



Financial Statements
June 30, 2019 and 2018



Buchanan County
Health Center

People's Memorial Hospital
d/b/a Buchanan County Health Center
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June 30, 2019 and 2018

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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
Dennis Donlea	Vice Chairperson	2022
Donnie Bloes	Secretary	2022
Anne McMillan	Treasurer	2020
Carmen Mescher	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, 2019 and 2018, 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, 2019 and 2018, 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 September 19, 2019 on our consideration of the Health Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Health Center's internal control over financial reporting and compliance.



Dubuque, Iowa
September 19, 2019

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, 2019, 2018, and 2017. 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, 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, 2019, indicates total assets of \$56,920,895, total deferred outflows of resources of \$3,651,305, total liabilities of \$40,121,405, total deferred inflows of resources of \$1,880,357, and net position of \$18,570,438. 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 Revenues, Expenses, and Changes in Net Position for the year ended June 30, 2019 indicates total net patient and resident service revenue of \$30,894,805 increased 12.71% and total operating expenses of \$32,485,503 increased 11.17% from the previous year, resulting in operating income of \$361,617. Net non-operating revenues of \$1,068,768 brings the change in net position to \$1,430,385. 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). 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.
- The Health Center's current assets exceeded its current liabilities by \$11,539,653 at June 30, 2019, providing a 3.40 current ratio. 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 total days of cash on hand at June 30, 2019 were 169 (not including debt funds). The Health Center's total days of cash on hand at June 30, 2018 were 159 (not including debt funds). The Health Center's total days of cash on hand at June 30, 2017 were 124 (not including project funds).
- Gross outpatient charges increased 17.05% during fiscal year 2019. Gross outpatient charges increased 8.5% during fiscal year 2018. Gross outpatient charges increased 22.80% during fiscal year 2017.
- Nursing Home gross charges increased 2.19% during fiscal year 2019. Nursing Home gross charges increased 11.42% during fiscal year 2018. Nursing Home gross charges increased 15.48% during fiscal year 2017.

- Net patient and resident days in accounts receivable were 46 days at June 30, 2019. 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.
- Statistical information for the year ended June 30, 2019:
 - 13,256- Nursing Home patient days (3.40% decrease)
 - 1,545 - Surgical Cases (31.27% increase)
 - 67,418 - Laboratory tests (4.94% increase)
 - 13,526 - Radiology Tests (9.12% increase)
 - 26,818 - Physical Therapy modalities (13.95% increase)
 - 4,873 - Emergency Room patients (5.34% decrease)
 - 627 - Acute Care patient days (5.56% increase)
 - 651 - SNF Care patient days (26.94% decrease)
- The Health Center's net position increased approximately \$1.430 million from June 30, 2018 to June 30, 2019. Net position decreased approximately \$40,000 from June 30, 2017 to June 30, 2018.

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,		
	2019	2018	2017
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 9,571,101	\$ 11,511,518	\$ 8,091,959
Assets limited as to use or restricted	67,855	65,763	1,523,349
Patient and resident receivables, net of estimated uncollectibles	4,359,422	3,150,017	4,793,219
Succeeding year property tax receivable	1,188,913	1,151,851	1,114,076
Other	1,168,374	881,910	611,171
Total current assets	<u>16,355,665</u>	<u>16,761,059</u>	<u>16,133,774</u>
Assets Limited as to Use or Restricted	<u>4,934,694</u>	<u>138,145</u>	<u>3,812,300</u>
Capital Assets, Net	<u>35,482,536</u>	<u>37,363,434</u>	<u>32,687,824</u>
Other Assets			
Beneficial interest in charitable trust	<u>148,000</u>	<u>148,000</u>	<u>148,000</u>
Total assets	<u>56,920,895</u>	<u>54,410,638</u>	<u>52,781,898</u>
Deferred Outflows of Resources			
Unamortized excess of consideration paid as part of an acquisition	120,000	150,000	150,000
Pension related deferred outflows	<u>3,531,305</u>	<u>3,867,705</u>	<u>2,996,812</u>
Total deferred outflows of resources	<u>3,651,305</u>	<u>4,017,705</u>	<u>3,146,812</u>
Total assets and deferred outflows of resources	<u><u>\$ 60,572,200</u></u>	<u><u>\$ 58,428,343</u></u>	<u><u>\$ 55,928,710</u></u>

