Genesis Health System and Related Organizations

Consolidated Financial Report

June 30, 2019

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RSM

RSM US LLP

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Genesis Health System and related organizations (System), which comprise the consolidated balance sheets as of June 30, 2019 and 2018, the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health System and related organizations as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the financial statements, the System adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* and FASB ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* during the year ended June 30, 2019. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's 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 System's internal control over financial reporting and compliance.

RSM US LLP

Davenport, Iowa
October 21, 2019

Genesis Health System
and Related Organizations

Consolidated Balance Sheets
June 30, 2019 and 2018

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	**$ 48,081,162**	$ 66,668,316
Short-term investments	**577,865**	575,283
Receivables:		
Patient, net	**101,256,982**	93,332,054
Other	**17,843,824**	19,087,743
Inventories, supplies and materials	**17,125,622**	17,209,132
Prepaid expenses and deposits	**8,021,345**	8,635,543
Total current assets	**192,906,800**	205,508,071
Investments	**69,704,164**	65,305,822
Assets limited as to use:		
Internally designated	**266,530,669**	246,613,595
Interest in net assets of Foundations	**3,112,273**	3,224,767
Donor restricted	**29,449,346**	28,306,119
Total assets limited as to use	**299,092,288**	278,144,481
Property and equipment, net	**392,420,909**	406,684,257
Other assets:		
Goodwill	**31,541,463**	31,416,405
Other	**13,548,219**	12,080,994
Total other assets	**45,089,682**	43,497,399
	$ 999,213,843	$ 999,140,030

See notes to consolidated financial statements.

	2019	2018
Liabilities and Net Assets		
Current liabilities:		
Current maturities of long-term debt	**$ 10,180,000**	$ 9,700,000
Accounts payable	**29,304,475**	28,846,180
Accrued salaries and wages	**13,764,117**	12,863,690
Accrued paid leave	**12,932,379**	14,123,787
Due to third-party payors	**6,268,878**	6,215,724
Unpaid losses and loss adjustment expenses	**11,873,183**	12,450,375
Other accrued expenses	**10,074,589**	9,727,687
Total current liabilities	**94,397,621**	93,927,443
Long-term debt, less current maturities	**156,094,963**	166,484,936
Defined benefit pension plan obligation	**-**	5,531,084
Unpaid losses and loss adjustment expenses, retirement benefits and other long-term liabilities	**33,910,664**	33,125,856
Total liabilities	**284,403,248**	299,069,319
Commitments and contingent liabilities (Note 12)		
Net assets:		
Without donor restrictions	**673,853,405**	660,101,119
With donor restrictions:		
Restricted by time or purpose	**22,710,066**	23,047,140
Restricted in perpetuity	**9,927,852**	8,559,826
Total net assets with donor restrictions	**32,637,918**	31,606,966
Total System net assets	**706,491,323**	691,708,085
Noncontrolling interests	**8,319,272**	8,362,626
Total net assets	**714,810,595**	700,070,711
	$ 999,213,843	$ 999,140,030

Genesis Health System
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Consolidated Statements of Operations
Years Ended June 30, 2019 and 2018

	2019	2018
Change in net assets without donor restrictions:		
Operating revenue:		
Patient service revenue, net of contractual adjustments		$ 628,983,222
Less provision for doubtful accounts		21,992,362
Patient service revenue	**$ 602,711,404**	606,990,860
Other service revenue, net of cost of revenue 2019 $16,541,788; 2018 $18,019,329	**7,884,056**	6,992,896
Medical office building rental revenue	**1,599,893**	1,630,819
Other revenue	**34,442,397**	37,610,313
Total revenue	**646,637,750**	653,224,888
Expenses:		
Salaries and wages	**283,679,993**	286,370,316
Employee benefits	**48,003,461**	41,478,322
Contracted professionals and services	**55,814,608**	57,590,933
Supplies	**114,792,313**	107,673,725
Other	**102,030,547**	98,385,872
Interest	**7,636,559**	7,977,468
Depreciation and amortization	**43,889,933**	42,559,197
Total expenses	**655,847,414**	642,035,833
Operating (loss) income	**(9,209,664)**	11,189,055
Nonoperating gains and losses:		
Interest and dividend income and realized gains on sales of investments	**19,114,269**	15,249,038
Change in net unrealized gains on trading securities	**1,863,380**	3,916,748
Loss on pension termination	**(87,025,185)**	-
Other nonoperating income (loss), net	**2,198,327**	(3,021,430)
Nonoperating (losses) gains	**(63,849,209)**	16,144,356
(Deficit) excess of revenue over expenses	**(73,058,873)**	27,333,411
Less deficit of revenue over expenses attributable to noncontrolling interests	**(1,282,589)**	(1,436,240)
(Deficit) excess of revenue over expenses attributable to Genesis Health System	**(74,341,462)**	25,897,171
Other changes in net assets without donor restrictions:		
Changes in value of noncontrolling interest	**-**	(215,794)
Change in unrecognized funded status of pension plan	**88,093,748**	3,695,776
Increase in net assets without donor restrictions	**$ 13,752,286**	$ 29,377,153

See notes to consolidated financial statements.

Genesis Health System
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Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2019 and 2018

	Net Assets with Donor Restrictions					
	Restricted by Time or Purpose	Restricted in Perpetuity	Total Net Assets with Donor Restrictions	Net Assets Without Donor Restrictions	Noncontrolling Interests - Net Assets Without Donor Restrictions	Total Net Assets
Net assets, June 30, 2017	$ 22,153,756	$ 7,798,068	$ 29,951,824	$ 630,723,966	$ 8,346,369	$ 669,022,159
Excess of revenue over expenses	-	-	-	25,897,171	1,436,240	27,333,411
Change in unrecognized funded status of retirement plan	-	-	-	3,695,776	-	3,695,776
Contributions, investment income and other	3,206,020	761,758	3,967,778	-	-	3,967,778
Net assets released from restrictions, for operating activities	(2,383,501)	-	(2,383,501)	-	-	(2,383,501)
Change in interest in net assets of Foundations	70,865	-	70,865	-	-	70,865
Changes in value of noncontrolling interest	-	-	-	(215,794)	-	(215,794)
Distributions to noncontrolling interests	-	-	-	-	(1,419,983)	(1,419,983)
Change in net assets	893,384	761,758	1,655,142	29,377,153	16,257	31,048,552
Net assets, June 30, 2018	23,047,140	8,559,826	31,606,966	660,101,119	8,362,626	700,070,711
(Deficit) excess of revenue over expenses	-	-	-	(74,341,462)	1,282,589	(73,058,873)
Change in unrecognized funded status of retirement plan	-	-	-	88,093,748	-	88,093,748
Contributions, investment income and other	2,181,436	1,368,026	3,549,462	-	-	3,549,462
Net assets released from restrictions, for operating activities	(2,406,016)	-	(2,406,016)	-	-	(2,406,016)
Change in interest in net assets of Foundations	(112,494)	-	(112,494)	-	-	(112,494)
Distributions to noncontrolling interests	-	-	-	-	(1,325,943)	(1,325,943)
Change in net assets	(337,074)	1,368,026	1,030,952	13,752,286	(43,354)	14,739,884
Net assets, June 30, 2019	**$ 22,710,066**	**$ 9,927,852**	**$ 32,637,918**	**$ 673,853,405**	**$ 8,319,272**	**$ 714,810,595**

See notes to consolidated financial statements.

Genesis Health System
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Consolidated Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	**$ 14,739,884**	$ 31,048,552
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**43,596,615**	42,192,566
Amortization	**293,318**	366,631
Change in interest in net assets of Foundations	**112,494**	(70,865)
Loss on disposal of property and equipment	**1,950,731**	214,378
Deferred income taxes	**-**	149,000
Earnings (in excess of) less than distributions of associated companies	**(1,651,236)**	2,845,697
Restricted contributions	**(2,367,298)**	(1,788,304)
Realized and unrealized gains on investments, net	**(16,372,878)**	(13,899,819)
Loss on settlement of defined benefit pension plan	**87,025,185**	-
Net changes in assets and liabilities:		
(Increase) in patient and other receivables	**(6,681,009)**	(6,000,575)
(Increase) decrease in inventories, supplies and materials	**83,510**	(1,353,161)
Decrease in prepaid expenses and deposits	**614,198**	785,521
(Decrease) in pension plan obligation	**(88,093,748)**	(3,695,776)
(Decrease) increase in accounts payable	**1,761,200**	(3,712,522)
(Decrease) in accrued expenses, due to third-party payors, retirement benefits and other	**(4,145,830)**	(3,762,611)
Net cash provided by operating activities	**30,865,136**	43,318,712
Cash flows from investing activities:		
Purchase of property and equipment	**(37,966,903)**	(47,516,110)
Proceeds from sale of property and equipment	**1,380,000**	250,921
Purchase of investments	**(350,438,674)**	(400,057,276)
Proceeds from sale of investments	**347,001,563**	395,171,989
Change in other assets	**(2,095,574)**	(1,789,943)
Net cash used in investing activities	**(42,119,588)**	(53,940,419)
Cash flows from financing activities:		
Principal payments on long-term debt, including capital lease obligations	**(9,700,000)**	(9,235,000)
Advance refunding of long-term debt	**-**	(15,525,000)
Proceeds from issuance of long-term debt	**-**	26,724,073
Payments of bond issuance costs	**-**	(334,693)
Restricted contributions	**2,367,298**	1,788,304
Net cash (used in) provided by financing activities	**$ (7,332,702)**	$ 3,417,684

