

Boone County Hospital
Boone, Iowa

**Financial Statements and
Supplementary Information
June 30, 2015 and 2014**

Together with Independent Auditor's Report

Boone County Hospital

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Boone County Hospital

Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Hospital Board of Trustees:		
Bruce Anderson	Chairman	December 2018
Troy Thompson	Vice Chairman	December 2020
Denny Kollbaum	Treasurer	December 2020
Thomas Good	Secretary	December 2018
Lisa Kobernusz	Member	December 2016
Meredith Nerem	Member	December 2018
Keith Kudej	Member	December 2020
Hospital Officials:		
Joseph Smith	Chief Executive Officer	Indefinite
Joe Devin	Chief Financial Officer	Indefinite

Independent Auditor's Report

To the Board of Trustees
Boone County Hospital
Boone, Iowa:

Report on the Financial Statements

We have audited the accompanying financial statements of Boone County Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2015, and the respective changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Hospital, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated June 8, 2015 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 7), the budgetary comparison information (page 30), the schedule of the Hospital's proportionate share of the net pension liability (page 31), and the schedule of Hospital contributions (pages 32 through 33) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The supplementary information in Exhibits 1 – 6 is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information in Exhibits 1 through 5 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information in Exhibits 1 through 5 is fairly stated, in all material respects, in relation to the financial statements as a whole.

The other information in Exhibit 6 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Spim Johnson, LLP

Omaha, Nebraska,
November 25, 2015.

Boone County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Boone County Hospital (Hospital) provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Total deposits increased in 2015 by \$1,462,493 or 25%; and increased in 2014 by \$3,313,445 or 130%.
- The Hospital's net position decreased by \$10,050,332 or 56% in 2015 and decreased by \$2,677,716 or 13% in 2014.
- The Hospital reported an operating gain of \$689,862 in 2015 and an operating loss of \$3,528,751 in 2014.
- Net nonoperating revenue increased by \$795,033 and \$40,433 in 2015 and 2014, respectively.
- The Hospital's net position decreased \$10,050,332 from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of the beginning balance for net pension liability of \$12,404,524.

Using This Annual Report

The Hospital's financial statements consist of three statements – a statement of net position; statement of revenue, expenses and changes in net position; and statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenue, Expenses and Changes in Net Position

One of the most important questions asked about any hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of net position and the statement of revenue, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting.

Using the accrual basis of accounting means that all of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Boone County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred outflows of resources, liabilities and deferred inflows of resources and reported in the statement of net position. The Hospital's net position decreased by \$10,050,332 or 56% in 2015 and \$2,677,716 or 13% in 2014 as shown in Table 1.

Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>	<u>2013</u> <u>(not restated)</u>
Assets			
Patient accounts receivable, net	\$ 4,407,492	5,052,655	6,823,148
Other current assets	10,296,062	8,386,134	7,872,543
Capital assets, net	17,137,987	18,774,150	19,709,070
Other noncurrent assets	<u>601,148</u>	<u>599,123</u>	<u>554,285</u>
Total assets	32,442,689	32,812,062	34,959,046
Deferred Outflows of Resources - Pension Related	<u>1,518,811</u>	--	--
Total assets and deferred outflows of resources	\$ <u>33,961,500</u>	<u>32,812,062</u>	<u>34,959,046</u>
Liabilities			
Long-term debt	\$ 4,373,079	6,000,732	7,201,279
Other current and noncurrent liabilities	<u>16,146,582</u>	<u>7,117,750</u>	<u>6,038,621</u>
Total liabilities	<u>20,519,661</u>	<u>13,118,482</u>	<u>13,239,900</u>
Deferred Inflows of Resources - Property Taxes and Pension Related	<u>5,576,919</u>	<u>1,778,328</u>	<u>1,132,178</u>
Net Position			
Net investment in capital assets	10,762,437	10,981,602	10,631,692
Restricted - expendable for debt service payments	163,002	162,492	161,681
Restricted - nonexpendable endowment	57,440	57,440	57,440
Unrestricted	<u>(3,117,959)</u>	<u>6,713,718</u>	<u>9,736,155</u>
Total net position	<u>7,864,920</u>	<u>17,915,252</u>	<u>20,586,968</u>
Total liabilities, deferred inflows of resources, and net position	\$ <u>33,961,500</u>	<u>32,812,062</u>	<u>34,959,046</u>

In 2015, the changes in assets were again due to a reduction in net accounts receivable. Capital assets decreased as depreciation exceeded capital spending by approximately \$1.6 million. Total liabilities increased primarily due to recognition of net pension liability. Unrestricted net position decreased \$9,831,677 from fiscal year 2014 to fiscal year 2015, primarily due to the pension liability recognized.