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

Condensed Financial Statements
Statements of Net Position

	June 30,		
	2019	2018	2017
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Current maturities of long-term debt	\$ 1,075,554	\$ 910,395	\$ 673,034
Accounts payable			
Trade	885,803	832,150	500,400
Construction	50,976	1,316,350	1,455,409
Estimated third-party payor settlements	1,080,318	622,000	843,000
Accrued expenses	1,723,361	1,638,266	1,685,174
Total current liabilities	<u>4,816,012</u>	<u>5,319,161</u>	<u>5,157,017</u>
Noncurrent Liabilities			
Deposits	2,121,400	1,830,100	1,828,600
Long-term debt, less current maturities	23,670,177	23,018,787	22,322,993
Net pension liability	9,513,816	9,544,661	8,014,429
Total noncurrent liabilities	<u>35,305,393</u>	<u>34,393,548</u>	<u>32,166,022</u>
Total liabilities	<u>40,121,405</u>	<u>39,712,709</u>	<u>37,323,039</u>
Deferred Inflows of Resources			
Deferred revenue for succeeding year property tax receivable	1,188,913	1,151,851	1,114,076
Pension related deferred inflows	520,284	243,324	175,048
Deferred revenue	171,160	180,406	136,803
Total deferred inflows of resources	<u>1,880,357</u>	<u>1,575,581</u>	<u>1,425,927</u>
Net Position			
Net investment in capital assets	9,457,480	10,425,416	11,674,967
Restricted	215,855	213,763	215,940
Unrestricted	8,897,103	6,500,874	5,288,837
Total net position	<u>18,570,438</u>	<u>17,140,053</u>	<u>17,179,744</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 60,572,200</u>	<u>\$ 58,428,343</u>	<u>\$ 55,928,710</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,		
	2019	2018	2017
Operating Revenues			
Net patient and resident service revenue (net of provision for bad debts)	\$ 30,894,805	\$ 27,409,865	\$ 25,774,874
Other operating revenues	1,952,315	765,875	543,768
Total Operating Revenues	<u>32,847,120</u>	<u>28,175,740</u>	<u>26,318,642</u>
Operating Expenses			
Salaries and wages	12,706,844	11,817,703	10,846,889
Supplies and other expenses	16,153,829	14,238,726	12,758,069
Depreciation and amortization	3,624,830	3,164,904	2,337,903
Total Operating Expenses	<u>32,485,503</u>	<u>29,221,333</u>	<u>25,942,861</u>
Operating Income (Loss)	<u>361,617</u>	<u>(1,045,593)</u>	<u>375,781</u>
Nonoperating Revenues (Expenses)			
County tax revenue	1,165,917	1,128,412	1,113,097
Noncapital grants and contributions	161,417	20,185	4,320
Investment income	248,456	83,218	53,200
Interest and financing expense	(579,477)	(292,071)	(179,914)
Rental income	72,455	64,973	44,708
Gain on disposal of capital assets	-	1,185	-
Net Nonoperating Revenues	<u>1,068,768</u>	<u>1,005,902</u>	<u>1,035,411</u>
Change in Net Position	1,430,385	(39,691)	1,411,192
Net Position Beginning of Year	<u>17,140,053</u>	<u>17,179,744</u>	<u>15,768,552</u>
Net Position, End of Year	<u>\$ 18,570,438</u>	<u>\$ 17,140,053</u>	<u>\$ 17,179,744</u>

Capital Assets

Significant capital purchases during the year ended June 30, 2019, included:

- \$85,000 for land
- \$199,000 for master facility project
- \$53,000 for hematology analyzer
- \$98,000 for ultrasound machine and table
- \$155,000 for server and server room equipment
- \$60,000 for mini C-arm for radiology
- \$86,000 for gastroscopes and urology scopes
- \$525,000 for 3D mammography machine and equipment for Oelwein Clinic

Long-Term Debt

Buchanan County Health Center had \$1,075,554 and \$23,670,177 respectively, in short-term and long-term debt at June 30, 2019. The Health Center had \$910,395 and \$23,018,787 respectively, in short-term and long-term debt at June 30, 2018 and \$673,034 and \$22,322,993, respectively, in short-term and long-term debt at June 30, 2017. 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 2020 budget. Of primary consideration in the 2020 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)
- 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

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 9,571,101	\$ 11,511,518
Assets limited as to use or restricted		
Restricted under debt agreements	67,855	65,763
Receivables		
Patient and resident, net of estimated uncollectibles of \$1,037,000 in 2019 and \$1,008,000 in 2018	4,359,422	3,150,017
Succeeding year property tax	1,188,913	1,151,851
Other	513,001	167,946
Supplies	349,430	324,850
Prepaid expense	305,943	389,114
Total current assets	16,355,665	16,761,059
Assets Limited as to Use or Restricted		
Investments		
Restricted under debt agreements	893,051	137,614
By board for capital improvements	4,041,643	531
Total assets limited as to use or restricted	4,934,694	138,145
Capital Assets		
Capital assets not being depreciated	1,618,200	1,314,559
Depreciable capital assets, net of accumulated depreciation	33,864,336	36,048,875
Total capital assets, net	35,482,536	37,363,434
Other Assets		
Beneficial interest in charitable trust	148,000	148,000
Total assets	56,920,895	54,410,638
Deferred Outflows of Resources		
Unamortized excess of consideration paid as part of an acquisition	120,000	150,000
Pension related deferred outflows	3,531,305	3,867,705
Total deferred outflows of resources	3,651,305	4,017,705
Total assets and deferred outflows of resources	\$ 60,572,200	\$ 58,428,343

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Net Position
June 30, 2019 and 2018

