



Financial Statements
June 30, 2018 and 2017



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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Trustees</u>	
Rob Robinson	Chairperson	2020
Carmen Mescher	Vice Chairperson	2022
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, 2018 and 2017, 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.

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, 2018 and 2017, 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 39 and 40, 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 41 through 43 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 October 15, 2018 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
October 15, 2018

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, 2018, 2017, and 2016. 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, 2018, indicates total assets of \$54,410,638, total deferred outflows of resources of \$4,017,705, total liabilities of \$39,712,709, total deferred inflows of resources of \$1,575,581, and net position of \$17,140,053. 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 \$49,486,740, 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 Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2018 indicates total net patient and resident service revenue of \$27,409,865 increased 6.34% and total operating expenses of \$29,221,333 increased 12.64% from the previous year, resulting in operating loss of \$1,045,593. Net non-operating revenues of \$1,005,902 brings the change in net position to (\$39,691), a decrease of 102.81% from the prior year. The Statement of Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2017 indicates total net patient and resident service revenue of \$25,774,874 increased 17.98% 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 for the year ended 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 Health Center's current assets exceeded its current liabilities by \$11,441,898 at June 30, 2018, providing a 3.15 current ratio. 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 total days of cash on hand at June 30, 2018 were 159 (not including project funds). 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).
- Gross outpatient charges increased 8.5% during fiscal year 2018. Gross outpatient charges increased 22.8% during fiscal year 2017. Gross outpatient charges increased 8.2% during fiscal year 2016.
- Nursing Home gross charges increased 11.42% during fiscal year 2018. Nursing Home gross charges increased 15.5% during fiscal year 2017. Nursing Home gross charges decreased 11.6% during fiscal year 2016.
- Net patient and resident days in accounts receivable were 42 days at June 30, 2018. 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.

- Statistical information for the year ended June 30, 2018:
 - 13,723- Nursing Home patient days (5.7% increase)
 - 1,177 - Surgical Cases (12.5% decrease)
 - 64,247 - Laboratory tests (23.9% increase)
 - 12,395 - Radiology Tests (13.4% increase)
 - 23,535 - Physical Therapy modalities (0.2% increase)
 - 5,148 - Emergency Room patients (4.0% decrease)
 - 594 - Acute Care patient days (12.9% decrease)
 - 891 - SNF Care patient days (10.4% decrease)
- The Health Center's net position decreased approximately \$40,000 from June 30, 2017 to June 30, 2018. Net position increased approximately \$1.411 million from June 30, 2016 to June 30, 2017.

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,		
	2018	2017	2016
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 11,511,518	\$ 8,091,959	\$ 7,407,571
Assets limited as to use or restricted	65,763	1,523,349	916,493
Patient and resident receivables, net of estimated uncollectibles	3,150,017	4,793,219	3,069,723
Succeeding year property tax receivable	1,151,851	1,114,076	1,098,342
Estimated third-party payor settlements	-	-	306,000
Other	881,910	611,171	431,941
Total current assets	16,761,059	16,133,774	13,230,070
Assets Limited as to Use or Restricted	138,145	3,812,300	16,381,506
Capital Assets, Net	37,363,434	32,687,824	20,227,164
Beneficial interest in charitable trust	148,000	148,000	148,000
Total assets	54,410,638	52,781,898	49,986,740
Deferred Outflows of Resources			
Unamortized excess of consideration paid as part of an acquisition	150,000	150,000	-
Pension related deferred outflows	3,867,705	2,996,812	2,050,431
Total deferred outflows of resources	4,017,705	3,146,812	2,050,431
Total assets and deferred outflows of resources	\$ 58,428,343	\$ 55,928,710	\$ 52,037,171

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,		
	2018	2017	2016
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 910,395	\$ 673,034	\$ 646,124
Accounts payable			
Trade	832,150	500,400	447,959
Construction	1,316,350	1,455,409	853,138
Estimated third-party payor settlements	622,000	843,000	-
Accrued expenses	1,638,266	1,685,174	1,374,985
Total current liabilities	<u>5,319,161</u>	<u>5,157,017</u>	<u>3,322,206</u>
Noncurrent Liabilities			
Deposits	1,830,100	1,828,600	1,795,100
Long-term debt, less current maturities	23,018,787	22,322,993	22,936,341
Net pension liability	9,544,661	8,014,429	6,460,004
Total noncurrent liabilities	<u>34,393,548</u>	<u>32,166,022</u>	<u>31,191,445</u>
Total liabilities	<u>39,712,709</u>	<u>37,323,039</u>	<u>34,513,651</u>
Deferred Inflows of Resources			
Deferred revenue for succeeding year property tax receivable	1,151,851	1,114,076	1,098,342
Pension related deferred inflows	243,324	175,048	545,229
Deferred revenue	180,406	136,803	111,397
Total deferred inflows of resources	<u>1,575,581</u>	<u>1,425,927</u>	<u>1,754,968</u>
Net Position			
Net investment in capital assets	10,425,416	11,674,967	11,230,575
Restricted	213,763	215,940	211,355
Unrestricted	6,500,874	5,288,837	4,326,622
Total net position	<u>17,140,053</u>	<u>17,179,744</u>	<u>15,768,552</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 58,428,343</u>	<u>\$ 55,928,710</u>	<u>\$ 52,037,171</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,		
	2018	2017	2016
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 27,409,865	\$ 25,774,874	\$ 21,845,940
Other operating revenues	765,875	543,768	982,629
Total Operating Revenues	<u>28,175,740</u>	<u>26,318,642</u>	<u>22,828,569</u>
Operating Expenses			
Salaries and wages	11,817,703	10,846,889	9,498,061
Supplies and other expenses	14,238,726	12,758,069	10,707,994
Depreciation and amortization	3,164,904	2,337,903	2,238,613
Total Operating Expenses	<u>29,221,333</u>	<u>25,942,861</u>	<u>22,444,668</u>
Operating Income (Loss)	<u>(1,045,593)</u>	<u>375,781</u>	<u>383,901</u>
Nonoperating Revenues (Expenses)			
County tax revenue	1,128,412	1,113,097	1,069,809
Noncapital grants and contributions	20,185	4,320	17,364
Investment income	83,218	53,200	61,531
Interest and financing expense	(292,071)	(179,914)	(449,262)
Rental income	64,973	44,708	38,524
Gain on disposal of capital assets	1,185	-	-
Net Nonoperating Revenues	<u>1,005,902</u>	<u>1,035,411</u>	<u>737,966</u>
Change in Net Position	(39,691)	1,411,192	1,121,867
Net Position Beginning of Year	<u>17,179,744</u>	<u>15,768,552</u>	<u>14,646,685</u>
Net Position, End of Year	<u><u>\$ 17,140,053</u></u>	<u><u>\$ 17,179,744</u></u>	<u><u>\$ 15,768,552</u></u>