In 2014, the changes in assets were due to a reduction in net accounts receivable and capital assets. Capital assets decreased in 2014 as depreciation expense exceeded capital expenditures by approximately \$900,000. Current liabilities increased due to estimated amounts due to third-party payors.

Boone County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 was restated by \$12,404,524 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal years 2013 and 2014 for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Operating Results

In 2015, the Hospital's excess of revenue over (under) expenses before capital contributions was \$2,321,930 as shown in Table 2.

Table 2: Operating Results

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>	<u>2013</u> <u>(not restated)</u>
Operating Revenue			
Net patient service revenue	\$ 35,468,117	34,364,045	35,860,008
Other operating revenues	<u>5,268,552</u>	<u>3,995,892</u>	<u>6,165,072</u>
Total operating revenue	<u>40,736,669</u>	<u>38,359,937</u>	<u>42,025,080</u>
Operating Expenses			
Salaries, wages and benefits	20,460,254	22,966,674	22,877,264
Medical and other professional fees	7,791,508	7,773,099	8,038,482
Depreciation and amortization	3,265,395	2,757,979	2,236,570
Other operating expenses	<u>8,529,650</u>	<u>8,390,936</u>	<u>8,661,353</u>
Total operating expenses	<u>40,046,807</u>	<u>41,888,688</u>	<u>41,813,669</u>
Operating Income (Loss)	<u>689,862</u>	<u>(3,528,751)</u>	<u>211,411</u>
Nonoperating Revenue (Expenses)			
Noncapital contributions	59,966	31,957	5,141
Interest income	16,216	12,461	23,990
Interest expense	(218,374)	(335,494)	(296,463)
Property tax revenue	<u>1,774,260</u>	<u>1,128,111</u>	<u>1,063,934</u>
Total nonoperating revenue, net	<u>1,632,068</u>	<u>837,035</u>	<u>796,602</u>
Excess of Revenue Over (Under) Expenses Before Capital Grants and Contributions	2,321,930	(2,691,716)	1,008,013
Capital Grants and Contributions	<u>32,262</u>	<u>20,000</u>	<u>21,602</u>
Increase (Decrease) in Net Position	<u>\$ 2,354,192</u>	<u>(2,671,716)</u>	<u>1,029,615</u>

Boone County Hospital

Management's Discussion and Analysis June 30, 2015 and 2014

Operating Income (Loss)

In 2015, the increase in net patient service revenue was primarily due to increased volumes in outpatient services. Emergency room visits increased by 14%, outpatient surgery increased 12%, imaging and physical therapy each increased outpatient volume by more than 10%. In 2014, the decrease in net patient service revenue was due to unbudgeted decreases in volume, primarily in outpatient services. Emergency room, laboratory and imaging volumes each fell by more than 6% over the previous year. The reduction in operating income is reflective of the change in operating revenue.

The Hospital's Cash Flows

The Hospital's cash increased in 2015 by \$1,459,958. The increase was due to an increase in property taxes received and receipt of a Medicare electronic health record incentive payment in April. The Hospital's cash increased in 2014 by \$3,312,796. The increase was due primarily to receipt of the Medicare electronic health record incentive payment in July of 2013.

Capital Grants and Contributions

In 2015 and 2014 the Hospital received \$32,262 and \$20,000, respectively for capital asset purchases.

Capital Assets and Debt Administration

Capital Assets

At the end of June 30, 2015 and 2014, the Hospital had \$17,137,987 and \$18,774,150, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In June 30, 2015 and 2014 the Hospital added \$1,513,842 and \$1,823,059 in new capital assets, respectively.

Debt

At June 30, 2015 and 2014 the Hospital had \$6,375,550 and \$7,740,952, respectively, in revenue bonds, notes payable and capital lease obligations outstanding. In 2015 the Hospital borrowed funds for equipment and to refinance existing long term debt in the amount of \$6,108,761.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by telephoning 515.443.8461.