	2019	2018
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 1,075,554	\$ 910,395
Accounts payable		
Trade	885,803	832,150
Construction	50,976	1,316,350
Estimated third-party payor settlements	1,080,318	622,000
Accrued expenses		
Salaries and wages	275,801	219,394
Vacation	753,948	728,884
Payroll taxes and other	380,843	440,216
Interest	21,022	34,772
Self-insurance claims	291,747	215,000
Total current liabilities	4,816,012	5,319,161
Noncurrent Liabilities		
Deposits	2,121,400	1,830,100
Long-term debt, less current maturities	23,670,177	23,018,787
Net pension liability	9,513,816	9,544,661
Total noncurrent liabilities	35,305,393	34,393,548
Total liabilities	40,121,405	39,712,709
Deferred Inflows of Resources		
Deferred revenue for succeeding year property tax	1,188,913	1,151,851
Pension related deferred inflows	520,284	243,324
Deferred revenue	171,160	180,406
Total deferred inflows of resources	1,880,357	1,575,581
Net Position		
Net investment in capital assets	9,457,480	10,425,416
Restricted		
Expendable for debt service	67,855	65,763
Nonexpendable beneficial interest in charitable trust	148,000	148,000
Unrestricted	8,897,103	6,500,874
Total net position	18,570,438	17,140,053
Total liabilities, deferred inflows of resources, and net position	\$ 60,572,200	\$ 58,428,343

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient and resident service revenue (net of provision for bad debts of \$908,680 in 2019 and \$822,930 in 2018)	\$ 30,894,805	\$ 27,409,865
Other operating revenues	1,952,315	765,875
Total operating revenues	32,847,120	28,175,740
Operating Expenses		
Salaries and wages	12,706,844	11,817,703
Employee benefits	4,966,439	4,455,466
Supplies and other expenses	11,187,390	9,783,260
Depreciation and amortization	3,624,830	3,164,904
Total operating expenses	32,485,503	29,221,333
Operating Income (Loss)	361,617	(1,045,593)
Nonoperating Revenues (Expenses)		
Property tax revenue	1,165,917	1,128,412
Noncapital grants and contributions	161,417	20,185
Investment income	248,456	83,218
Interest	(579,477)	(292,071)
Rental income	72,455	64,973
Gain on disposal of capital assets	-	1,185
Net nonoperating revenues	1,068,768	1,005,902
Change in Net Position	1,430,385	(39,691)
Net Position Beginning of Year	17,140,053	17,179,744
Net Position, End of Year	\$ 18,570,438	\$ 17,140,053

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 30,134,472	\$ 28,875,670
Other receipts	1,607,260	716,722
Payments to and on behalf of employees	(16,991,923)	(15,592,462)
Payments to suppliers and contractors	(11,075,146)	(9,673,096)
Net Cash from Operating Activities	3,674,663	4,326,834
Noncapital Financing Activities		
County tax revenue received	1,165,917	1,128,412
Noncapital grants and contributions received	161,417	20,185
Net Cash from Noncapital Financing Activities	1,327,334	1,148,597
Capital and Capital Related Financing Activities		
Purchase of capital assets	(2,979,306)	(7,979,573)
Proceeds from sale of capital assets	-	1,185
Proceeds from residency deposits	790,400	207,000
Payments of residency deposits	(499,100)	(205,500)
Proceeds from issuance of debt	19,813,824	2,728,064
Payment of principal on debt	(18,997,275)	(1,794,909)
Payment of interest on debt	(593,227)	(292,071)
Net Cash used for Capital and Capital Related Financing Activities	(2,464,684)	(7,335,804)
Investing Activities		
Sales of noncurrent investments	135,522	5,533,209
Purchases of noncurrent investments	(4,934,163)	(401,468)
Investment income received	248,456	83,218
Rental income received	72,455	64,973
Net Cash from (used for) Investing Activities	(4,477,730)	5,279,932
Net Change in Cash and Cash Equivalents	(1,940,417)	3,419,559
Cash and Cash Equivalents at Beginning of Year	11,511,518	8,091,959
Cash and Cash Equivalents at End of Year	\$ 9,571,101	\$ 11,511,518

People's Memorial Hospital
d/b/a Buchanan County Health Center
Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash from		
Operating Activities		
Operating income (loss)	\$ 361,617	\$ (1,045,593)
Adjustments to reconcile operating income (loss) to net cash from operating activities		
Depreciation and amortization	3,624,830	3,164,904
Provision for bad debts	908,680	822,930
Changes in assets, deferred outflows, liabilities, and deferred inflows		
Receivables	(2,463,140)	771,119
Estimated third-party payor settlements	458,318	(221,000)
Supplies	(24,580)	(104,313)
Prepaid expense	83,171	(117,273)
Trade accounts payable	53,653	331,750
Accrued expenses	98,845	(46,908)
Net pension liability	(30,845)	1,530,232
Deferred outflows of resources	336,400	(870,893)
Deferred inflows of resources	267,714	111,879
Net Cash from Operating Activities	\$ 3,674,663	\$ 4,326,834
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Capital assets during the year financed through accounts payable	\$ 109,451	\$ 1,316,350
Supplemental Disclosure of Cash Flow Information		
Amounts paid for capitalized interest	\$ -	\$ 108,843

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, 2018 to June 30, 2019. 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 2018 or 2019.

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, 2019 and 2018.