Capital Assets

Significant capital purchases during the year ended June 30, 2018, included:

- \$309,000 for mammography machine
- \$94,000 for ultrasound machine
- \$605,000 for boiler project
- \$55,000 for drug dispensing machine in Ambulatory Surgery
- \$47,000 in long-term care resident cabinets
- \$34,000 in long-term care beds
- \$518,000 in computer networking equipment
- \$90,000 for telephone system
- \$67,000 for an examination table
- \$71,000 for food service tables and equipment
- \$107,000 in arthroscopes for Surgical Services
- \$90,000 in patient monitoring equipment in Acute Care

The Health Center has completed its current hospital expansion project during 2018. The project was being funded with debt and internal funds.

Long-Term Debt

Buchanan County Health Center had \$910,395 and \$23,018,787 respectively, in short-term and long-term debt at June 30, 2018. The Health Center had \$673,034 and \$22,322,993 respectively, in short-term and long-term debt at June 30, 2017 and \$646,124 and \$22,936,341, respectively, in short-term and long-term debt at June 30, 2016. 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 2019 budget. Of primary consideration in the 2019 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- 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 Drug 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

	2018	2017
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents - Note 3	\$ 11,511,518	\$ 8,091,959
Assets limited as to use or restricted - Note 3		
Restricted project-related funds	-	1,455,409
Restricted under debt agreements	65,763	67,940
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,008,000 in 2018 and \$1,199,000 in 2017	3,150,017	4,793,219
Succeeding year property tax	1,151,851	1,114,076
Other	167,946	118,793
Supplies	324,850	220,537
Prepaid expense	389,114	271,841
Total current assets	<u>16,761,059</u>	<u>16,133,774</u>
Assets Limited as to Use or Restricted - Note 3		
Investments		
Restricted project-related funds	137,614	3,811,770
By board for capital improvements	531	530
Total assets limited as to use or restricted	<u>138,145</u>	<u>3,812,300</u>
Capital Assets - Note 4		
Capital assets not being depreciated	1,314,559	15,931,104
Depreciable capital assets, net of accumulated depreciation	36,048,875	16,756,720
Total capital assets, net	<u>37,363,434</u>	<u>32,687,824</u>
Other Assets		
Beneficial interest in charitable trust	148,000	148,000
Total assets	<u>54,410,638</u>	<u>52,781,898</u>
Deferred Outflows of Resources		
Unamortized excess of consideration paid as part of an acquisition - Note 5	150,000	150,000
Pension related deferred outflows - Note 7	3,867,705	2,996,812
Total deferred outflows of resources	<u>4,017,705</u>	<u>3,146,812</u>
Total assets and deferred outflows of resources	<u>\$ 58,428,343</u>	<u>\$ 55,928,710</u>

See Notes to Financial Statements

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Net Position
June 30, 2018 and 2017

	2018	2017
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt - Note 9	\$ 910,395	\$ 673,034
Accounts payable		
Trade	832,150	500,400
Construction	1,316,350	1,455,409
Estimated third-party payor settlements	622,000	843,000
Accrued expenses		
Salaries and wages	219,394	191,152
Vacation	728,884	765,037
Payroll taxes and other	440,216	434,213
Interest	34,772	34,772
Self-insurance claims - Note 11	215,000	260,000
Total current liabilities	5,319,161	5,157,017
Noncurrent Liabilities		
Deposits	1,830,100	1,828,600
Long-term debt, less current maturities - Note 9	23,018,787	22,322,993
Net pension liability - Note 7	9,544,661	8,014,429
Total noncurrent liabilities	34,393,548	32,166,022
Total liabilities	39,712,709	37,323,039
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax	1,151,851	1,114,076
Pension related deferred inflows - Note 7	243,324	175,048
Deferred revenue	180,406	136,803
Total deferred inflows of resources	1,575,581	1,425,927
Net Position		
Net investment in capital assets	10,425,416	11,674,967
Restricted		
Expendable for debt service	65,763	67,940
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	6,500,874	5,288,837
Total net position	17,140,053	17,179,744
Total liabilities, deferred inflows of resources, and net position	\$ 58,428,343	\$ 55,928,710