(Continued)

Genesis Health System
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Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2019 and 2018

	2019	2018
Net decrease in cash and cash equivalents	**$ (18,587,154)**	$ (7,204,023)
Cash and cash equivalents:		
Beginning	**66,668,316**	73,872,339
Ending	**$ 48,081,162**	$ 66,668,316
Supplemental disclosure of cash flow information, cash payments for interest, including capitalized interest 2019 $122,654; 2018 $205,735	**$ 7,759,213**	$ 8,183,203
Supplemental disclosure of noncash investing and financing activities, decrease in accounts payable related to construction in progress	**$ (1,302,905)**	$ (700,634)
Contribution of property and equipment in exchange for investment in joint venture	**$ 4,000,000**	**$ -**

See notes to consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business: Genesis Health System – Iowa (GHS Iowa), an Iowa nonprofit corporation, and Genesis Health System – Illinois (GHS Illinois), an Illinois not-for-profit corporation, have identical governing boards, management and bylaws and can act jointly. GHS Iowa is also the sole member of Genesis Health Services Foundation, Genesis Philanthropy, Genesis Accountable Care Organization, LLC and Genesis Health System Workers' Compensation Plan and Trust, the sole stockholder of GenVentures, Inc., a member of Misericordia Assurance Company, Ltd. and a partner in GenGastro, LLC. GHS Illinois is the sole member of Genesis Medical Center – Aledo (GMC – Aledo) and Genesis Senior Living – Aledo (GSL – Aledo), and is a partner in The Larson Center Partnership.

GHS Iowa, GHS Illinois, GMC – Aledo and GSL – Aledo collectively represent the Obligated Group on certain components of the System's long-term debt.

GHS Iowa and GHS Illinois operate the following business units:

Genesis Health System provides administrative, management, information technology and other support services to its affiliates.

Genesis Clinical Services operates physician medical practices, convenient care practices and an occupational medicine clinic and provides behavioral health services to the residents of eastern Iowa and western Illinois.

Genesis Medical Center – Davenport (GMC – Davenport) is licensed as a 502-bed acute care hospital which provides services from two hospital facilities located in Davenport, Iowa.

Genesis Family Medical Center (GFMC) is a family practice residency training program that operates clinics in Davenport and Blue Grass, Iowa to provide a clinical setting for the residents to treat patients.

Genesis Medical Center – DeWitt (GMC – DeWitt) is certified as a critical access hospital, which has 13-acute care and swing beds, and has a 77-bed long-term care facility, all of which are dually licensed for Medicare and Medicaid services and which provide services from its facility in DeWitt, Iowa. In June 2019, GMC-Dewitt entered into a lease agreement as disclosed further in Note 1, whereby GMC-Dewitt will lease the assets to a new joint venture, Wellspire, LLC.

Genesis Visiting Nurse Association and Hospice (VNA) provides home health care, community nursing services and hospice services to patients in eastern Iowa and western Illinois.

Genesis Medical Center – Silvis (GMC – Silvis) is licensed as a 145-bed acute care hospital which provides services from its facility in Silvis, Illinois.

Illini Hospital Nursing Home (INH) operates Illini Restorative Care Center and Crosstown Square. Illini Restorative Care Center is a 120-bed licensed nursing facility, consisting of 92 skilled care beds and 28 sheltered care beds. All 92 beds are dually licensed for Medicare/Medicaid services. The sheltered care unit provides personal care similar to an assisted living facility. Crosstown Square is an independent living facility containing 64 rentable apartments and three guest rooms that offers services designed to provide independent living apartments for seniors. In June 2019, certain assets of INH were contributed to a new joint venture, Wellspire, LLC, as disclosed further in Note 1.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

GHS Iowa and GHS Illinois have a controlling ownership interest or membership in the following organizations:

Genesis Medical Center – Aledo (GMC – Aledo) is certified as a critical access hospital, which has 22-acute care and swing beds, as well as a physician clinic, which provides services from its facility in Aledo, Illinois.

Genesis Senior Living – Aledo (GSL – Aledo) is certified as a nursing facility, which has a 92-bed long-term care facility, which provides services from its facility in Aledo, Illinois. On May 31, 2019, the System sold its 100% ownership interest in GSL-Aledo to an unrelated third party.

Genesis Health Services Foundation (Genesis Foundation) is an organization whose mission is to develop, manage and grant charitable support to meet the health-related needs of the communities served by Genesis Health System.

GenGastro, LLC (d/b/a the Center for Digestive Health) is a limited liability company, which operates a single-specialty gastroenterology ambulatory surgery center located in Bettendorf, Iowa. Genesis Health System maintains a 75% ownership interest in GenGastro, LLC.

The Larson Center Partnership (LCP) is a for-profit real estate partnership which owns a medical office building adjacent to GMC – Silvis and leases space for clinics, laboratory, pharmacy and offices to GMC – Silvis and other third-party organizations. GHS Illinois is a general partner and owns approximately 79.8% of LCP.

GenVentures, Inc. (GenVentures) is a wholly-owned for-profit corporation which operates the following divisions, primarily in the Quad Cities:

Genesis at Home, Continuing Care sells and leases home medical equipment; provides intravenous therapy services, including sales of related solutions and supplies to patients; and provides retail pharmaceutical and over-the-counter products to patients and employees of the System.

GenProperties owns, leases and/or manages office space in 14 medical office buildings located in Bettendorf, Davenport, Eldridge, Le Claire and Muscatine, Iowa.

Crescent Laundry provides commercial laundry services to health care facilities in eastern Iowa and in north-central Illinois.

Genesis Accountable Care Organization, LLC (Genesis ACO) is an Iowa limited liability company formed in December 2011. Its purpose is to engage in lawful business related to the creation and organization of a "physician-driven" network to act as, and/or participate in, an Accountable Care Organization within the meaning of the federal Patient Protection and Affordable Care Act. The company is also organized to develop a clinically integrated network of providers including physicians, health professionals, hospitals and ancillary providers working together to promote high quality, coordinated and efficient care to patients including members of various managed care payors and the community at large.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Genesis Philanthropy is a wholly-owned tax-exempt entity formed in 2013, which partners with other hospital foundations to form a regional network to attract donors to help fund specific health-related causes and promote wellness in the region.

Genesis Health System Workers' Compensation Plan and Trust (Workers' Compensation Trust) provides a fund which is used to pay workers' compensation claims and costs for the benefit of Genesis Health System.

Misericordia Assurance Company, Ltd. (Misericordia) is a wholly-owned Cayman-based captive insurance company which underwrites the general and professional liability risks of Genesis Health System and affiliates.

Genesis Health System and its related organizations are collectively referred to as the System.

Significant accounting policies:

Principles of consolidation: The accompanying financial statements include the accounts of Genesis Health System and related organizations. All significant intercompany balances and transactions have been eliminated upon consolidation.

Accounting estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in the estimates and assumptions in the near term would be material to the financial statements. Estimates that are particularly susceptible to significant changes in the near term and which require significant judgments by management include the allowances for implicit and explicit price concessions, estimated third-party payor settlements, self-insured professional, general, health and dental and workers' compensation liabilities, assumptions for the defined benefit pension plan, fair value of financial instruments and recoverability of long-term assets (including goodwill).

New accounting standards*:* Effective July 1, 2018, the System adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method of transition applied to contracts that were not complete as of July 1, 2018. This ASU replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled in an exchange of goods or services.

The adoption of this ASU resulted in changes to presentation and disclosure of revenue, primarily related to the provision for bad debts. There was no adjustment required to the opening balance of net assets for the adoption of this ASU. Comparative financial information has not been restated and continues to be reported under the accounting standards in effect for those periods.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

During the year ended June 30, 2019, the System adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which amends the requirements for financial statements and notes in Topic 958 to require the System to make reporting changes affecting the following:

- Net asset classifications and related disclosures.
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date.
- New reporting requirements related to expenses including disclosure of expenses by both nature and function.

The System made changes to terminology and classification as described above as well as additional and modified disclosures, particularly in Notes 7 and 18 to the financial statements. Amounts previously reported for the year ended June 30, 2018 have been reclassified, on a retrospective basis, to achieve consistent presentation. Amounts previously reported as temporarily or permanently restricted net assets have been reclassified to be reported as net assets with donor restrictions.

Cash and cash equivalents: Cash and cash equivalents include unrestricted cash and temporary cash investments not limited as to use. The cash equivalents have a maturity of three months or less at date of issuance. Certain temporary cash investments internally designated as long-term investments are excluded from cash and cash equivalents.

Patient accounts receivable and estimated third-party payor settlements: The collection of receivables from third-party payors and patients are the System's primary source of cash for operations and are critical to their operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the System's collection of accounts receivable, cash flows and results of operations.

Patient accounts receivable due from patients are carried at a net amount consisting of the original charge for the service provided, less any applicable discounts, less amounts covered by third-party payors and, in 2018, less an estimated allowance for doubtful accounts. Amounts due from third-party payors are carried at a net amount consisting of the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors. The System does not charge interest on patient receivable accounts which are past due.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

During 2018, the System analyzed its past history and identified 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 reviewed 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 who had third-party insurance coverage, the System analyzed contractually due amounts and provided 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 (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System recorded a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. As part of this process, the System regularly performed hindsight procedures to evaluate historical write-off and collection experience over time to assist in determining the reasonableness of its process for estimating the allowance for doubtful accounts.