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 \$210,661 and \$100,955 for the years ended June 30, 2019 and 2018. Total direct and indirect costs related to these foregone charges were \$103,000 and \$52,000 at June 30, 2019 and 2018, 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 \$143,166 and \$103,879 for advertising costs for the years ended June 30, 2019 and 2018.

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 is as 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, 2017. 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, 2019 and 2018:

	2019	2018
Medicare	47%	48%
Medicaid	14%	15%
Blue Cross	19%	18%
Other commercial	16%	14%
Self-pay	4%	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, 2019 and 2018, increased (decreased) approximately (\$18,000) and \$46,000 due to prior-year retroactive adjustments in excess of amounts previously estimated and years that are no longer subject to audits, reviews, and investigations.

Note 3 - Deposits and Investments

The Health Center's deposits in banks at June 30, 2019 and 2018 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, 2019 and 2018 the Health Center's carrying amounts of deposits and investments are as follows:

	2019	2018
Checking, savings, and money market accounts	\$ 7,239,487	\$ 11,715,426
Certificates of deposit	7,334,163	-
	\$ 14,573,650	\$ 11,715,426

Included in the Following Statements of Net Position Captions:

	2019	2018
Cash and cash equivalents	\$ 9,571,101	\$ 11,511,518
Assets limited as to use or restricted - current assets	67,855	65,763
Assets limited as to use or restricted	4,934,694	138,145
	\$ 14,573,650	\$ 11,715,426

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, 2019 and 2018 was as follows:

	June 30, 2018 Balance	Additions	Transfers and Retirements	June 30, 2019 Balance
Capital Assets Not Being Depreciated				
Land	\$ 1,312,504	\$ 84,600	\$ -	\$ 1,397,104
Construction in progress	2,055	219,041	-	221,096
Total capital assets not being depreciated	1,314,559	\$ 303,641	\$ -	1,618,200
Capital Assets Being Depreciated				
Land improvements	3,175,562	\$ -	\$ -	3,175,562
Buildings	42,536,964	308,418	-	42,845,382
Equipment	15,582,348	1,101,875	-	16,684,223
Intangibles	571,000	-	-	571,000
Total capital assets being depreciated	61,865,874	\$ 1,410,293	\$ -	63,276,167
Less Accumulated Depreciation for				
Land improvements	588,552	\$ 150,858	\$ -	739,410
Buildings	14,377,197	2,085,568	-	16,462,765
Equipment	10,679,950	1,244,206	-	11,924,156
Intangibles	171,300	114,200	-	285,500
Total accumulated depreciation	25,816,999	\$ 3,594,832	\$ -	29,411,831
Total Capital Assets Being Depreciated, Net	36,048,875			33,864,336
Total Capital Assets, Net	\$ 37,363,434			\$ 35,482,536

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Notes to Financial Statements
June 30, 2019 and 2018

	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>

Construction in progress for the year ended June 30, 2019 is primarily made up of project costs relating to the Jesup Clinic. Estimated costs to complete this project are approximately \$2,200,000, with an expected completion date of November 2019. The project will be funded with internal funds.

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, 2019 and 2018 is as follows:

	2019	2018
Balance, Beginning of Year	\$ 150,000	\$ 150,000
Accumulated amortization	(30,000)	-
Balance, End of Year	<u>\$ 120,000</u>	<u>\$ 150,000</u>

Note 6 - 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 2019 and 2018, pursuant to the required rate, regular members contributed 6.29% and 5.95% of covered payroll and the Health Center contributed 9.44% and 8.93% of covered payroll for a total rate of 15.73% and 14.88%. In fiscal years 2019 and 2018, pursuant to the required rate, protection occupation members contributed 6.81% and 6.56% of covered payroll and the Health Center contributed 10.21% and 9.84% of covered payroll for a total rate of 17.02% and 16.40%.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019 and 2018, the Health Center reported a liability of \$9,513,816 and \$9,544,661 for its proportionate share of the net pension liability. The Health Center's net pension liability was measured as of June 30, 2018 and 2017, 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, 2018, the Health Center's collective proportion was 0.150339 percent, which was an increase of 0.007053 from its proportion measured as of June 30, 2017 of 0.143286 percent. The Health Center's contributions to IPERS for the years ended June 30, 2019 and 2018 were \$1,144,774 and \$987,282.

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Notes to Financial Statements
June 30, 2019 and 2018

For the years ended June 30, 2019 and 2018, the Health Center recognized pension expense of \$1,727,291 and \$1,744,089. At June 30, 2019 and 2018, the Health Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 52,276	\$ 215,399	\$ 87,749	\$ 83,240
Changes of assumptions	1,362,073	175	1,664,088	7
Net difference between projected and actual earnings on IPERS' investments	-	262,848	-	100,170
Changes in proportion and differences between Health Center contributions and proportionate share of contributions	972,182	41,862	1,128,586	59,907
Health Center contributions subsequent to the measurement date	1,144,774	-	987,282	-
Total	<u>\$ 3,531,305</u>	<u>\$ 520,284</u>	<u>\$ 3,867,705</u>	<u>\$ 243,324</u>

The \$1,144,774 in 2019 and \$987,282 in 2018 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, 2020 and 2019.