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$822,930 in 2018 and \$941,074 in 2017)	\$ 27,409,865	\$ 25,774,874
Other operating revenues	<u>765,875</u>	<u>543,768</u>
Total operating revenues	<u>28,175,740</u>	<u>26,318,642</u>
Operating Expenses		
Salaries and wages	11,817,703	10,846,889
Employee benefits	4,455,466	3,820,648
Supplies and other expenses	9,783,260	8,937,421
Depreciation and amortization	<u>3,164,904</u>	<u>2,337,903</u>
Total operating expenses	<u>29,221,333</u>	<u>25,942,861</u>
Operating Income (Loss)	<u>(1,045,593)</u>	<u>375,781</u>
Nonoperating Revenues (Expenses)		
Property tax revenue	1,128,412	1,113,097
Noncapital grants and contributions	20,185	4,320
Investment income	83,218	53,200
Interest and financing expense	(292,071)	(179,914)
Rental income	64,973	44,708
Gain on disposal of capital assets	<u>1,185</u>	<u>-</u>
Net nonoperating revenues	<u>1,005,902</u>	<u>1,035,411</u>
Change in Net Position	(39,691)	1,411,192
Net Position Beginning of Year	<u>17,179,744</u>	<u>15,768,552</u>
Net Position, End of Year	<u>\$ 17,140,053</u>	<u>\$ 17,179,744</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 28,875,670	\$ 25,225,784
Other receipts	716,722	437,641
Payments to and on behalf of employees	(15,592,462)	(15,673,910)
Payments to suppliers and contractors	<u>(9,673,096)</u>	<u>(7,320,899)</u>
Net Cash from Operating Activities	<u>4,326,834</u>	<u>2,668,616</u>
Noncapital Financing Activities		
County tax revenue received	1,128,412	1,113,097
Noncapital grants and contributions received	<u>20,185</u>	<u>4,320</u>
Net Cash from Noncapital Financing Activities	<u>1,148,597</u>	<u>1,117,417</u>
Capital and Capital Related Financing Activities		
Purchase of capital assets	(7,979,573)	(13,578,551)
Proceeds from sale of capital assets	1,185	-
Proceeds from residency deposits	207,000	136,000
Payments of residency deposits	(205,500)	(102,500)
Proceeds from issuance of debt	2,728,064	-
Payment of principal on debt	(1,794,909)	(715,938)
Payment of interest on debt and financing costs	<u>(292,071)</u>	<u>(179,914)</u>
Net Cash used for Capital and Capital Related Financing Activities	<u>(7,335,804)</u>	<u>(14,440,903)</u>
Investing Activities		
Decrease in assets limited as to use or restricted	5,131,741	11,962,350
Purchase of intangible assets	-	(571,000)
Consideration paid as part of an acquisition	-	(150,000)
Investment income received	83,218	53,200
Rental income received	<u>64,973</u>	<u>44,708</u>
Net Cash from Investing Activities	<u>5,279,932</u>	<u>11,339,258</u>
Net Change in Cash and Cash Equivalents	3,419,559	684,388
Cash and Cash Equivalents at Beginning of Year	<u>8,091,959</u>	<u>7,407,571</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 11,511,518</u></u>	<u><u>\$ 8,091,959</u></u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Reconciliation of Operating Income to Net Cash from		
Operating Activities		
Operating income (loss)	\$ (1,045,593)	\$ 375,781
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	3,164,904	2,337,903
Provision for bad debts	822,930	941,074
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Receivables	771,119	(2,770,697)
Estimated third-party payor settlements	(221,000)	1,149,000
Supplies	(104,313)	(19,124)
Prepaid expense	(117,273)	(53,979)
Trade accounts payable	331,750	135,200
Accrued expenses	(46,908)	310,189
Net pension liability	1,530,232	1,554,425
Deferred outflows of resources	(870,893)	(946,381)
Deferred inflows of resources	111,879	(344,775)
Net Cash from Operating Activities	\$ 4,326,834	\$ 2,668,616
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Capital assets during the year financed through accounts payable	\$ 1,316,350	\$ 1,455,409
Equipment financed through capital lease arrangements	\$ -	\$ 129,500
Supplemental Disclosure of Cash Flow Information		
Amounts paid for capitalized interest	\$ 108,843	\$ 270,551

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 available, 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, deposits, 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, 2017 to June 30, 2018. 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 2017 or 2018.

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 cost (first-in, first-out) 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 non-operating revenues when earned.

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
Intangibles	5 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.

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.

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, contributions from the employer after the measurement date but before the end of the employer's reporting period, and unamortized excess of consideration paid as part of an acquisition.

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, 2018 and 2017.

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 non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Health Center's principal activity. Non-exchange revenues, including interest income, taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating 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 \$100,955 and \$46,903 for the years ended June 30, 2018 and 2017. Total direct and indirect costs related to these foregone charges were \$52,000 and \$23,000 at June 30, 2018 and 2017, 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.

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 non-operating revenues. Amounts restricted to capital acquisitions are reported after net non-operating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Financing Costs

Financing costs are expensed as incurred and included in interest expense on the statement of revenues, expenses and changes in net position.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Health Center incurred \$103,879 and \$101,221 for advertising costs for the years ended June 30, 2018 and 2017.

Reclassifications

Reclassifications have been made to the June 30, 2017 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

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 acute care services under a cost methodology with final settlement determined after submission of annual cost reports by the Health Center and are subject to audits thereof by the Medicare intermediary. The Health Center's Medicare cost reports have been audited by the Medicare Administrative Contractor through the year ended June 30, 2016. Clinical services are paid on a cost basis or a fixed fee schedule.

Medicaid

Inpatient and outpatient services rendered to Medicaid program beneficiaries not covered under Medicaid Managed Care Organization Contracts are paid 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 through the year ended June 30, 2015. Also, inpatient, outpatient and clinical services rendered to Medicaid program beneficiaries who are covered under Medicaid Managed Care Organization contracts are paid primarily based on a prospective payment methodology.