The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted were charged off against the allowance for doubtful accounts. Recoveries of receivables previously written off were recorded as a reduction of the provision for bad debts when received.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare and Blue Cross, are reported as estimated third-party payor settlements.

Patient service revenue: The System reports patient service revenue at the amount that reflects the consideration to which the System expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits and reviews. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The System measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and the System does not believe it is required to provide additional goods or services to the patient.

As the System's performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The System determines the transaction price based on standard charges for goods and services provided to patients, reduced by explicit price concessions consisting of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and/or implicit price concessions provided to uninsured patients based on historical collection experience. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to be collected based on the System's collection history with similar classes of patients. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the year ended June 30, 2019 was not significant.

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

Other revenue: The System recognizes shared savings revenue when the cost savings can be reasonably estimated and the amount of payment to be received has been validated under the terms of the contract.

Inventories, supplies and materials: Inventories, supplies and materials are valued at the lower of cost (first-in, first-out method) or net realizable value.

Assets limited as to use: Assets limited as to use include assets internally designated by the System's Board of Directors for future capital improvements and other purposes, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by trustees under bond indenture agreements; interest in the net assets of the DeWitt Community Hospital Foundation and Mercer Foundation for Health; and donor restricted assets.

Investments: Short-term investments consist of certificates of deposit which are stated at cost which approximates fair value. Investments in equity securities, including assets limited as to use, with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets based on quoted market prices. Investments also include alternative investments which are carried at fair value using the practical expedient. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the System based on various factors. Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine their values.

Investment income includes realized gains and losses on investments, changes in unrealized gains and losses on investments classified as trading securities, dividends, interest and other investment income.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Investment income earned on Misericordia's investments, which is to be used for the payment of general and professional liabilities, is recognized as other revenue which is included in operating income. Such investment income (loss) was approximately $1,342,000 and $(83,000) for the years ended June 30, 2019 and 2018, respectively.

The System classifies substantially all of its investments in debt and equity securities as trading. This classification as trading requires the System to recognize unrealized gains and losses on substantially all of its investments without donor restrictions and internally designated investments in debt and equity securities as a component of nonoperating gains (losses) in the consolidated statements of operations.

Investments in associated companies are accounted for by the equity method of accounting under which the System's share of the net income (loss) of the associated companies is added to (deducted from) the investment account. Income (loss) from associated companies that provide patient related services, and for which the System has operational involvement, is recognized as other revenue and included in operating income (loss). Income (loss) from associated companies that do not meet these criteria is recognized as nonoperating gains (losses) in the consolidated statements of operations. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The System has investments in companies that provide: lithotripsy, ultrasound services, endoscopy procedures, specialized and orthopedic care, ambulatory surgery procedures, radiology, dialysis, senior living, a medical office building partnership and mobile clinical and medical services.

In June 2019, the System contributed all of the physical assets and operations of Illini Restorative Care, with a value of approximately $4,000,000, into a new joint venture, Wellspire, LLC (Wellspire). The System has a 40% interest in Wellspire. As of June 30, 2019, Wellspire's operations have not begun. Wellspire will also lease and operate the long-term care facility from GMC-DeWitt. Wellspire will also manage Crosstown Square. This investment is accounted for on the equity method and is included in Investments in the accompanying consolidated balance sheets as of June 30, 2019.

Property and equipment: Property and equipment is carried at cost or, if donated, at fair value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as support without donor restrictions and are included in the income or loss from operations unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Capitalized interest: Interest cost incurred on borrowings designated for construction purposes, net of interest earned on such borrowed funds, is capitalized over the duration of the related construction projects. Imputed interest cost incurred on construction financed through internally generated funds or other borrowings is capitalized over the duration of the related construction projects. For the years ended June 30, 2019 and 2018, the System capitalized interest totaling approximately $123,000 and $206,000, respectively.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Goodwill: A majority of the goodwill on the System's consolidated balance sheet arose from the acquisition of a controlling interest in GenGastro, LLC, during the year ended June 30, 2011, and consists primarily of current and future expected earnings and profitability.

Goodwill is tested for impairment annually. Management performed assessments for impairment as of June 30, 2019 and 2018, and determined no goodwill impairment exists.

Other assets: Other assets is primarily made up of split-dollar life insurance and cash surrender value of life insurance.

Debt issuance costs and unamortized bond premium: Debt issuance costs and unamortized bond premium are amortized over the period the related obligation is outstanding using the effective interest method.

Unpaid losses and loss adjustment expenses: Misericordia and the Workers' Compensation Trust (collectively the Trusts) have liabilities for unpaid losses and loss adjustment expenses which are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate cost of all reported and unreported losses which are unpaid at year-end. Management concurs with the independent actuary on the determination of the estimated ultimate costs for losses and loss adjustment expenses.

All estimates of unpaid losses and loss adjustment expenses are reviewed at least annually, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of losses and related expense may vary from the amounts included in the financial statements. Misericordia records its estimated liability for unpaid losses and loss adjustment expenses at an undiscounted actuarially determined amount. The Workers' Compensation Trust records its estimated liability for unpaid losses and loss adjustment expenses based on assumptions and estimates including an actuarially determined amount, discounted using a 2.1% yield as of June 30, 2019 and 2018.

Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. No representation is made, however, that the ultimate liabilities may not be in excess of the amounts provided. Also, Misericordia and the Workers' Compensation Trust participants are obligated by the terms of the Trusts' agreements to contribute retrospective payments to the Trusts, if deemed necessary, in order to support claims and costs in excess of the amounts provided.

Misericordia and the Workers' Compensation Trust record their estimated liabilities gross of any amounts recoverable under their own reinsurance, which amounts, if any, are recorded separately in the consolidated balance sheets. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, Misericordia and Workers' Compensation Trust would be liable to pay all losses under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations. Investments held by Misericordia and the Workers' Compensation Trust totaling approximately $28,462,000 and $29,170,000 as of June 30, 2019 and 2018, respectively, are included in investments in the accompanying consolidated balance sheets.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Premiums written and ceded: Premiums written and ceded are recognized in income pro-rata over the term of the policies and the unearned and unexpensed portions at the consolidated balance sheet dates are transferred to unearned premiums which is included in other long-term liabilities on the consolidated balance sheets.

Reinsurance premiums ceded are similarly recognized on a pro-rata basis over the terms of the policy issued and the unearned portion, if any, deferred and transferred to deferred reinsurance premiums ceded which is included in other long-term liabilities on the consolidated balance sheets.

The policies insured by Misericordia are subject to a retrospective rating plan, under which retrospective premiums are recomputed annually based on incurred loss. Retrospective premium adjustments are included in income in the period in which they are determined.

Net assets: The System is required to report information regarding its financial position and operations according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. The two classes are based on the presence or absence of donor-imposed restrictions. Net assets with donor restrictions include net assets restricted by donors to a specific time period or purpose and net assets restricted by donors to be maintained in perpetuity. Donor restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying financial statements.

Noncontrolling interests: The System has a 75.0% interest in GenGastro, LLC and a 79.8% interest in The Larson Center Partnership, LLC. Other members own a noncontrolling interest of the companies. A pro rata share of the income or losses and net assets, in the form of members' equity, applicable to these interests has been recognized in the System's financial statements.

Fair value measurements: The Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification* defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 6 for additional information.

Other service revenue, net of cost of revenue: The consolidated statements of operations include other service revenue, net of cost of revenue, which primarily consists of pharmaceuticals, home medical equipment and laundry services through GenVentures, Inc.

Operating income: The consolidated statements of operations include operating income. Changes in net assets without donor restrictions, which are excluded from operating income include investment income, loss on pension termination, contribution income and other income which management views as outside of core operating activity.

Charity care: The System provides care to patients who meet certain criteria under charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. See additional information in Note 3.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Excess of revenue over expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from excess of revenue over expenses, include permanent transfers of assets for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and the change in unrecognized funded status of the pension plan.

Subsequent events: The System has evaluated subsequent events through October 21, 2019, the date on which the financial statements were issued.

Note 2. Patient Service Revenue

Health care providers within the System have agreements with third-party payors that provide for payments at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, Wellmark/Blue Cross, other health maintenance organizations, and various commercial insurance and preferred provider organizations.

Third-party payor rates differ by payor and include: established charges, contracted rates less than established charges, retroactively determined cost-based rates and prospectively determined rates per discharge, per procedure or per diem.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various health care organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors may also provide for retroactive audit and review of claims. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing, which would have a material impact on the consolidated financial statements.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure it is probable a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Estimated explicit price concessions for the years ended June 30, 2019 and 2018 include the effect of changes in the estimate of the amount due to third-party payors. The net effect of these changes in estimate is an increase in patient service revenue of approximately $1,645,000 and $463,000 for the years ended June 30, 2019 and 2018, respectively, and is related to the recognition of disproportionate share reimbursement and retroactive adjustments based on final settlements of cost reports.