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,	2019	2018
2019	\$ -	\$ 630,767
2020	1,010,664	1,032,365
2021	574,136	608,022
2022	155,018	204,446
2023	114,450	161,499
2024	11,979	-
	<u>\$ 1,866,247</u>	<u>\$ 2,637,099</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2018)	2.60% per annum.
Salary increases (effective June 30, 2018)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2018)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2018)	3.25% per annum, based on 2.60% inflation and .65% real wage inflation.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of actuarial experience study dated June 28, 2018.

Mortality rates were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

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:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22%	6.01%
International equity	15%	6.48%
Global smart beta equity	3%	6.23%
Core-plus fixed income	27%	1.97%
Public credit	4%	3.93%
Public real assets	7%	2.91%
Cash	1%	-0.25%
Private equity	11%	10.81%
Private real assets	7%	4.14%
Private credit	3%	3.11%
	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. 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, 2019	\$ 16,175,907	\$ 9,513,816	\$ 3,925,352
	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

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, 2019 and 2018, the Health Center reported payables to the defined benefit pension plan of \$115,115 and \$133,589 for legally required employer contributions and \$59,099 and \$74,936 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 7 - 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, 2019 and 2018 was \$305,073 and \$226,332. The capitalized leased assets consist of:

	2019	2018
Equipment	\$ 786,346	\$ 786,346
Less accumulated amortization	(713,892)	(597,861)
	\$ 72,454	\$ 188,485

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

Years Ending June 30,	
2020	\$ 36,629
2021	10,340
2022	4,984
Total minimum lease payments	51,953
Less interest	(1,948)
Present value of minimum lease payments	\$ 50,005

Note 8 - Long-Term Debt

A summary of changes in the Health Center's long-term debt for the years ended June 30, 2019 and 2018 is as follows:

	June 30, 2018 Balance	Additions	Payments	June 30, 2019 Balance	Amounts Due Within One Year
Hospital Revenue Note, Series 2004, maturity date of May 1, 2025 (A)	\$ 2,128,615	\$ -	\$ 279,405	\$ 1,849,210	\$ 295,437
Hospital Revenue Note, Series 2015, maturity date December 1, 2045, interest only payments through December 2018 (B)	1,446,432	1,757,824	54,915	3,149,341	78,120
2.375% USDA Direct Loan (C)	-	9,056,000	115,062	8,940,938	232,988
2.375% USDA Direct Loan (C)	-	9,000,000	116,257	8,883,743	231,540
Hospital Revenue Notes, Series 2016, maturity date on December 1, 2018 (C)	18,055,000	-	18,055,000	-	-
3% Note Payable, Series 2016, anticipated maturity date in 2033 (D)	1,000,000	-	53,603	946,397	55,230
3.12% Farmers State Bank loan, issued April 1, 2018, due in monthly installments of \$14,489, maturity date in 2025	1,068,649	-	142,552	926,097	147,068
Capital lease obligations	230,486	-	180,481	50,005	35,171
	<u>\$ 23,929,182</u>	<u>\$ 19,813,824</u>	<u>\$ 18,997,275</u>	24,745,731	<u>\$ 1,075,554</u>
Less current maturities				(1,075,554)	
Long-term debt, less current maturities				<u>\$ 23,670,177</u>	

People's Memorial Hospital
d/b/a Buchanan County Health Center
Notes to Financial Statements
June 30, 2019 and 2018

	June 30, 2017 Balance	Additions	Payments	June 30, 2018 Balance	Amounts Due Within One Year
2.95% hospital promissory note, payable to Bank Iowa	\$ 1,237,416	\$ -	\$ 1,237,416	\$ -	\$ -
0% hospital promissory note, payable to Independence Light & Power	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 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
Capitalized lease obligation -	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				(910,395)	
Long-term debt, less current maturities				<u>\$ 23,018,787</u>	

(A) The interest rate on this note is 3.50%. According to the loan documents, in December 2018 (interest rate adjustment date), the rate adjusted to equal a 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 Health Center paid interest only payments on this note through December 2018, at a rate of 2.95%. Beginning January 1, 2019, the Health Center pays 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 paid interest only payments on this debt at a rate of 1.5% until December 2018. The notes were refunded during the year ended June 30, 2019 with two USDA Direct Loan Notes, which 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 its 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:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,075,554	\$ 622,876	\$ 1,698,430
2021	1,081,385	591,525	1,672,910
2022	1,106,328	560,839	1,667,167
2023	1,132,868	529,313	1,662,181
2024	1,164,013	498,168	1,662,181
2025-2029	3,995,038	2,134,220	6,129,258
2030-2034	3,970,343	1,649,406	5,619,749
2035-2039	4,147,767	1,145,600	5,293,367
2040-2044	4,697,682	595,685	5,293,367
2045-2049	2,374,753	71,469	2,446,222
	<u>\$ 24,745,731</u>	<u>\$ 8,399,101</u>	<u>\$ 33,144,832</u>

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

Note 9 - 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, 2019 and 2018 was as follows:

	2019	2018
Medicare	39%	40%
Medicaid	10%	12%
Blue Cross	18%	13%
Commerical insurance	17%	18%
Other third-party payors, patients, and residents	16%	17%
	100%	100%

Note 10 - 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, 2019 and 2018.