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, 2018 and 2017:

	2018	2017
Medicare	48%	49%
Medicaid	15%	14%
Blue Cross	18%	19%
Other Commercial	14%	13%
Self-Pay	5%	5%
	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, 2018 and 2017, increased approximately \$46,000 and \$106,000 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, 2018 and 2017 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, 2018 and 2017 the Health Center's carrying amounts of deposits and investments are as follows:

	2018	2017
Checking, Savings, and Money Market Accounts	\$ 11,715,426	\$ 13,427,608
Included in the Following Statements of Net Position Captions:		
Cash and Cash Equivalents	\$ 11,511,518	\$ 8,091,959
Assets Limited as to Use or Restricted - current assets	65,763	1,523,349
Assets Limited as to Use or Restricted	138,145	3,812,300
	\$ 11,715,426	\$ 13,427,608

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, 2018 and 2017 was as follows:

	June 30, 2017 Balance	Additions	Transfers and Retirements	June 30, 2018 Balance
Capital Assets Not Being Depreciated				
Land	\$ 1,312,504	\$ -	\$ -	\$ 1,312,504
Construction in progress	14,618,600	6,396,617	(21,013,162)	2,055
Total capital assets not being depreciated	<u>15,931,104</u>	<u>\$ 6,396,617</u>	<u>\$ (21,013,162)</u>	<u>1,314,559</u>
Capital Assets Being Depreciated				
Land improvements	1,591,882	\$ -	\$ 1,583,680	3,175,562
Buildings	24,024,764	683,249	17,828,951	42,536,964
Equipment	13,221,170	760,647	1,600,531	15,582,348
Intangibles	571,000	-	-	571,000
Total capital assets being depreciated	<u>39,408,816</u>	<u>\$ 1,443,896</u>	<u>\$ 21,013,162</u>	<u>61,865,874</u>
Less Accumulated Depreciation for				
Land improvements	471,878	\$ 116,674	\$ -	588,552
Buildings	12,768,237	1,608,960	-	14,377,197
Equipment	9,354,881	1,325,069	-	10,679,950
Intangibles	57,100	114,200	-	171,300
Total accumulated depreciation	<u>22,652,096</u>	<u>\$ 3,164,903</u>	<u>\$ -</u>	<u>25,816,999</u>
Total Capital Assets Being Depreciated, Net	<u>16,756,720</u>			<u>36,048,875</u>
Total Capital Assets, Net	<u>\$ 32,687,824</u>			<u>\$ 37,363,434</u>

People's Memorial Hospital
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Notes to Financial Statements
June 30, 2018 and 2017

	June 30, 2016 Balance	Additions	Transfers and Retirements	June 30, 2017 Balance
Capital Assets Not Being Depreciated				
Land	\$ 1,312,504	\$ -	\$ -	\$ 1,312,504
Construction in progress	3,485,168	13,094,131	(1,960,699)	14,618,600
Total capital assets not being depreciated	<u>4,797,672</u>	<u>\$ 13,094,131</u>	<u>\$ (1,960,699)</u>	<u>15,931,104</u>
Capital Assets Being Depreciated				
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
Intangibles	-	571,000	-	571,000
Total capital assets being depreciated	<u>35,743,686</u>	<u>\$ 1,704,431</u>	<u>\$ 1,960,699</u>	<u>39,408,816</u>
Less Accumulated Depreciation for				
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
Intangibles	-	57,100	-	57,100
Total accumulated depreciation	<u>20,314,194</u>	<u>\$ 2,337,902</u>	<u>\$ -</u>	<u>22,652,096</u>
Total Capital Assets Being Depreciated, Net	<u>15,429,492</u>			<u>16,756,720</u>
Total Capital Assets, Net	<u>\$ 20,227,164</u>			<u>\$ 32,687,824</u>

Note 5 - Deferred Outflows of Resources Related to Clinic Acquisition

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, 2018 and 2017 is as follows:

	2018	2017
Balance, Beginning of Year	\$ 150,000	\$ -
Excess consideration paid as part of acquisition	-	150,000
Balance, End of Year	\$ 150,000	\$ 150,000

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

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.

	2018	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 P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

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

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

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

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012, will use the highest three-year average salary as of that date 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 average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% 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 - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2018 and 2017, 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 2018 and 2017, 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, 2018 and 2017 were \$987,282 and \$958,029.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2018 and 2017, the Health Center reported a liability of \$9,544,661 and \$8,014,429 for its proportionate share of the net pension liability. The Health Center's net pension liability was measured as of June 30, 2017 and 2016, 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 IPERS relative to the contributions of all IPERS participating employers. At June 30, 2017, the Health Center's collective proportion was 0.143286 percent, which was a decrease of 0.00016 from its proportion measured as of June 30, 2016 of 0.127348 percent.

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Notes to Financial Statements
June 30, 2018 and 2017

For the years ended June 30, 2018 and 2017, the Health Center recognized pension expense of \$1,744,089 and \$1,171,520. At June 30, 2018 and 2017, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ 87,749	\$ 83,240	\$ 70,793	\$ 97,077
Changes of Assumptions	1,664,088	7	122,208	19
Net Difference Between Projected and Actual Earnings on IPERS' Investments	-	100,170	1,151,541	-
Changes in Proportion and Differences Between Health Center Contributions and Proportionate Share of Contributions	1,128,586	59,907	694,241	77,952
Health Center Contributions Subsequent to the Measurement Date	<u>987,282</u>	<u>-</u>	<u>958,029</u>	<u>-</u>
Total	<u>\$ 3,867,705</u>	<u>\$ 243,324</u>	<u>\$ 2,996,812</u>	<u>\$ 175,048</u>

The \$987,282 in 2018 and \$958,029 in 2017 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 years ended June 30, 2019 and 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	2018	2017
2018	\$ -	\$ 393,429
2019	630,767	393,429
2020	1,032,365	740,680
2021	608,022	349,048
2022	204,446	(12,851)
2023	<u>161,499</u>	<u>-</u>
	<u>\$ 2,637,099</u>	<u>\$ 1,863,735</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Salary Increases (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-Term Investment Rate of Return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage Growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and .65% real wage inflation.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of actuarial experience study dated March 24, 2017.