Note 2. Patient Service Revenue (Continued)

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The Organization also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The composition of patient service revenue based on payor source for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Medicare	41%	40%
Medicaid	11	12
Other third-party payors	45	46
Patients	3	2
Patient service revenue	100%	100%

Hospital revenue includes a variety of services mainly covering inpatient procedures requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Physician revenue includes services primarily focused on the care of outpatients covering primary and specialty healthcare needs. The composition of patient service revenue based on services for the years ended June 30, 2019 and 2018 are as follows:

	2019	2018
Hospital	$ 462,852,410	$ 467,386,713
Physician	91,805,236	91,660,014
Other	48,053,758	47,944,133
Patient service revenue	$ 602,711,404	$ 606,990,860

Note 2. Patient Service Revenue (Continued)

On March 12, 2018, the Governor of Illinois signed legislation to implement a redesigned Medicaid Hospital Tax Assessment Program. Among other changes, the redesigned program bases payments on updated patient utilization data, shifts funding from fixed payments to dynamic "live rates," and recognizes and incentivizes the shift from inpatient to outpatient services. The redesigned program was approved by the Centers for Medicare and Medicaid Services (CMS) in June 2018. The redesigned program, which was effective July 1, 2018, will sunset on June 30, 2020.

Under the State of Illinois Medicaid Hospital Assessment Programs, a hospital receives additional Medicaid reimbursement from the State and pays a related assessment. Total patient service revenue recognized by the System, which is recorded as an increase in patient service revenue, related to these Illinois programs amounted to approximately $7,868,000 and $7,954,000 for the years ended June 30, 2019 and 2018, respectively. Total assessments incurred by the System related to these programs amounted to approximately $2,946,000 and $2,712,000 for the years ended June 30, 2019 and 2018, respectively, which is included in other operating expenses.

In January 2015, CMS approved the State of Illinois request for a new supplemental payment to hospitals for services provided to newly eligible Medicaid beneficiaries under the Affordable Care Act (ACA). Total patient service revenue recognized by the System related to these programs was approximately $309,000 and $3,780,000 for years ended June 30, 2019 and 2018, respectively. Total assessment expense related to ACA access payments was approximately $32,000 and $502,000 for the years ended June 30, 2019 and 2018, respectively, which is included in other operating expenses. The program ended during the year ended June 30, 2019 and was replaced by the program discussed above.

In 2011, CMS approved the State of Iowa's Hospital Provider Tax Program (Iowa Program). Under the Iowa Program, a hospital is required to pay a quarterly provider tax assessment. The tax assessments collected by the State are used to fund a health care access improvement fund and are used to obtain federal matching funds, all of which must be distributed to Iowa hospitals to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Iowa Program increases inpatient diagnosis-related groups (DRG) reimbursement rates and also implements several supplemental inpatient and outpatient methodologies. The System's additional reimbursement has been recorded in the accompanying financial statements as an increase in patient service revenue. Total assessments incurred by the System related to this Iowa Program amounted to approximately $2,491,000 for each of the years ended June 30, 2019 and 2018, which is included in other operating expenses.

Effective April 1, 2016, Iowa Medicaid transitioned to three managed care organizations (MCO): United Healthcare Service, Inc., Amerigroup Iowa, Inc. and Amerihealth Caritas. Amerihealth Caritas withdrew from Iowa Medicaid in September 2017; United Healthcare withdrew from Iowa Medicaid in June 2019. Iowa Total Care (a division of Centene) joined the Iowa Medicaid program in July 2019. The System is a participating provider with the two remaining organizations.

Commencing in 2018, the State of Illinois mandated certain regions of the state, which included GHS Illinois, to enroll all Medicaid recipients into managed care health plans. The System has contractual arrangement with various Medicaid managed care health plans, which call for the System to be paid for covered services at negotiated rates, which at a minimum must be equal to the Medicaid rate.

Note 2. Patient Service Revenue (Continued)

The System has entered into various shared savings programs. During the years ended June 30, 2019 and 2018, these programs achieved specified metrics and earned incentive payments. The System's share of the incentive under these programs recognized in other operating revenue was approximately $4,560,000 and $6,695,000 for the years ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the System recorded other current receivables of approximately $3,800,000 and $5,234,000, respectively, relating to these programs.

Note 3. Charity Care and Community Service

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies.

Cost of charity care is calculated by applying business unit specific cost-to-charge ratios to the amount of charity care deductions from gross revenue for each business unit. The cost-to-charge ratio is calculated by taking the business unit expenses and gross charges and applying adjustments to remove the cost of non-patient care activity, Medicaid provider taxes paid, identifiable community benefit expenses, as well as gross patient charges that are generated for identifiable community benefit services. The amount of charity care and services provided at estimated cost was approximately $5,281,000 and $5,154,000 for the years ended June 30, 2019 and 2018, respectively.

In addition to its charity policy, the System provided community services, including, but not limited to, the following:

- Operation of full-time emergency rooms providing emergency medical services to all patients accessing the System, regardless of race, creed, sex, national origin, handicap, age or ability to pay.
- Operation of a community based hospice program along with the only residential hospice house in the Quad Cities.
- Maintenance of provider agreements with the Medicare and Medicaid programs.
- Health screenings, promotions, education and prevention programs offered free or at low cost to its communities.
- A medical education program which provides for the education of Family Practice residents at GFMC, as well as support to nursing programs.
- Volunteer services provided by the System's staff to the communities, including major community events and fund raising activities.
- Not-for-profit community funding, including those community groups' activities that are consistent with System's mission.
- Subsidized services to other charitable organizations providing health related services.

Note 3. Charity Care and Community Service (Continued)

Genesis Health System and the Genesis Foundation, as part of their missions, grant charitable support to meet the health related needs of the communities served by the System.

On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law, which was codified in Section 15-86 of the Illinois Property Tax Code and Section 3-8 of the *Service Occupation Tax Act* took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieves the burden of government or addresses the health of low-income or underserved individuals.

On January 5, 2016, the Fourth District Appellate Court of Illinois ruled that Section 15-86 of the Illinois Property Tax Code (Section 15-86) is unconstitutional. This decision was appealed to the Illinois Supreme Court, which on March 23, 2017, vacated the Fourth District Appellate Court's ruling, citing a lack of jurisdiction, and remanded the case to circuit court for reconsideration. However, in its 2017 decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois Property Tax Code. On September 20, 2018, the Illinois Supreme Court upheld an Illinois Appellate Court's ruling that Section 15-86 is constitutional. However, additional legal challenges to this law may occur. Management continues to believe that the System's Illinois hospitals, GMC - Silvis and GMC – Aledo, meet the requirements under the law to maintain its property and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

Note 4. Receivables

Patient receivables as of June 30, 2019 and 2018 consist of the following:

	2019	2018
Patient receivables (before concessions and allowances)	$ 248,284,096	$ 218,699,270
Less:		
Estimated allowances for explicit price concessions (in 2019) and third-party contractual adjustment allowances (in 2018)	146,294,871	113,459,954
Allowance for implicit price concessions (in 2019) and doubtful accounts and charity care (in 2018)	732,243	11,907,262
	$ 101,256,982	$ 93,332,054

Note 5. Composition of Investments and Assets Limited as to Use

Investments and assets limited as to use that are internally designated, held by trustee under bond indenture and donor restricted consist of the following as of June 30, 2019 and 2018:

	2019	2018
Cash, primarily money market funds	$ 4,200,926	$ 3,655,255
Certificates of deposit	577,865	575,283
Common stocks	70,412,446	71,555,279
Fixed income mutual funds	72,966,921	60,779,811
Equity mutual funds	112,480,833	102,313,557
Equity collective investment funds	65,450,355	62,832,623
U.S. Treasury bonds	18,655,046	22,832,032
Investment in associated companies	20,946,236	15,212,305
Other	571,416	1,044,674
	$ 366,262,044	$ 340,800,819

Investments and assets limited as to use that are internally designated, held by trustee under bond indenture and donor restricted are included in the accompanying consolidated balance sheets under the following captions as of June 30, 2019 and 2018:

	2019	2018
Short-term investments	$ 577,865	$ 575,283
Investments	69,704,164	65,305,822
Assets limited as to use:		
Internally designated	266,530,669	246,613,595
Donor restricted	29,449,346	28,306,119
	$ 366,262,044	$ 340,800,819

The investments of the System are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the financial statements.

Note 5. Composition of Investments and Assets Limited as to Use (Continued)

The return on investments, including assets limited as to use, is reported in the consolidated statements of operations and changes in net assets as follows:

	2019	2018
Investment income:		
Interest and dividend income	$ 7,132,059	$ 7,171,021
Net realized gains on investments	14,804,374	10,120,229
Change in net unrealized gains on investments	1,568,504	3,779,590
Equity in net income of associated companies	7,626,541	6,330,030
	$ 31,131,478	$ 27,400,870
Without donor restrictions:		
Interest and dividend income and realized gains on sales of investments	$ 19,114,269	$ 15,249,038
Change in net unrealized gains on trading securities	1,863,380	3,916,748
Other nonoperating income	1,422,223	862,216
Other operating revenue	7,546,340	5,384,811
	29,946,212	25,412,813
With donor restrictions, restricted by time or purpose:		
Interest and dividend income	288,144	293,608
Net realized gains on investments	1,046,449	718,099
Change in net unrealized gains on investments	(595,819)	330,691
	738,774	1,342,398
With donor restrictions, restricted in perpetuity		
Interest and dividend income	175,518	143,163
Net realized gains on investments	624,626	351,818
Change in net unrealized gains on investments	(353,652)	150,678
	446,492	645,659
	$ 31,131,478	$ 27,400,870

Note 6. Investments and Fair Value Measurements

The Fair Value Measurement Topic of the FASB Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, this guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Note 6. Investments and Fair Value Measurements (Continued)

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Investments in common stocks and mutual funds traded on a national securities exchange are valued at the last reported sales price on the day of valuation. These financial instruments are classified as Level 1 in the fair value hierarchy.