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 \$291,747 and \$215,000 have been recorded to recognize the estimated incurred but not reported claims outstanding at June 30, 2019 and 2018. The amounts have been estimated based on historical trends. Changes in the balance of claims liabilities during the past two years are as follows.

<u>Years Ended June 30,</u>	<u>Beginning Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Liability</u>
2019	\$ 215,000	\$ 2,448,512	\$ (2,371,765)	\$ 291,747
2018	\$ 260,000	\$ 1,643,766	\$ (1,688,766)	\$ 215,000

Note 11 - 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, 2019 and 2018, the Health Center paid \$771,291 and \$597,683 for these services, fees, and its electronic medical records system.



Required Supplementary Information
June 30, 2019



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, 2019

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Amount to be Raised by Taxation	\$ 1,165,917	\$ -	\$ 1,165,917	\$ 1,123,205	\$ 42,712
Estimated Other Revenues/Receipts	<u>33,329,448</u>	<u>652,436</u>	<u>33,981,884</u>	<u>32,250,410</u>	<u>1,731,474</u>
	34,495,365	652,436	35,147,801	33,373,615	1,774,186
Expenses/Disbursements	<u>33,064,980</u>	<u>(775,403)</u>	<u>32,289,577</u>	<u>38,251,939</u>	<u>5,962,362</u>
Net	1,430,385	1,427,839	2,858,224	(4,878,324)	<u>\$ 7,736,548</u>
Balance, Beginning of Year	<u>17,140,053</u>	<u>(5,424,627)</u>	<u>11,715,426</u>	<u>(29,906,869)</u>	
Balance, End of Year	<u>\$ 18,570,438</u>	<u>\$ (3,996,788)</u>	<u>\$ 14,573,650</u>	<u>\$ (34,785,193)</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, 2019.

For the year ended June 30, 2019, 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, 2019

	2019	2018	2017	2016	2015
Health Center's Proportion of the Net Pension Liability	0.150339%	0.143286%	0.127348%	0.130756%	0.121466%
Health Center's Proportionate Share of the Net Pension Liability	\$ 9,513,816	\$ 9,544,660	\$ 8,014,429	\$ 6,460,003	\$ 4,817,222
Health Center's Covered Payroll	\$ 11,350,020	\$ 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	83.82%	88.88%	86.93%	71.37%	59.30%
IPERS' Net Position as a Percentage of the Total Pension Liability	83.62%	82.21%	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.

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, 2019

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Statutorily Required Contribution	\$ 1,144,774	\$ 987,282	\$ 933,657	\$ 829,834	\$ 810,486	\$ 725,371	\$ 595,514	\$ 546,645	\$ 449,353	\$ 420,674
Contributions in Relation to the Statutorily Required Contribution	<u>(1,144,774)</u>	<u>(987,282)</u>	<u>(933,657)</u>	<u>(829,834)</u>	<u>(810,486)</u>	<u>(725,371)</u>	<u>(595,514)</u>	<u>(546,645)</u>	<u>(449,353)</u>	<u>(420,674)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Health Center's Covered Payroll	\$ 12,045,709	\$ 11,350,020	\$ 10,739,089	\$ 9,219,172	\$ 9,051,343	\$ 8,122,856	\$ 6,868,674	\$ 6,773,792	\$ 6,465,511	\$ 6,325,925
Contributions as a Percentage of Covered Payroll	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%

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 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption

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.



Supplementary Information
June 30, 2019 and 2018





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, 2019 and 2018, and our report thereon dated September 19, 2019, 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, 2019, and statistical information are presented for the purposes of additional analysis and are not a required part of the financial statements. The schedules of net patient and resident service revenue, other operating revenues, operating expenses, and supplies and prepaid expense 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 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, 2019, 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
September 19, 2019

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Patient and Resident Service Revenue		
Routine services - hospital	\$ 2,478,108	\$ 2,454,418
Routine services - nursing care center	3,029,903	2,964,889
Operating and recovery rooms	7,769,845	6,000,656
Central services and supply	971,073	825,598
Emergency services and wound/urgent care	12,060,653	11,443,636
Laboratory and blood bank	7,647,252	6,924,480
Cardiac rehab	237,137	281,541
Electrocardiology	441,283	404,528
Sleep studies	667,047	516,821
Radiology	13,330,103	11,441,264
Pharmacy	3,459,163	3,349,306
Anesthesiology	1,531,659	1,265,497
Respiratory therapy	1,112,348	919,644
Physical therapy	3,285,848	2,798,773
Occupational therapy	652,925	317,891
Speech therapy	101,744	92,823
Primary care clinic	<u>4,784,626</u>	<u>3,734,350</u>
	63,560,717	55,736,115
Charity care (charges foregone)	<u>(210,661)</u>	<u>(100,955)</u>
Total patient and resident service revenue*	<u>\$ 63,350,056</u>	<u>\$ 55,635,160</u>
* Total Patient and Resident Service Revenue - Reclassified		
Inpatient revenue	\$ 8,001,505	\$ 8,269,529
Outpatient revenue	55,559,212	47,466,586
Charity care (charges foregone)	<u>(210,661)</u>	<u>(100,955)</u>
Total patient and resident service revenue	63,350,056	55,635,160
Contractual Adjustments	(31,512,196)	(27,365,579)
Policy Discounts	<u>(34,375)</u>	<u>(36,786)</u>
Net Patient and Resident Service Revenue	31,803,485	28,232,795
Provision for Bad Debts	<u>(908,680)</u>	<u>(822,930)</u>
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	<u>\$ 30,894,805</u>	<u>\$ 27,409,865</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Other Operating Revenues
Years Ended June 30, 2019 and 2018