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 IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of 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:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	24%	6.25%
International Equity	16%	6.71%
Core-Plus Fixed Income	26%	2.25%
Public Credit	4%	3.46%
Public Real Assets	7%	3.27%
Cash	1%	(0.31%)
Private Equity	11%	11.15%
Private Real Assets	8%	4.18%
Private Credit	3%	4.25%
	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.00% and 7.50% for the years ended June 30, 2018 and 2017. 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 IPERS' 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 IPERS' 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 7.00%, 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% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)								
Health Center's Proportionate Share of the Net Pension Liability at June 30, 2018	\$ 15,750,706	\$ 9,544,661	\$ 4,330,416								
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 45%;"></th> <th style="text-align: center; border-bottom: 1px solid black;">1% Decrease (6.50%)</th> <th style="text-align: center; border-bottom: 1px solid black;">Discount Rate (7.50%)</th> <th style="text-align: center; border-bottom: 1px solid black;">1% Increase (8.50%)</th> </tr> </thead> <tbody> <tr> <td style="padding-top: 10px;">Health Center's Proportionate Share of the Net Pension Liability at June 30, 2017</td> <td style="text-align: right; vertical-align: bottom;">\$ 13,002,327</td> <td style="text-align: right; vertical-align: bottom;">\$ 8,014,429</td> <td style="text-align: right; vertical-align: bottom;">\$ 3,804,624</td> </tr> </tbody> </table>					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, 2017	\$ 13,002,327	\$ 8,014,429	\$ 3,804,624
	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, 2017	\$ 13,002,327	\$ 8,014,429	\$ 3,804,624								

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to IPERS - At June 30, 2018 and 2017, the Health Center reported payables to the defined benefit pension plan of \$133,589 and \$131,858 for legally required employer contributions and \$74,936 and \$76,561 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 non-cancelable 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, 2018 and 2017 was \$169,651 and \$149,582. The capitalized leased assets consist of:

	2018	2017
Equipment	\$ 786,346	\$ 786,346
Less Accumulated Amortization	(597,861)	(410,410)
	\$ 188,485	\$ 375,936

Minimum future lease payments for the capital leases are as follows:

Years Ending June 30,	
2019	\$ 186,319
2020	36,702
2021	10,340
2022	4,199
Total Minimum Lease Payments	237,560
Less interest	(7,074)
Present Value of Minimum Lease Payments - Note 9	\$ 230,486

Note 9 - Long-Term Debt

A summary of changes in the Health Center's long-term debt for the years ended June 30, 2018 and 2017 is as follows:

	June 30, 2017 Balance	Additions	Payments	June 30, 2018 Balance	Amounts Due Within One Year
2.95% hospital promissory note, Payable to Bank Iowa, due in monthly installments of \$19,315, refinanced in fiscal year 2018	\$ 1,237,416	\$ -	\$ 1,237,416	\$ -	\$ -
0% hospital promissory note, payable to Independence Light & Power, due in monthly installments of \$4,285.	8,572	-	8,572	-	-
Hospital Revenue Note, Series 2004, maturity date of May 1, 2025 (A)	2,407,242	-	278,627	2,128,615	286,206
Hospital Revenue Note, Series 2015, maturity date December 1, 2045, interest only payments through December 2018 (B)	874,732	636,100	64,400	1,446,432	17,266
Hospital Revenue Notes, Series 2016, maturity date on December 1, 2018 (C)	18,055,000	-	-	18,055,000	228,728
3% Note Payable, Series 2016, anticipated maturity date in 2033 (D)	-	1,000,000	-	1,000,000	53,975
3.12% Farmers State Bank loan, issued April 1, 2018, due in monthly installments of \$14,489, maturity date in 2025	-	1,091,964	23,315	1,068,649	142,554
Capital Lease obligations- Note 8	413,065	-	182,579	230,486	181,666
	<u>\$ 22,996,027</u>	<u>\$ 2,728,064</u>	<u>\$ 1,794,909</u>	23,929,182	<u>\$ 910,395</u>
Less Current Maturities				<u>(910,395)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 23,018,787</u>	

People's Memorial Hospital
d/b/a Buchanan County Health Center
Notes to Financial Statements
June 30, 2018 and 2017

	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 (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 December 1, 2018. (C)	18,055,000	-	-	18,055,000	-
Capitalized lease obligation -	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 (673,034)	<u>\$ 673,034</u>
Less Current Maturities				<u>(673,034)</u>	
Long-Term Debt, Less Current Maturities				<u>\$ 22,322,993</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 prior to fiscal year 2018 were used to refund the remaining balance of the Series 2009 revenue note. Remaining funds are being drawn 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.
- (D) The Health Center entered into a \$1,000,000 note payable during 2018 to help fund the building project. The interest rate on this note is 3% with annual installments of principle and interest in an amount equal to \$82,870, maturing in 2031.