The System invests in alternative investments consisting of equity mutual funds and collective investment funds. Investments in the common trust funds are not classified according to the fair value hierarchy in the following tables, in accordance with Accounting Standards Codification 820, as the net asset value is used as a practical expedient to value the investments. The estimated fair values of certain investments of the underlying investment funds, which may include securities for which prices are not readily available, are determined by the managers of the respective other investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the System's investments in funds generally represents the amount the System would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply.

For the System's investments in U.S. treasury bonds and certain fixed income securities where quoted prices are not available for identical securities in an active market, the System determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the market place, can be derived from observable data or are supported by observable levels at which transactions are executed in the market place. Fair values from these models are verified, where possible, to quoted prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are classified as Level 2.

There have been no changes in valuation techniques used for any assets measured at fair value during the years ended June 30, 2019 and 2018.

Note 6. Investments and Fair Value Measurements (Continued)

Assets recorded at fair value on a recurring basis: The following tables summarize assets measured at fair value on a recurring basis as of June 30, 2019 and 2018, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Investments at Fair Value as of June 30, 2019			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	$ 6,487,392	$ 6,487,392	$ -	$ -
Financial	6,574,129	6,574,129	-	-
Consumer Discretionary	14,847,522	14,847,522	-	-
Energy	494,004	494,004	-	-
Information Technology	20,680,490	20,680,490	-	-
Industrials	7,637,468	7,637,468	-	-
ADR's (American Depository Receipts)	2,243,033	2,243,033	-	-
Materials	2,482,382	2,482,382	-	-
Consumer Staples	6,584,719	6,584,719	-	-
Utilities	605,981	605,981	-	-
Telecommunication Services	1,775,326	1,775,326	-	-
Equity and Fixed Income Mutual Funds:				
Lazard International Strategic Equity Fund	26,318,521	26,318,521	-	-
MFS Global Equity Fund	13,081,784	13,081,784	-	-
Macquarie Large Cap Value Portfolio	35,820,166	35,820,166	-	-
American Funds Europacific Growth Fund	3,248,238	3,248,238	-	-
Other, primarily those held in deferred compensation plan assets	34,012,124	34,012,124	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	60,174,495	(A)	(A)	(A)
JP Morgan U.S. Aggregate Bond Fund	5,275,860	(A)	(A)	(A)
Fixed Income:				
Nuveen Short-Term Bond Fund	10,751,128	10,751,128	-	-
TCW MetWest Total Return Bond Fund	12,435,353	(A)	(A)	(A)
Metropolitan West Total Return Bond Fund	5,806,186	-	5,806,186	-
U.S. Treasury Bonds	18,655,046	-	18,655,046	-
Mortgage Backed Assets	23,562,053	23,562,053	-	-
Other	20,412,201	7,243,206	13,168,995	-
	339,965,601	$ 224,449,666	$ 37,630,227	$ -
Cash and certificates of deposit:				
Cash, primarily money market funds	4,200,926			
Certificates of deposit	577,865			
Assets not recorded at fair value on a recurring basis:				
Investment in associated companies	20,946,236			
Other	571,416			
Total investments	$ 366,262,044			

Note 6. Investments and Fair Value Measurements (Continued)

	Investments at Fair Value as of June 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	$ 8,551,560	$ 8,551,560	$ -	$ -
Financial	8,279,435	8,279,435	-	-
Consumer Discretionary	12,493,927	12,493,927	-	-
Energy	1,025,108	1,025,108	-	-
Information Technology	22,018,427	22,018,427	-	-
Industrials	6,912,891	6,912,891	-	-
ADR's (American Depository Receipts)	2,101,230	2,101,230	-	-
Materials	1,646,161	1,646,161	-	-
Consumer Staples	6,250,163	6,250,163	-	-
Utilities	575,880	575,880	-	-
Telecommunication Services	1,700,497	1,700,497	-	-
Equity and Fixed Income Mutual Funds:				
Lazard International Strategic Equity Fund	25,479,620	25,479,620	-	-
MFS Global Equity Fund	11,721,105	11,721,105	-	-
Macquarie Large Cap Value Portfolio	34,417,970	34,417,970	-	-
American Funds Europacific Growth Fund	3,814,055	3,814,055	-	-
Other, primarily those held in deferred compensation plan assets	26,880,807	26,880,807	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	55,590,217	(A)	(A)	(A)
JP Morgan U.S. Aggregate Bond Fund	7,242,406	(A)	(A)	(A)
Fixed Income:				
Nuveen Short-Term Bond Fund	10,304,956	10,304,956	-	-
TCW MetWest Total Return Bond Fund	11,622,749	(A)	(A)	(A)
Metropolitan West Total Return Bond Fund	5,648,567	-	5,648,567	-
U.S. Treasury Bonds	22,832,032	-	22,832,032	-
Mortgage Backed Assets	19,317,449	19,317,449	-	-
Other	13,886,090	1,970,968	11,915,122	-
	320,313,302	$ 205,462,209	$ 40,395,721	$ -
Cash and certificates of deposit:				
Cash, primarily money market funds	3,655,255			
Certificates of deposit	575,283			
Assets not recorded at fair value on a recurring basis:				
Investment in associated companies	15,212,305			
Other	1,044,674			
Total investments	$ 340,800,819			

(A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2019 and 2018.

Note 6. Investments and Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the System's investments whose fair value is estimated using the net asset value (NAV) per share (or its equivalent) practical expedient as of June 30, 2019 and 2018:

	Fair Value		Unfunded	Redemption	Redemption
	2019	2018	Commitment	Frequency	Notice Period
Investments:					
TCW MetWest Total Return Bond Fund (A)	$12,435,353	$11,622,749	$ -	Daily	Daily
Equity Collective Investment Funds:					
JP Morgan Core Bond Trust (B)	60,174,495	55,590,217	-	Daily	Daily
JP Morgan U.S. Aggregate Bond Fund (C)	5,275,860	7,242,406	-	Daily	Trade date, minus 3 days
	$77,885,708	$74,455,372	$ -		

(A) TCW MetWest Total Return Bond Fund is an open-end investment fund incorporated in Luxembourg. The Fund's objective is to seek to maximize long-term total return by investing, under normal circumstances, at least 80% of its net assets in investment-grade fixed-income securities.

(B) The JP Morgan Core Bond Trust fund seeks to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager. This fund is priced daily.

(C) JP Morgan U.S. Aggregate Bond Fund is an open-end investment fund incorporated in Luxembourg. The Fund's objective is to achieve return in excess of U.S. bond markets by investing primarily in U.S. fixed and floating rate debt securities. The fair value of this investment has been estimated using the net asset value per share of the investments provided by the fund manager. This fund is priced daily.

Note 7. Financial Assets Available and Liquidity

The System regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The System has various sources of liquidity at its disposal, including cash and cash equivalents, marketable equity securities and bonds.

For the purpose of analyzing resources available to meet general expenditures over a 12-month period, the System considers all expenditures related to its ongoing mission-related activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, the System operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statements of cash flows which identifies the sources and uses of the System's cash and shows positive cash generated by operating activities for the years ended June 30, 2019 and 2018.

The System's Board of Directors has designated a portion of its resources for future capital improvements and for other purposes, which are not considered available. Those amounts are identified as internally designated on the consolidated balance sheets. These resources are invested for long-term appreciation and current income and may be spent at the discretion and approval of the Board of Directors. The System also holds investments which are intended to satisfy the obligation for the nonqualified deferred compensation plan, as described in Note 10, as well as investments which are intended to satisfy insurance claims, as described in Note 12.

Note 7. Financial Assets Available and Liquidity (Continued)

Financial assets available for general expenditures within one year of June 30, 2019 and 2018 consist of the following:

	2019	2018
Financial assets at year-end:		
Cash and cash equivalents	$ 48,081,162	$ 66,668,316
Receivables, net	119,100,806	112,419,797
Investments	70,282,029	65,881,105
Assets limited as to use	299,092,288	278,144,481
Total financial assets as of June 30	536,556,285	523,113,699
Less amounts not available to meet cash needs for general expenditures within one year:		
Contractual or donor restrictions:		
Restricted in perpetuity	9,927,852	8,559,826
Restricted by time or purpose	22,710,066	23,047,140
Investments held for nonqualified deferred compensation plans	19,620,391	19,105,600
Investments held for workers' compensation and professional and general liability insurance claims	28,462,341	29,170,111
Investment in associated companies	20,946,236	15,212,305
Internally designated	266,530,669	246,613,595
Financial assets available to meet cash needs for general expenditures within one year	$ 168,358,730	$ 181,405,122

Note 8. Property and Equipment

Property and equipment as of June 30, 2019 and 2018 consists of the following:

	2019	2018
Land and land improvements (A)	$ 48,424,308	$ 45,938,625
Buildings (B)	548,369,681	553,240,688
Leasehold improvements	33,386,421	28,446,736
Equipment	450,972,828	421,586,916
Construction in process	13,475,992	25,523,485
	1,094,629,230	1,074,736,450
Less accumulated depreciation, including accumulated depreciation on assets under capital lease 2019 $19,980,963; 2018 $19,740,886	702,208,321	668,052,193
	$ 392,420,909	$ 406,684,257

(A) Land and land improvements include assets under capital lease of $1,153,678 as of June 30, 2019 and 2018.

(B) Buildings include assets under capital lease as of June 30, 2019 and 2018 of $22,272,145.