	2019	2018
Other Operating Revenues		
340B Drug Program	\$ 1,136,651	\$ -
Oakview income, less adjustments to deposits	345,676	276,516
Wellness Center fees	264,467	273,471
Cafeteria	92,073	62,046
Outpatient clinic	80,487	81,534
Other	27,872	50,124
Grants	5,089	22,184
Total Other Operating Revenues	\$ 1,952,315	\$ 765,875

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2019 and 2018

	2019	2018
Nursing Administration		
Salaries and wages	\$ 254,149	\$ 314,589
Supplies and other expenses	43,296	15,489
	297,445	330,078
Routine Nursing Services		
Salaries and wages	2,509,607	2,300,340
Supplies and other expenses	217,025	509,479
	2,726,632	2,809,819
Social Services		
Salaries and wages	79,577	77,670
Supplies and other expenses	1,768	485
	81,345	78,155
Operating and Recovery Rooms		
Salaries and wages	663,282	610,038
Supplies and other expenses	1,368,291	864,631
	2,031,573	1,474,669
Central Services and Supply		
Salaries and wages	132,808	124,852
Supplies and other expenses	82,107	119,244
	214,915	244,096
Emergency Services		
Salaries and wages	1,242,056	1,349,329
Supplies and other expenses	1,887,108	1,636,016
	3,129,164	2,985,345
Laboratory and Blood Bank		
Salaries and wages	409,329	418,518
Supplies and other expenses	808,883	742,495
	1,218,212	1,161,013
Electrocardiology		
Supplies and other expenses	31,999	29,548
Sleep Studies		
Supplies and other expenses	90,816	70,454
Radiology		
Salaries and wages	688,413	663,291
Supplies and other expenses	632,107	617,797
	1,320,520	1,281,088

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Pharmacy		
Salaries and wages	\$ 144,412	\$ 217,694
Supplies and other expenses	<u>1,220,250</u>	<u>820,239</u>
	<u>1,364,662</u>	<u>1,037,933</u>
Anesthesiology		
Supplies and other expenses	<u>473,322</u>	<u>405,424</u>
Respiratory Therapy		
Salaries and wages	97,827	105,750
Supplies and other expenses	<u>31,476</u>	<u>25,937</u>
	<u>129,303</u>	<u>131,687</u>
Physical Therapy		
Salaries and wages	868,087	796,126
Supplies and other expenses	<u>59,419</u>	<u>63,540</u>
	<u>927,506</u>	<u>859,666</u>
Speech Therapy		
Supplies and other expenses	<u>55,298</u>	<u>51,745</u>
Occupational Therapy		
Salaries and wages	87,588	60,962
Supplies and other expenses	<u>8,339</u>	<u>24,211</u>
	<u>95,927</u>	<u>85,173</u>
Ambulance		
Supplies and other expenses	<u>-</u>	<u>10,082</u>
Independent Living		
Salaries and wages	41,294	40,783
Supplies and other expenses	<u>101,150</u>	<u>153,588</u>
	<u>142,444</u>	<u>194,371</u>
Outpatient Clinic		
Salaries and wages	134,600	113,195
Supplies and other expenses	<u>9,362</u>	<u>22,474</u>
	<u>143,962</u>	<u>135,669</u>
Primary Care		
Salaries and wages	2,652,555	2,043,889
Supplies and other expenses	<u>538,283</u>	<u>443,485</u>
	<u>3,190,838</u>	<u>2,487,374</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Operating Expenses
Years Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Medical Records		
Salaries and wages	\$ 267,524	\$ 271,182
Supplies and other expenses	<u>72,678</u>	<u>58,996</u>
	<u>340,202</u>	<u>330,178</u>
Dietary		
Salaries and wages	304,616	300,074
Supplies and other expenses	<u>432,207</u>	<u>376,411</u>
	<u>736,823</u>	<u>676,485</u>
Plant Operation and Maintenance		
Salaries and wages	325,120	307,895
Supplies and other expenses	<u>978,252</u>	<u>840,165</u>
	<u>1,303,372</u>	<u>1,148,060</u>
Housekeeping		
Salaries and wages	413,963	376,724
Supplies and other expenses	<u>139,272</u>	<u>161,999</u>
	<u>553,235</u>	<u>538,723</u>
Laundry and Linen		
Salaries and wages	32,629	31,815
Supplies and other expenses	<u>159,041</u>	<u>148,028</u>
	<u>191,670</u>	<u>179,843</u>
Administrative Services		
Salaries and wages	1,357,408	1,292,987
Supplies and other expenses	<u>1,609,750</u>	<u>1,451,929</u>
	<u>2,967,158</u>	<u>2,744,916</u>
Unassigned Expenses		
Depreciation and amortization	3,624,830	3,164,904
Insurance	135,891	119,369
Employee benefits	<u>4,966,439</u>	<u>4,455,466</u>
	<u>8,727,160</u>	<u>7,739,739</u>
Total Operating Expenses	<u>\$ 32,485,503</u>	<u>\$ 29,221,333</u>