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
2019	\$ 910,395	\$ 699,483	\$ 1,609,878
2020	1,032,334	559,815	1,592,149
2021	1,032,765	533,025	1,565,790
2022	1,053,675	505,971	1,559,646
2023	1,077,163	478,285	1,555,448
2024-2028	4,165,535	2,023,455	6,188,990
2029-2033	3,653,163	1,571,963	5,225,126
2034-2038	3,695,690	1,120,191	4,815,881
2039-2043	4,173,223	642,658	4,815,881
2040-2044	3,135,239	133,892	3,269,131
	<u>\$ 23,929,182</u>	<u>\$ 8,268,738</u>	<u>\$ 32,197,920</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, 2018 and 2017 was as follows:

	2018	2017
Medicare	40%	42%
Medicaid	12%	11%
Blue Cross	13%	14%
Commerical Insurance	18%	17%
Other Third-Party Payors, Patients, and Residents	17%	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, 2018 and 2017.

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 but 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. Liabilities of \$215,000 and \$260,000 have been recorded to recognize the estimated incurred but not reported claims outstanding at June 30, 2018 and 2017. The amounts have been estimated based on historical trends. Changes in the balance of claims liabilities during the past two years are as follows:

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>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2018	\$ 260,000	\$ 1,643,766	\$ (1,688,766)	\$ 215,000
2017	\$ -	\$ 1,159,358	\$ (899,358)	\$ 260,000

Note 12 - Affiliation Agreement with Allen Health Systems, Inc.

The Health Center has an affiliation agreement with Allen Health Systems, Inc., which is also an affiliate of UnityPoint Health. The Health Center and Allen Health Systems, Inc. have entered into this agreement to further improve the quality and coordination of care in the region and to improve patient access to care. As part of this agreement, the Health Center has obtained its current electronic medical record system, and it also purchases additional professional services from Allen Health Systems, Inc. During the years ended June 30, 2018 and 2017, the Health Center paid \$597,683 and \$1,153,035 for these services, fees, and its electronic medical records system.



Required Supplementary Information
June 30, 2018 and 2017



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, 2018

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 1,128,412	\$ -	\$ 1,128,412	\$ 1,114,076	\$ 14,336
Estimated Other Revenues/Receipts	<u>28,345,301</u>	<u>4,144,716</u>	<u>32,490,017</u>	<u>29,528,052</u>	<u>2,961,965</u>
	29,473,713	4,144,716	33,618,429	30,642,128	2,976,301
Expenses/Disbursements	<u>29,513,404</u>	<u>5,817,207</u>	<u>35,330,611</u>	<u>48,057,485</u>	<u>12,726,874</u>
Net	(39,691)	(1,672,491)	(1,712,182)	(17,415,357)	<u>\$ 15,703,175</u>
Balance, Beginning of Year	<u>17,179,744</u>	<u>(3,752,136)</u>	<u>13,427,608</u>	<u>(14,465,754)</u>	
Balance, End of Year	<u>\$ 17,140,053</u>	<u>\$ (5,424,627)</u>	<u>\$ 11,715,426</u>	<u>\$ (31,881,111)</u>	

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41.

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, 2018.

For the year ended June 30, 2018, the Health Center's expenditures did not exceed the adopted budgeted amount.

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, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Health Center's Proportion of the Net Pension Liability	0.143286%	0.127348%	0.130756%	0.121466%
Health Center's Proportionate Share of the Net Pension Liability	\$ 9,544,660	\$ 8,014,429	\$ 6,460,003	\$ 4,817,222
Health Center's Covered Payroll	\$ 10,739,089	\$ 9,219,172	\$ 9,051,343	\$ 8,122,856
Health Center's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	88.88%	86.93%	71.37%	59.30%
IPERS' Net Position as a Percentage of the Total Pension Liability	81.23%	81.82%	85.19%	87.61%

In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

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.

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily Required Contribution	\$ 987,282	\$ 958,029	\$ 829,834	\$ 810,486
Contributions in Relation to the Statutorily Required Contribution	<u>(987,282)</u>	<u>(958,029)</u>	<u>(829,834)</u>	<u>(810,486)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Health Center's Covered Payroll	\$ 11,350,020	\$ 10,739,089	\$ 9,219,172	\$ 9,051,343
Contributions as a Percentage of Covered Payroll	8.93%	8.93%	8.93%	8.93%

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, 2018

<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ 725,371	\$ 595,514	\$ 546,645	\$ 449,353	\$ 420,674	\$ 372,209
<u>(725,371)</u>	<u>(595,514)</u>	<u>(546,645)</u>	<u>(449,353)</u>	<u>(420,674)</u>	<u>(372,209)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 8,122,856	\$ 6,868,674	\$ 6,773,792	\$ 6,465,511	\$ 6,325,925	\$ 5,861,559
8.93%	8.67%	8.07%	6.95%	6.65%	6.35%

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

Changes of assumptions:

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

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

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the 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.



Federal Awards Reports in Accordance with Uniform
Guidance and Supplementary Information
June 30, 2018 and 2017





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, 2018 and 2017, and our report thereon dated October 15, 2018, 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 and collection statistics, supplies and prepaid expense, insurance in force at June 30, 2018, 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, 2018 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* (Uniform Guidance) 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 and collection statistics, insurance in force at June 30, 2018, 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 black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
October 15, 2018