Note 9. Long-Term Debt and Pledged Assets

Long-term debt and pledged assets as of June 30, 2019 and 2018 consist of the following:

	2019	2018
GHS Iowa:		
Revenue bonds, Series 2010 (A)	$ 14,425,000	$ 22,575,000
Revenue bonds, Series 2013 (B)	119,755,000	120,205,000
Revenue bonds, Series 2017 (C)	26,925,000	27,220,000
Unamortized bond premium, Series 2010 and 2013 (A)(B)	3,324,768	3,645,406
Unamortized debt issuance costs	(713,132)	(803,127)
GHS Iowa subtotal	163,716,636	172,842,279
GHS Illinois, capital lease obligations (D)	2,610,000	3,415,000
Unamortized debt issuance costs	(51,673)	(72,343)
	166,274,963	176,184,936
Less current maturities	10,180,000	9,700,000
	$ 156,094,963	$ 166,484,936

Genesis Health System – Iowa, Genesis Health System – Illinois, Genesis Medical Center – Aledo and Genesis Senior Living - Aledo, collectively, represent the Obligated Group on the revenue bond obligations.

(A) During fiscal year 2010, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2010. The Series 2010 bonds, which had an original principal balance of $90,995,000 and were issued at a premium of $3,799,486, have payments due July 1, annually, and mature in varying amounts through July 1, 2026 and bear interest at 5.0%. The Series 2010 bonds are secured by a pledge of the Obligated Group's receivables without restrictions. The proceeds of the bonds were used to extinguish the 1997 and 2000 Series bonds. A portion of the Series 2010 bonds were advance refunded in fiscal year 2018 as described below.

(B) During fiscal year 2014, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2013. The Series 2013 bonds, which had an original principal balance of $121,000,000 and were issued at a premium of $3,950,091, have payments due July 1, annually, and mature in varying amounts through July 1, 2033 and bear interest at rates between 4.0% and 5.5%. The Series 2013 bonds are secured by a pledge of the Obligated Group's receivables without restrictions. The proceeds of the bonds are restricted to be used for capital acquisitions and improvements.

(C) During fiscal year 2018, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2017 to advance refund a portion of the Series 2010 bonds. The Series 2017 bonds, which had an original principal balance of $27,500,000 and have payments due July 1, annually, mature in varying amounts through July 1, 2028 and bear interest at a rate of 2.7%. The Series 2017 bonds are secured by a pledge of the Obligated Group's receivables without restrictions. A portion of the proceeds were used for the advance refunding of $15,525,000 of the Series 2010 revenue bonds and the remainder was used for capital acquisitions and improvements.

A portion of the proceeds of the Series 2017 bonds have been deposited into certain reserve funds and invested in United States government obligations, the maturing principal of and interest paid on which will be sufficient to pay, when due, the principal and interest on the refunded bonds. Based on the opinion of legal counsel, the Series 2010 refunded bonds are deemed to have been legally defeased; therefore, the deposited funds and the bonds are no longer included on the System's financial statements. As a result of the advance refunding, a loss of approximately $561,000 was recognized during the year ended June 30, 2018.

There are a number of limitations and restrictions contained in the Master Trust Indenture for the Series 2010, 2013 and 2017 bonds, the most significant of which is for the Obligated Group to maintain a minimum debt service coverage ratio of 1.10 to 1.

Note 9. Long-Term Debt and Pledged Assets (Continued)

(D) GMC – Silvis leases its land, land improvements and buildings from Illini Hospital District, a related party, under a capital lease agreement which requires payment in an amount sufficient to pay all principal and interest on outstanding Series 2010 general obligation bonds (alternative revenue source).

The Series 2010 general obligation bonds (alternative revenue source) have an outstanding principal balance of $2,610,000. These bonds were issued to advance refund $8,740,000 of the outstanding Series 2001 general obligation bonds (alternative revenue source). The Series 2010 bonds bear interest at rates varying from 3.35% to 4.53%, which is payable on January 1 and July 1. The bonds mature in varying amounts from $805,000 to $905,000 through January 2022.

The depreciated cost of land, land improvements and buildings under this capital lease is approximately $3,445,000 as of June 30, 2019.

The following is a schedule of approximate future minimum lease payments due under capital leases together with the present value of future minimum lease payments as of June 30, 2019:

Years ending June 30:	
2020	$ 949,000
2021	949,000
2022	946,000
	2,844,000
Less the amount representing interest	234,000
Present value of future minimum lease payments	$ 2,610,000

As of June 30, 2019, the aggregate principal maturities of the long-term debt, including the maturities of capital leases and excluding unamortized bond premium and debt issuance costs over the next five years and thereafter are approximately as follows:

Years ending June 30:	
2020	$ 10,180,000
2021	13,540,000
2022	9,105,000
2023	9,110,000
2024	9,485,000
Thereafter	112,295,000
	$ 163,715,000

Note 10. Employee Retirement Plans

All employees of the System and affiliates participate in the Genesis Health System Retirement Plans. The plans consist of both a defined benefit pension plan and an employer paid match on employee contributions to a defined contribution plan. Retirement expense for the employer paid match to the defined contribution plan was approximately $3,501,000 and $3,340,000 for the years ended June 30, 2019 and 2018, respectively.

During the year ended June 30, 2016, the System approved a discretionary contribution of approximately $3,600,000 which was paid to employees during the year ended June 30, 2018. During the years ended June 30, 2019 and 2018, the System did not approve a discretionary contribution.

Note 10. Employee Retirement Plans (Continued)

Effective July 1, 2005, current participants in the defined benefit pension plan were given the option to remain in the defined benefit pension plan or to elect to move to the Genesis Retirement Account program, at which time their benefits in the defined benefit pension plan were frozen at current levels. All new full and part-time employees that have worked more than 1,000 hours during a prior calendar year will participate in the defined contribution plan, with contributions made by the System as specified in the plan based on years of service.

Effective December 31, 2006, the Board of Directors of the System adopted a resolution to freeze the defined benefit pension plan (Plan). Under terms of the freeze, employees with at least five years of service and a combination of age and years of service of 70 were grandfathered. As of December 31, 2011, benefits for all previously grandfathered employees were frozen and there will be no future benefits accrued to the participants in the defined benefit plan. As a result of the plan amendment which was effective December 31, 2011, the System elected to amortize the remaining actuarial gains and losses using the average remaining lifetime of participants expected to receive benefits under the Plan.

On May 4, 2017, the Board of Directors of the System adopted a resolution to terminate the Plan effective September 30, 2017 or at such later date as is administratively practicable. Notices of Intent to Terminate the Plan and to Interested Parties Regarding the Plan Termination were distributed to Plan participants on July 7, 2017 and August 18, 2017, respectively. On June 26, 2018, the Internal Revenue Service issued a favorable determination letter in reference to the termination of the Plan. The Plan filed a Standard Termination Notice with the Pension Benefit Guaranty Corporation (PBGC) on March 27, 2018. A notice of Plan Benefits was distributed to Plan participants on March 10, 2018.

As a result of the Plan termination, the Plan was amended effective September 30, 2017 to allow for the payment of lump-sum or immediate annuity distributions to certain eligible plan participants, surviving eligible spouses, beneficiaries and alternate payees who elected to take their accrued vested benefit in a lump-sum or immediate annuity during a Lump-Sum Window election period. They may have also decided to delay their payment decision to a later date (by electing this or failing to make any election).

Certain benefits under the Plan are insured by the PBGC at the Plan's termination. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirements and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the Plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the Plan are guaranteed at the level in effect on the date of the Plan's termination.

During the year ended June 30, 2019, the System contributed approximately $5,600,000 to the Plan which together with existing Plan assets, was used to make lump-sum payments and purchase a single premium guaranteed annuity contract in satisfaction of the System's obligations under the Plan. In connection with the termination of the pension plan, a loss was recorded of approximately $87,000,000. This loss is reported as a nonoperating loss in the accompanying consolidated statements of operations.

Note 10. Employee Retirement Plans (Continued)

The Compensation–Retirement Benefits Topic of the FASB Accounting Standards Codification requires balance sheet recognition of the overfunded or underfunded status of pension and other postretirement defined benefit plans. Actuarial gains and losses, prior service costs or credits and any remaining transition assets or obligations that have not been recognized under previous accounting standards, must be recognized in the changes in net assets without donor restrictions. As a result, the System has recognized the underfunded status of the defined benefit pension plan in the accompanying consolidated balance sheets as of June 30, 2018. The amount of the defined benefit pension plan liability is based on a comparison of the fair value of Plan assets to the Plan's projected benefit obligation.

