2017.



**Section I - Summary of Auditor's Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	None reported
Significant deficiency identified not considered to be a material weakness	Yes
Noncompliance material to financial statements noted	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiency identified not considered to be a material weakness	None reported
Type of auditor's report issued on compliance for the major program	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Community Facilities Loans and Grants	10.766
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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**2017-A Preparation of Financial Statements  
Significant Deficiency**

*Criteria:* A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

*Condition:* The Health Center does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements.

*Cause:* The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP, can be considered costly and ineffective.

*Effect:* The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Health Center. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. Accordingly, interim financial statements may be misstated due to adjusting journal entries at year end.

*Recommendation:* It is the responsibility of Health Center management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally and reconcile all accounts, and make any necessary adjustments, on a regular basis.

*Views of Responsible Individuals:* Management agrees with the finding.

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**Section II – Financial Statement Findings (continued)**

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**2017-B Segregation of Duties  
Significant Deficiency**

*Criteria:* One important aspect of internal control is the segregation of duties among employees to prevent an individual from handling duties which are incompatible.

*Condition:* An effective system of internal control will be designed such that duties are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

*Cause:* The limited number of office personnel prevents a proper segregation of accounting functions necessary to ensure optimal effective internal control. This is not an unusual condition in organizations of your size.

*Effect:* The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

*Recommendation:* We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Health Center should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances.

*Views of Responsible Individuals:* Management agrees with the finding.

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**Section III – Federal Award Findings and Questioned Costs**

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There were no findings or questioned costs relating to the major federal award program which were required to be reported in accordance with 2 CFR 200.516.

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**Section IV – Other Findings Related to Required Statutory Reporting**

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- 2017-IA-A Certified Budget** – Disbursements during the year ended June 30, 2017, did not exceed the amount budgeted.
- 2017-IA-B Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2017-IA-C Travel Expense** – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.
- 2017-IA-D Business Transactions** – We noted no material transactions between the Health Center and Health Center officials and/or employees.
- 2017-IA-E Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2017-IA-F Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Health Center’s investment policy were noted.