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Patient and Resident Service Revenue		
Routine services - hospital	\$ 2,454,418	\$ 2,716,486
Routine services - nursing care center	2,964,889	2,661,011
Operating and recovery rooms	6,000,656	5,955,871
Central services and supply	825,598	1,469,309
Emergency services and wound/urgent care	11,443,636	11,163,177
Laboratory and blood bank	6,924,480	6,149,988
Cardiac rehab	281,541	224,931
Electrocardiology	404,528	420,600
Sleep studies	516,821	524,133
Radiology	11,441,264	10,389,794
Pharmacy	3,349,306	3,589,028
Anesthesiology	1,265,497	1,421,001
Respiratory therapy	919,644	744,952
Physical therapy	2,798,773	2,724,942
Occupational therapy	317,891	295,259
Speech therapy	92,823	105,031
Ambulance	-	149
Primary care clinic	3,734,350	1,783,489
	<u>55,736,115</u>	<u>52,339,151</u>
Charity care (charges foregone)	(100,955)	(46,903)
Total patient and resident service revenue*	<u>\$ 55,635,160</u>	<u>\$ 52,292,248</u>
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 8,269,529	\$ 8,584,215
Outpatient revenue	47,466,586	43,754,936
Charity care (charges foregone)	(100,955)	(46,903)
Total patient and resident service revenue	55,635,160	52,292,248
Contractual Adjustments	(27,365,579)	(25,521,039)
Policy Discounts	<u>(36,786)</u>	<u>(55,261)</u>
Net Patient and Resident Service Revenue	28,232,795	26,715,948
Provision for Bad Debts	<u>(822,930)</u>	<u>(941,074)</u>
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	<u>\$ 27,409,865</u>	<u>\$ 25,774,874</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Other Operating Revenues
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Other Operating Revenues		
Oakview income, less adjustments to deposits	\$ 276,516	\$ 115,597
Wellness Center fees	273,471	234,377
Outpatient clinic	81,534	85,590
Cafeteria	62,046	67,933
Grants	22,184	11,644
Other	<u>50,124</u>	<u>28,627</u>
Total Other Operating Revenues	<u>\$ 765,875</u>	<u>\$ 543,768</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Nursing Administration		
Salaries and wages	\$ 314,589	\$ 374,020
Supplies and other expenses	15,489	12,290
	<u>330,078</u>	<u>386,310</u>
Routine Nursing Services		
Salaries and wages	2,300,340	2,190,313
Supplies and other expenses	509,479	305,571
	<u>2,809,819</u>	<u>2,495,884</u>
Social Services		
Salaries and wages	77,670	74,938
Supplies and other expenses	485	1,076
	<u>78,155</u>	<u>76,014</u>
Operating and Recovery Rooms		
Salaries and wages	610,038	648,831
Supplies and other expenses	864,631	725,349
	<u>1,474,669</u>	<u>1,374,180</u>
Central Services and Supply		
Salaries and wages	124,852	117,508
Supplies and other expenses	119,244	183,446
	<u>244,096</u>	<u>300,954</u>
Emergency Services		
Salaries and wages	1,349,329	1,344,450
Supplies and other expenses	1,636,016	1,679,609
	<u>2,985,345</u>	<u>3,024,059</u>
Laboratory and Blood Bank		
Salaries and wages	418,518	443,119
Supplies and other expenses	742,495	612,202
	<u>1,161,013</u>	<u>1,055,321</u>
Electrocardiology		
Supplies and other expenses	29,548	17,922
Sleep Studies		
Supplies and other expenses	70,454	78,052
Radiology		
Salaries and wages	663,291	618,683
Supplies and other expenses	617,797	570,918
	<u>1,281,088</u>	<u>1,189,601</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2018 and 2017

	2018	2017
Pharmacy		
Salaries and wages	\$ 217,694	\$ 218,721
Supplies and other expenses	820,239	887,276
	<u>1,037,933</u>	<u>1,105,997</u>
Anesthesiology		
Supplies and other expenses	<u>405,424</u>	<u>469,296</u>
Respiratory Therapy		
Salaries and wages	105,750	115,431
Supplies and other expenses	25,937	22,256
	<u>131,687</u>	<u>137,687</u>
Physical Therapy		
Salaries and wages	796,126	771,046
Supplies and other expenses	63,540	50,031
	<u>859,666</u>	<u>821,077</u>
Speech Therapy		
Supplies and other expenses	<u>51,745</u>	<u>58,602</u>
Occupational Therapy		
Salaries and wages	60,962	59,434
Supplies and other expenses	24,211	17,369
	<u>85,173</u>	<u>76,803</u>
Ambulance		
Supplies and other expenses	<u>10,082</u>	<u>1,569</u>
Independent Living		
Salaries and wages	40,783	68,340
Supplies and other expenses	153,588	44,370
	<u>194,371</u>	<u>112,710</u>
Outpatient Clinic		
Salaries and wages	113,195	109,844
Supplies and other expenses	22,474	8,410
	<u>135,669</u>	<u>118,254</u>
Primary Care		
Salaries and wages	2,043,889	1,022,814
Supplies and other expenses	443,485	260,382
	<u>2,487,374</u>	<u>1,283,196</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Medical Records		
Salaries and wages	\$ 271,182	\$ 294,056
Supplies and other expenses	58,996	59,419
	<u>330,178</u>	<u>353,475</u>
Dietary		
Salaries and wages	300,074	294,164
Supplies and other expenses	376,411	367,867
	<u>676,485</u>	<u>662,031</u>
Plant Operation and Maintenance		
Salaries and wages	307,895	336,816
Supplies and other expenses	840,165	791,701
	<u>1,148,060</u>	<u>1,128,517</u>
Housekeeping		
Salaries and wages	376,724	342,015
Supplies and other expenses	161,999	122,914
	<u>538,723</u>	<u>464,929</u>
Laundry and Linen		
Salaries and wages	31,815	29,957
Supplies and other expenses	148,028	146,273
	<u>179,843</u>	<u>176,230</u>
Administrative Services		
Salaries and wages	1,292,987	1,372,389
Supplies and other expenses	1,451,929	1,310,857
	<u>2,744,916</u>	<u>2,683,246</u>
Unassigned Expenses		
Depreciation and amortization	3,164,904	2,337,903
Insurance	119,369	132,394
Employee benefits	4,455,466	3,820,648
	<u>7,739,739</u>	<u>6,290,945</u>
Total Operating Expenses	<u>\$ 29,221,333</u>	<u>\$ 25,942,861</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Patient and Resident Receivables and Collection Statistics (Unaudited)
June 30, 2018 and 2017