The defined benefit pension plan is measured annually at June 30. Information about the Plan follows:

	2019	2018
Projected benefit obligation at beginning of year	$ (219,991,622)	$ (231,362,954)
Interest cost	(3,552,942)	(7,576,751)
Actuarial gain, impact of change in assumptions	4,456,995	8,036,071
Benefits paid, including lump-sum payments	91,587,569	10,912,012
Purchase of single premium guaranteed annuity contract	127,500,000	-
Projected benefit obligation at end of year	-	(219,991,622)
Fair value of plan assets	-	214,460,538
Funded status, plan assets (less than) benefit obligation	$ -	$ (5,531,084)
Rollforward of accrued (liability):		
Accrued (liability) on the consolidated balance sheet, beginning of year	$ (5,531,084)	$ (12,812,364)
Return on plan assets	(817,782)	6,821,960
Employer contributions	5,646,634	-
Change in plan liability	702,232	459,320
Accrued (liability) on the consolidated balance sheet, end of year	$ -	$ (5,531,084)
Components of net periodic pension expense (income) , which is included as a component of employee benefits expense on the consolidated statements of operations, consist of:		
Interest cost	$ 3,552,942	$ 7,576,751
Expected return on plan assets	(3,387,245)	(13,462,368)
Amortization of unrecognized net loss	902,866	2,300,107
Net periodic pension expense (income)	$ 1,068,563	$ (3,585,510)
Amounts recognized in the statements of operations:		
Amounts arising during the period:		
Net periodic pension expense (income)	$ 1,068,563	$ (3,585,510)
Loss on pension termination	87,025,185	-
	$ 88,093,748	$ (3,585,510)

Note 10. Employee Retirement Plans (Continued)

	2019	2018
Amounts not yet recognized as components of net periodic pension cost at end of year, net actuarial loss	$ -	$ (87,877,139)
Other	(216,609)	-
Unrecognized amounts, beginning of year	(87,877,139)	(91,572,915)
Current year change	$ 88,093,748	$ 3,695,776
Assumptions used in computations:		
In computing ending obligations:		
Discount rate	n/a	4.28%
Rate of compensation increase	n/a	n/a
In computing net periodic benefit cost:		
Discount rate	4.28%	3.89%
Expected return on assets	3.80%	6.25%
Rate of compensation increase	n/a	n/a

The expected return on plan assets above was based upon a blend of historical returns and the System's estimate of a long-term rate of return. Management's objective was to maximize long-term returns while reducing losses in order to meet future benefit obligations. Management followed the policy of using historical evidence in computing expected return on assets. During the year ended June 30, 2018, in anticipation of Plan termination, management transitioned the Plan's investments into fixed income investments and cash and cash equivalents. In anticipation of plan termination, management adjusted the expected rate of return on plan assets to 3.80% for the year ended June 30, 2019.

The fair values of the System's defined benefit pension plan assets as of June 30, 2018 by asset category, segregated by the level of the valuation inputs within the fair value hierarchy as described in Note 6, are as follows:

	Investments at Fair Value as of June 30, 2018			
	Fair Value	Level 1	Level 2	Level 3
Fixed Income:				
U.S. Treasury Bonds	$ 4,373,769	$ -	$ 4,373,769	$ -
Corporate Bonds	109,484,284	-	109,484,284	-
Municipal Bonds	10,275,730	-	10,275,730	-
Other	11,857,447	-	11,857,447	-
	135,991,230	$ -	$ 135,991,230	$ -
Other plan assets, cash and cash equivalents	78,469,308			
Total plan assets	$ 214,460,538			

Physician employees and certain members of management of the System are eligible to participate in nonqualified deferred compensation plans. The plans allow participants to defer a portion of their salary into the plans. The plan assets are held for the benefit of participating employees. The liability to these participants is recorded at the same amount as the plan assets' value. The assets, which are included in investments, and corresponding noncurrent liability of the nonqualified deferred compensation plans recorded on the accompanying consolidated balance sheets are approximately $19,620,000 and $19,106,000 as of June 30, 2019 and 2018, respectively.

Note 11. Income Tax Matters

GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation, Genesis Philanthropy and the Workers' Compensation Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. GenVentures is subject to income taxes. Misericordia Assurance Company, Ltd. is a foreign corporation not subject to income taxes.

In lieu of corporate income taxes, the partners of The Larson Center Partnership and members of GenGastro, LLC are taxed on their proportionate share of the respective organization's income, deductions, losses and credits. Therefore, the accompanying financial statements do not include any provision for income taxes for these entities.

Deferred taxes for GenVentures are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment. The deferred taxes for GenVentures relate primarily to net operating loss carryforwards, property and equipment, allowance for doubtful accounts and accrued compensation.

Income tax expense (benefit) attributable to income from continuing operations and reported as a component of other nonoperating income on the consolidated statements of operations is as follows:

	2019	2018
Current tax expense (benefit)	$ 286,000	$ (17,000)
Deferred tax expense	-	149,000
Total tax expense (benefit)	$ 286,000	$ 132,000

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act tax reform legislation. This legislation makes significant changes in U.S. tax law including a reduction in corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The law is required to be accounted for in the period of enactment. The legislation reduced the U.S. corporate tax rate from the previous rate of 39% to 21% for 2018. Deferred tax assets were adjusted for the effects of the change in tax laws and rates on the date of enactment. During the year ended June 30, 2018, tax expense was increased by approximately $666,000 as a result of the change in federal tax rate.

Note 11. Income Tax Matters (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at June 30, 2019 and 2018 are presented below:

	2019	2018
Deferred tax assets:		
Accounts receivable, primarily due to allowances for doubtful accounts	$ 88,000	$ 86,000
Compensated absences	104,000	109,000
Basis difference in equity method investment	165,000	132,000
Basis difference in property and equipment	1,412,000	1,321,000
Alternative minimum tax credit carryforwards	-	88,000
Total gross deferred tax assets	1,769,000	1,736,000
Less valuation allowance	165,000	132,000
Net deferred tax assets included in other assets	$ 1,604,000	$ 1,604,000

As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. Management continues to believe it is more likely than not that the deferred tax asset attributable to its equity method investment will not be realized. Accordingly, management continues to record a valuation allowance against the deferred tax asset attributable to the equity investment.

The System has alternative minimum tax credits of none and $88,000 as of June 30, 2019 and 2018, respectively, that may be carried forward indefinitely.

Uncertainty in income taxes: GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation, Genesis Philanthropy and the Workers' Compensation Trust each files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income. Unrelated business taxable income is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Note 11. Income Tax Matters (Continued)

Forms 990 and 990T filed by GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation, Genesis Philanthropy and the Workers' Compensation Trust are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation and the Workers' Compensation Trust are no longer subject to examination for the fiscal years ended June 30, 2015 and prior. GenVentures is a taxable organization and currently files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. GenVentures is no longer subject to income tax examinations for the fiscal years ended June 30, 2015 and prior. There were no uncertain tax positions as of June 30, 2019 and 2018.

Note 12. Self-Insurance, Contingent Liabilities and Commitments

Self-insured claims: The System is primarily self-insured, up to certain limits, for general and professional liability, workers' compensation and employee group health and dental claims. The System has purchased stop-loss insurance for general and professional liability claims, which will reimburse the System for individual claims in excess of $2,000,000 annually or aggregate claims exceeding $6,000,000 annually. The System has purchased stop-loss insurance for workers' compensation claims in excess of $500,000 annually, or aggregate claims in excess of $5,000,000. Insurance coverage is also maintained for health and dental claims in excess of $150,000.

Operations are charged with the costs of claims reported and an estimate of claims incurred but not reported. Total expense under the self-insured programs was approximately $22,971,000 and $20,513,000 for the years ended June 30, 2019 and 2018, respectively. An independent actuarial firm is utilized to assist in determining the provision for general, professional and workers' compensation losses, including incurred but not reported losses. The liabilities for estimated self-insured claims, including unpaid losses and loss adjustment expenses, recorded on the accompanying consolidated balance sheets are $31,402,000 and $31,490,000 as of June 30, 2019 and 2018, respectively, which include approximately $15,794,000 and $15,213,000, respectively that are included in other long-term liabilities and approximately $3,734,000 and $3,827,000, respectively, included in other accrued expenses. The amount of reinsurance recoverable on unpaid losses as of June 30, 2019 and 2018 was approximately $5,715,000 and $5,707,000, respectively, which is included in other receivables.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the short term. In addition, participants of self-insurance programs may be required to make retrospective contributions as deemed necessary if loss experience is worse than anticipated.

GFMC participates in a cooperative of System of Iowa-affiliated medical education foundations for the purpose of professional liability insurance to cover claims on a claims-made basis with a loss limit of $2,000,000 per occurrence and an annual limit of $4,000,000 and no deductible.

Note 12. Self-Insurance, Contingent Liabilities and Commitments (Continued)

Accounting for conditional asset retirement obligations: The Asset Retirement and Environmental Obligations Topic of the FASB Accounting Standards Codification clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Over the past ten years, management has systematically renovated, replaced or newly constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management of the System believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the System may settle the obligation is unknown and does not believe that the estimate of the liability related to these asset retirement activities is a material amount as of June 30, 2019 and 2018.

Management agreement: The System has a management agreement with Jackson County Regional Health Center (JCRHC) in Maquoketa, Iowa under which the System provides management consultation and other services to JCRHC. The arrangement does not alter the authority or responsibility of the Board of Directors of JCRHC.