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Patient and Resident Receivables and Collection Statistics (Unaudited)
June 30, 2019 and 2018

Analysis of Aging

<u>Days Since Discharge</u>	<u>2019</u>		<u>2018</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30 Days	\$ 5,207,502	53.28%	\$ 4,619,577	62.85%
1 - 2 Months	1,795,500	18.37%	722,463	9.83%
2 - 3 Months	852,577	8.72%	515,112	7.01%
3 - 4 Months	383,842	3.93%	180,463	2.46%
Over 4 Months	<u>1,534,416</u>	<u>15.70%</u>	<u>1,312,721</u>	<u>17.85%</u>
	9,773,837	<u>100.00%</u>	7,350,336	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	(1,036,524)		(1,008,429)	
Allowance for Contractual Adjustments	<u>(4,377,891)</u>		<u>(3,191,890)</u>	
Net	<u>\$ 4,359,422</u>		<u>\$ 3,150,017</u>	

Collection Statistics

	<u>2019</u>	<u>2018</u>
Net accounts receivable - patients and residents	\$ 4,359,422	\$ 3,150,017
Number of days charges outstanding (1)	46	42
Uncollectible accounts (2)	\$ 1,290,884	\$ 1,047,792
Percentage of uncollectible accounts to total charges	2.0%	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, 2019 and 2018

	2019	2018
Supplies		
Pharmacy	\$ 198,315	\$ 197,550
Central stores	128,006	107,330
Dietary	23,109	19,970
Total	\$ 349,430	\$ 324,850
Prepaid Expense		
Insurance	\$ 15,012	\$ 44,292
Other	290,931	344,822
Total	\$ 305,943	\$ 389,114

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedule of Insurance in Force at June 30, 2019 (Unaudited)

Company	Description	Amount of Coverage	Annual Premium	Expiration Date
Travelers Insurance	Building and contents	\$ 84,547,574	\$ 71,900	6/30/2019
	Blanket earnings and expense	\$ 37,955,445		
	Earthquake	\$ 5,000,000		
Travelers Insurance	Auto liability	\$ 1,000,000	\$ 4,792	6/30/2019
	Medical payments	\$ 5,000		
ProAssurance	Professional liability	\$ 1,000,000 / \$ 3,000,000	\$ 23,790	6/30/2019
ProAssurance	General liability	\$ 1,000,000 / \$ 3,000,000	\$ 5,000	6/30/2019
ProAssurance	Excess umbrella liability	\$ 4,000,000	\$ 4,000	6/30/2019
ProAssurance	Excess umbrella professional liability	\$ 4,000,000	\$ 11,158	6/30/2019
Travelers	Directors' and officers' liability	\$ 2,000,000	\$ 15,980	6/30/2019
	Cyber Liability	\$ 1,000,000	\$ 16,055	7/1/2020

People's Memorial Hospital
d/b/a Buchanan County Health Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2019 and 2018

	2019	2018
Patient Days		
Hospital		
Acute	627	594
Swing-bed	651	891
Nursing Care Center	13,256	13,723
Number of Beds		
Hospital	25	25
Nursing Care Center	39	39
Percentage of Occupancy		
Hospital	14%	16%
Nursing Care Center	93%	96%
Discharges		
Hospital		
Acute	199	189
Swing-bed	68	83
Nursing Care Center	28	22
Average Length of Stay		
Hospital		
Acute	3.2	3.1
Swing-bed	9.6	10.7
Nursing Care Center	473	624



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, 2019, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 19, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

The Health Center's Responses to Findings

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

Purpose of this Report

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



Dubuque, Iowa
September 19, 2019

Part I: Financial Statement Findings

**2019-001 Preparation of Financial Statements
Significant Deficiency**

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

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

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

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

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 on a regular basis.

Views of Responsible Individuals: Management agrees with the finding.

Part I: Financial Statement Findings (continued)

**2019-002 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. We also recommend someone complete a review of the account reconciliations and journal entries completed by the CFO.

Views of Responsible Individuals: Management agrees with the finding.

Part II: Other Findings Related to Required Statutory Reporting

2019-IA-A Certified Budget – Disbursements during the year ended June 30, 2019, did not exceed the amount budgeted.

2019-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.

2019-IA-C Travel Expense – No expenditures of Health Center money for travel expenses of spouses of Health Center officials and/or employees were noted.

2019-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, Board Chairman of Banklowa, Board Chairperson	Various deposit accounts, loans

2019-IA-E Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

2019-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.