Boone County Hospital

Statements of Net Position June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,122,400	4,662,442
Short-term certificates of deposit	504,271	504,271
Assets limited as to use or restricted - current portion	163,002	162,492
Receivables -		
Patients, net of allowance for doubtful accounts of \$1,468,402 in 2015 and \$1,370,823 in 2014	4,407,492	5,052,655
Succeeding year property taxes receivable	1,796,112	1,781,044
Other	591,875	305,689
Inventories	683,331	838,748
Prepaid expenses	435,071	131,448
Total current assets	<u>14,703,554</u>	<u>13,438,789</u>
Assets limited as to use or restricted, net of current portion	541,148	539,123
Capital assets, net of accumulated depreciation	17,137,987	18,774,150
Other	60,000	60,000
Total assets	<u>32,442,689</u>	<u>32,812,062</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension related deferred outflows	1,518,811	--
Total assets and deferred outflows of resources	<u>\$ 33,961,500</u>	<u>32,812,062</u>
LIABILITIES		
Current liabilities:		
Current portion of long-term debt	\$ 2,002,471	1,740,220
Accounts payable	895,118	1,126,512
Accrued salaries, vacation and benefits payable	2,490,923	2,638,451
Accrued interest payable	--	51,596
Estimated third-party payor settlements	1,381,267	1,560,971
Total current liabilities	<u>6,769,779</u>	<u>7,117,750</u>
Long-term debt, net of current portion	4,373,079	6,000,732
Net pension liability	9,376,803	--
Total liabilities	<u>20,519,661</u>	<u>13,118,482</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable property tax revenue	1,801,664	1,778,328
Pension related deferred inflows	3,775,255	--
Total deferred inflows of resources	<u>5,576,919</u>	<u>1,778,328</u>
NET POSITION		
Net investment in capital assets	10,762,437	10,981,602
Restricted - expendable for debt service payments	163,002	162,492
Restricted - nonexpendable endowment	57,440	57,440
Unrestricted	(3,117,959)	6,713,718
Total net position	<u>7,864,920</u>	<u>17,915,252</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 33,961,500</u>	<u>32,812,062</u>

See notes to financial statements

Boone County Hospital

Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debts	\$ 37,701,691	37,325,340
Provision for bad debt	<u>(2,233,574)</u>	<u>(2,961,296)</u>
Net patient service revenue	35,468,117	34,364,044
Other operating revenue	<u>5,268,552</u>	<u>3,991,393</u>
Total operating revenue	<u>40,736,669</u>	<u>38,355,437</u>
OPERATING EXPENSES:		
Salaries and wages	16,470,898	17,288,290
Employee benefits	3,989,356	5,788,929
Professional fees and purchased services	7,791,508	7,773,099
Supplies	5,179,399	5,092,664
Utilities and maintenance	2,400,760	2,473,657
Other	820,880	537,808
Depreciation and amortization	3,265,395	2,757,979
Insurance	<u>128,611</u>	<u>171,762</u>
Total operating expenses	<u>40,046,807</u>	<u>41,884,188</u>
OPERATING INCOME (LOSS)	<u>689,862</u>	<u>(3,528,751)</u>
NONOPERATING REVENUE (EXPENSE):		
Noncapital contributions	59,966	31,957
Interest income	16,216	12,461
Interest expense	(218,374)	(335,494)
Property tax revenue	<u>1,774,260</u>	<u>1,128,111</u>
Total nonoperating revenue, net	<u>1,632,068</u>	<u>837,035</u>
EXCESS OF REVENUE OVER (UNDER) EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	2,321,930	(2,691,716)
CAPITAL GRANTS AND CONTRIBUTIONS	<u>32,262</u>	<u>20,000</u>
INCREASE (DECREASE) IN NET POSITION	2,354,192	(2,671,716)
NET POSITION, beginning of year, as restated (see note 14)	<u>5,510,728</u>	<u>20,586,968</u>
NET POSITION, end of year	<u>\$ 7,864,920</u>	<u>17,915,252</u>

See notes to financial statements

Boone County Hospital

Statements of Cash Flows For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 35,933,576	38,295,508
Cash paid to employees for salaries and benefits	(21,379,059)	(23,176,831)
Cash paid to suppliers and contractors	(16,700,758)	(16,204,989)
Other receipts and payments, net	<u>4,982,366</u>	<u>6,700,507</u>
Net cash provided by operating activities	<u>2,836,125</u>	<u>5,614,195</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes received	1,782,528	1,128,806
Noncapital grants and contributions	<u>59,966</u>	<u>31,957</u>
Net cash provided by noncapital financing activities	<u>1,842,494</u>	<u>1,160,763</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets, net	(1,269,571)	(2,085,191)
Proceeds from issuance of long-term debt	5,864,490	539,484
Principal payments on long-term debt	(7,474,163)	(1,601,046)
Payment of financing costs	(115,390)	--
Interest paid on long term debt	(269,970)	(347,221)
Capital grants and contributions	<u>32,262</u>	<u>20,000</u>
Net cash used in capital and related financing activities	<u>(3,232,342)</u>	<u>(3,473,974)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deposits to assets limited as to use or restricted, net	(2,535)	(649)
Interest on deposits	<u>16,216</u>	<u>12,461</u>
Net cash provided by investing activities	<u>13,681</u>	<u>11,812</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,459,958	3,312,796
CASH AND CASH EQUIVALENTS, beginning of year	<u>4,662,442</u>	<u>1,349,646</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 6,122,400</u>	<u>4,662,442</u>
The Hospital entered into capital lease obligations for new equipment	<u>\$ 244,271</u>	<u>--</u>