Analysis of Aging

<u>Days Since Discharge</u>	2018		2017	
	Amount	Percent to Total	Amount	Percent to Total
0 - 30 Days	\$ 4,619,577	62.85%	\$ 5,162,341	51.48%
1 - 2 Months	722,463	9.83%	1,779,878	17.75%
2 - 3 Months	515,112	7.01%	1,331,119	13.27%
3 - 4 Months	180,463	2.46%	484,787	4.83%
4 - 6 Months	235,689	3.21%	303,105	3.02%
Over 6 Months	1,077,032	14.64%	966,595	9.65%
	7,350,336	100.00%	10,027,825	100.00%
Less: Allowance for Doubtful Accounts	(1,008,429)		(1,199,490)	
Allowance for Contractual Adjustments	(3,191,890)		(4,035,116)	
Net	\$ 3,150,017		\$ 4,793,219	

Collection Statistics

	2018	2017
Net accounts receivable - patients and residents	\$ 3,150,017	\$ 4,793,219
Number of days charges outstanding (1)	42	64
Uncollectible accounts (2)	\$ 1,047,792	\$ 1,009,997
Percentage of uncollectible accounts to total charges	1.9%	1.9%

(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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Supplies		
Pharmacy	\$ 197,550	\$ 140,990
Central stores	107,330	63,674
Dietary	<u>19,970</u>	<u>15,873</u>
Total	<u>\$ 324,850</u>	<u>\$ 220,537</u>
Prepaid Expense		
Insurance	\$ 44,292	\$ 922
Other	<u>344,822</u>	<u>270,919</u>
Total	<u>\$ 389,114</u>	<u>\$ 271,841</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedule of Insurance in Force at June 30, 2018 (Unaudited)

Company	Description	Amount of Coverage	Annual Premium	Expiration Date
Travelers Insurance	Building and contents Blanket earnings and expense Earthquake	\$ 84,547,574 \$ 33,579,727 \$ 5,000,000	\$ 61,274	6/30/2018
Travelers Insurance	Auto liability Medical payments	\$ 1,000,000 \$ 5,000	\$ 4,248	6/30/2018
ProAssurance	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 15,506	6/30/2018
ProAssurance	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 3,074	6/30/2018
ProAssurance	Excess umbrella liability	\$ 4,000,000	\$ 4,000	6/30/2018
ProAssurance	Excess umbrella professional liability	\$ 4,000,000	\$ 8,165	6/30/2018
Travelers	Directors' and officers' liability	\$ 2,000,000	\$ 15,563	6/30/2018

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2018 and 2017

	2018	2017
Patient Days		
Hospital		
Acute	594	682
Swing-bed	891	994
Nursing Care Center	13,723	12,977
 Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
 Percentage of Occupancy		
Hospital	16%	18%
Nursing Care Center	96%	91%
 Discharges		
Hospital		
Acute	189	227
Swing-bed	83	83
Nursing Care Center	22	29
 Average Length of Stay		
Hospital		
Acute	3.1	3.0
Swing-bed	10.7	12.0
Nursing Care Center	624	447



**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, 2018, 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 October 15, 2018.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness or a significant deficiency.

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. We consider the deficiency 2018-A described in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiency 2018-B described in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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.



Dubuque, Iowa
October 15, 2018



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, 2018. 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, 2018.

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
October 15, 2018

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

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	10.766		<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) under programs of the federal government for the year ended June 30, 2018. The information is presented in accordance with 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). Because the schedule presents only a selected portion of the operations of the Health Center, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Health Center.

Note B - Significant Accounting Policies

Expenditures reported on the schedule are reported on the accrual basis of accounting. The Health Center does not draw for indirect administrative expenses and has not elected to use the 10% de minimis cost rate.

No federal financial assistance has been provided to a subrecipient.

Note C – Community Facilities Loans and Grants Program

As of June 30, 2018, the Health Center had interim financing with an outstanding balance of \$18,055,000 which will be converted to a USDA direct loan during fiscal year 2019.

Section I - Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
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

Section II – Financial Statement Findings

**2018-A Preparation of Financial Statements and Material Audit Adjustments
Material Weakness**

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. As auditors, we have proposed material audit adjustments that would not have been identified as a result of the Health Center's existing controls, and therefore could have resulted in a material misstatement of the financial statements. 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.

Section II – Financial Statement Findings (continued)

**2018-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.

Section III – Federal Award Findings and Questioned Costs

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.

Section IV – Other Findings Related to Required Statutory Reporting

2018-IA-A Certified Budget – Disbursements during the year ended June 30, 2018, did not exceed the amount budgeted.

2018-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.

2018-IA-C Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

2018-IA-D Business Transactions – Business transactions between the Health Center and Health Center officials and/or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>
Rob Robinson, President/CEO of BankIowa, Board Chairperson	Various deposit accounts, loans

2018-IA-E Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

2018-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.

2018-IA-G Certification of Self-Insurance Plan – The Health Center has a self-funded health insurance plan and has not obtained a certificate of compliance in accordance with the provisions of Code Section 509A of the Code of Iowa.

Recommendation – The Health Center should review the requirements relating to its self-funded health insurance to determine the necessity for filing a certificate of compliance.

Response – Management will review the requirements relating to the certificate of compliance.

Conclusion – Response accepted.