Commitments: The System has agreements for the outsourcing of certain departments, including environmental services, facility maintenance, food and nutrition and patient transportation services, and also has a service contract in place for certain facets of its information technology department. These agreements expire at various times through 2026, unless the System were to terminate an agreement for cause. Approximate future minimum payments due under the agreements as of June 30, 2019 are due as follows:

Years ending June 30:	
2020	$ 24,214,000
2021	16,124,000
2022	16,448,000
2023	16,871,000
2024	17,006,000
Thereafter	35,018,000
	$ 125,681,000

The System has operating lease agreements for office space. Future annual minimum lease payments due under noncancelable agreements as of June 30, 2019 are as follows:

Years ending June 30:	
2020	$ 3,466,000
2021	3,121,000
2022	3,173,000
2023	3,222,000
2024	3,141,000
Thereafter	15,270,000
	$ 31,393,000

Note 13. Net Assets with Donor Restrictions

Net assets with donor restrictions held by the System are restricted by donors for the following purposes as of June 30, 2019 and 2018:

	2019	2018
Net assets with donor restrictions, restricted by time or purpose:		
Cardiac research	$ 734,522	$ 1,742,533
Visiting nurse programs	4,148,267	4,132,999
Heart of Mercy financial assistance	923,429	980,504
Inventory and equipment for GMC - Davenport	1,883,761	1,883,761
Cancer research	837,829	948,000
Adler Fund	1,336,421	1,282,148
Employee assistance fund	801,925	815,179
Regional fund for hospice and cancer care	2,201,832	2,255,432
Heart Institute	1,058,599	-
Operational and educational support for GMC - Davenport	1,575,726	1,692,371
Other	7,207,755	7,314,213
	22,710,066	23,047,140
Net assets with donor restrictions, restricted in perpetuity:		
Heart of Mercy financial assistance	1,834,190	1,759,315
Hospice house	5,083,604	4,812,306
Other	3,010,058	1,988,205
	9,927,852	8,559,826
Total net assets with donor restrictions	$ 32,637,918	$ 31,606,966

During the years ended June 30, 2019 and 2018, net assets with donor restrictions were released from donor restrictions by incurring expenditures satisfying their restricted purposes for reimbursement of operating expenses, in the amount of $2,406,016 and $2,383,501, respectively.

Certain net assets with donor restrictions are restricted to investment in perpetuity, the income from which is expendable primarily to support the Heart of Mercy financial assistance program and the hospice house.

Note 14. Minimum Future Rentals

The following is a schedule by year of approximate future minimum rentals, net of rentals from affiliates, to be received under GenVentures' noncancelable operating leases as of June 30, 2019:

Years ending June 30:	
2020	$ 1,694,000
2021	793,000
2022	702,000
2023	496,000
2024	538,000
Thereafter	1,519,000
Total approximate future minimum rentals	$ 5,742,000

Note 15. Interest in Net Assets of Foundations

The System has an interest in the net assets of the DeWitt Community Hospital Foundation (DCH Foundation) and the Mercer Foundation for Health whose financial statements are not included in the accompanying financial statements since they are not under the control of the System. As of June 30, 2019 and 2018 the interest in the net assets of the foundations was approximately $3,112,000 and $3,224,000, respectively.

Note 16. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of the System's gross receivables from patients and third-party payors as of June 30, 2019 and 2018 was as follows:

	2019	2018
Medicare	34%	31%
Medicaid	17	23
Blue Cross	16	14
Other third-party payors	17	15
Patients	16	17
	100%	100%

As of June 30, 2019, the System had deposits exceeding the federal depository insurance limits in various major financial institutions. Management believes the credit risk related to these deposits is minimal.

The System routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations and various investment grade corporate obligations. Investments in money market funds are not insured or guaranteed by the U.S. government or by the underlying corporation; however, management believes that credit risk related to these investments is minimal.

Note 17. Functional Expenses

The System provides general health care services to residents within its geographic location. In the below analysis, the costs of operation and maintenance of plant, depreciation, and interest expense have been allocated across all functional expense categories to reflect the full cost of those activities. Interest expense on debt is allocated based on usage of debt-financed space.

	2019			
	Program Services	Supporting Activities		
	Healthcare	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 238,703,921	$ 37,794,517	$ 458,410	$ 276,956,848
Employee benefits	37,077,596	9,133,993	66,415	46,278,004
Contracted professionals and services	50,125,103	3,977,017	156,640	54,258,760
Supplies	109,764,354	3,591,656	166,642	113,522,652
Other	60,547,475	33,097,103	271,514	93,916,092
Interest	7,249,370	-	-	7,249,370
Depreciation, supplies and amortization	28,380,788	12,321,283	-	40,702,071
Total expenses	$ 531,848,607	$ 99,915,569	$ 1,119,621	$ 632,883,797

	2018
Health care services	$ 510,397,192
General, administrative and support services	103,404,770
Fund raising, net of intercompany contributions	990,436
	$ 614,792,398

Included within general, administrative and support services are significant expenditures for information systems which support the delivery of health care services.

Note 18. Pending Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition on the income statement. The new standard is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact this ASU will have on the System's financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods, and interim periods within those years, beginning after December 15, 2018. The System is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

Note 18. Pending Accounting Pronouncements (Continued)

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash,* which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. The new standard is effective for periods beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The System is currently evaluating the impact the adoption of this guidance will have on its statement of cash flows.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The standard is effective for not-for-profit organizations for periods beginning after December 15, 2021. Early application of the amendments is permitted. Management is currently evaluating the impact this ASU may have on the System's financial statements.

In May 2019, the FASB issued ASU No. 2019-06, *Intangibles-Goodwill and Other (topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958).* Under the amendments to Topic 350, instead of testing goodwill for impairment annually at the reporting until level, a not-for-profit entity that elects the accounting alternative should amortize goodwill on a straight-line basis, test for impairment upon a triggering event, and have the option to elect to test for impairment at the entity level. Under the amendments to Topic 805, a not-for-profit entity that elects the accounting alternative should recognize fewer items as a separate intangible assets in an acquisition. The standard was effective upon issuance in May 2019. The System has not adopted the standard, but can elect to in future years.

Genesis Health System and Related Organizations

Compliance Report
June 30, 2019

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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*

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the consolidated financial statements of Genesis Health System and related organizations which comprise the consolidated balance sheet as of June 30, 2019, the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 21, 2019.

The financial statements of GenGastro, LLC, The Larson Center Partnership and Misericordia Assurance Company, Ltd. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not extend to those financial statements.

Internal Control over Financial Reporting
In planning and performing our audit of the consolidated financial statements, we considered Genesis Health System and related organizations' 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Genesis Health System and related organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of Genesis Health System and related organizations' 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether Genesis Health System and related organizations' consolidated 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Davenport, Iowa
October 21, 2019

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RSM US LLP

Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by the Uniform Guidance

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System

Report on Compliance for Each Major Federal Program
We have audited Genesis Health System and related organizations' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Genesis Health System and related organizations' major federal program for the year ended June 30, 2019. Genesis Health System and related organizations' major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Genesis Health System and related organizations' compliance.

Opinion on the Major Federal Program
In our opinion, Genesis Health System and related organizations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended June 30, 2019.

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance
We have audited the consolidated financial statements of Genesis Health System and related organizations as of and for the year ended June 30, 2019, and have issued our report thereon dated October 21, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

Davenport, Iowa
October 21, 2019

Genesis Health System
and Related Organizations

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Passed through to Subrecipients	Federal Expenditures
Direct:				
U.S. Department of Health and Human Services				
Grants to Provide Outpatient Early Intervention				
Services with Respect to HIV Disease	93.918	N/A	$ -	$ 261,618
Services with Respect to HIV Disease	93.918	N/A	-	101,318
Total direct			-	362,936
Indirect:				
U.S. Department of Health and Human Services				
Passed through Lutheran Services in Iowa:				
Affordable Care Act (ACA) - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	5887CH10—Year 3	-	59,981
Affordable Care Act (ACA) - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	5887CH10—Year 4	-	186,541
			-	246,522
Passed through Clinton County Board of Health:				
Public Health Emergency Preparedness Program	93.074	5889BT03	261,913	530,303
Passed through Iowa Department of Public Health:				
Immunization Cooperative Agreements	93.268	58881419 - 2019	-	39,081
HIV Care Formula	93.917	5888HC15 - Year 3	-	256,864
HIV Care Formula	93.917	5888HC15 - Year 4	-	76,177
Total indirect			261,913	1,148,947
Total expenditures of federal awards			$ 261,913	$ 1,511,883

See notes to schedule of expenditures of federal awards.

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Genesis Health System and related organizations (System) and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic consolidated financial statements.

For purposes of the Schedule, federal awards include all federal assistance entered into directly between the System and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. The Schedule does not include payments received under Medicare and Medicaid reimbursement programs. Because the Schedule presents only a selected portion of the activities of the System, it is not intended to, and does not, present the financial position, revenue and expenses, changes in net assets, and cash flows of the System.

Note 2. Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The System has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

Note 3. Other Federal Awards

There were no federal awards expended for noncash assistance, insurance, or any loans, loan guarantees, or interest subsidies outstanding as of and for the year ended June 30, 2019.

Note 4. Subrecipients

The System provided $261,913 in federal awards to subrecipients during the year ended June 30, 2019.

Genesis Health System
and Related Organizations

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

There were no prior audit findings.

Genesis Health System
and Related Organizations

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? [ ] Yes [X] No
- Significant deficiency(ies) identified? [ ] Yes [X] None reported

Noncompliance material to financial statements noted? [ ] Yes [X] No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? [ ] Yes [X] No
- Significant deficiency(ies) identified? [ ] Yes [X] None reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

- Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? [ ] Yes [X] No

Identification of Major Program:

CFDA Number	Name of Federal Program
93.074	Public Health Emergency Preparedness Program

Dollar threshold used to distinguish between type A and type B programs $750,000

Auditee qualified as low-risk auditee? [X] Yes [ ] No

II. Financial Statement Findings

(A) Internal Control

No matters were reported.

(B) Compliance Findings

No matters were reported.

III. Findings and Questioned Costs for Federal Awards

(A) Internal Control

No matters were reported.

(B) Compliance Findings

No matters were reported.

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