See notes to financial statements

Boone County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 689,862	(3,528,751)
Adjustments to reconcile the operating income (loss) to net cash provided by operating activities:		
Gain on disposal of capital assets	--	(6,000)
Depreciation and amortization	3,265,395	2,757,979
Change in other assets	--	(45,000)
Decrease in net pension liability	(4,486,268)	--
Increase in pension related deferred outflows of resources	(60,264)	--
Increase in pension related deferred inflows of resources	3,775,255	--
(Increase) decrease in current assets -		
Receivables -		
Patient	645,163	1,770,493
Other	(286,186)	2,715,114
Inventories	155,417	63,442
Prepaid expenses	(303,623)	66,915
Estimated third-party payor settlements	--	600,000
Increase (decrease) in current liabilities		
Accounts payable	(231,394)	(241,356)
Accrued salaries, vacation and benefits payable	(147,528)	(99,612)
Estimated third-party payor settlements	(179,704)	1,560,971
Net cash provided by operating activities	<u>\$ 2,836,125</u>	<u>5,614,195</u>

See notes to financial statements

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

Boone County Hospital (Hospital) is a county public hospital, organized under Chapter 347 of the Code of Iowa. The Hospital is a critical access hospital with 25 acute care beds and a 14 bed skilled nursing unit. The Hospital also provides related ancillary and outpatient services to residents of Boone County and the surrounding area.

The following is a description of the reporting entity and a summary of significant accounting policies of the Hospital. These policies are in accordance with accounting principles generally accepted in the United States of America.

A. *Reporting Entity*

For financial reporting purposes, the Hospital has included all the funds of the Hospital, specifically all assets, deferred outflows of resources, liabilities, deferred inflows of resources, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital. The Hospital has no component units required to be reported in accordance with the Governmental Accounting Standards Board criteria.

B. *Industry Environment*

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the United States healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers and employers. Several provisions have been implemented while other provisions are slated to take effect at specified times over approximately the next decade.

C. *Basis of Presentation*

The statements of net position display the Hospital's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in the following categories:

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted – expendable – This component of net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Restricted – nonexpendable – This component of net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Unrestricted – This component of net position consists of net position resources not meeting the definition of the preceding categories. Unrestricted net positions often have constraints on resources imposed by management or the Board which can be removed or modified.

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

D. Measurement Focus and Basis of Accounting

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

The Hospital's basic financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned, expenses are recognized when incurred.

E. Use of 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, deferred outflows, liabilities, and deferred inflows 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.

F. Cash and Cash Equivalents

Cash and cash equivalents, for purposes of the statements of cash flows, include highly liquid investments with original maturities of three months or less, excluding amounts limited as to use by the Board of Trustees, donor, or debt agreements.

G. Patient Receivables, Net

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. The Hospital provides an allowance for doubtful accounts based on the allowance method. Patients are not required to provide collateral for services rendered. The allowance is estimated based on past experience and on analysis of current accounts receivable collectability. Accounts are considered delinquent based on passage of a specified period of time and consideration of payment history. Accounts deemed doubtful are written off and charged to the allowance in the year they are deemed uncollectible.

The Hospital also maintains a charity care policy as described in Note 1(S).

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

H. *Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date the tax asking is certified by the County Board of Supervisors. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Trustees to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Trustees is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

I. *Inventories*

Inventories are stated at the lower of cost, determined by the first-in, first-out method, or market.

J. *Assets Limited as to Use or Restricted*

Assets limited as to use or restricted primarily include assets held under general debt agreements, funds the Hospital's Board of Trustees has set aside for future capital improvements, and contributions restricted by donors. Amounts required to meet current liabilities of the Hospital have been included in current assets in the statements of net position at June 30, 2015 and 2014.

K. *Capital Assets*

Capital asset acquisitions are stated at historical cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets.

Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations are amortized on the straight-line method over the shorter period of the lease term or the useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements.

All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following range of estimated asset lives:

Land improvements	15 to 30 years
Buildings and fixed equipment	20 to 40 years
Major moveable equipment	3 to 7 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the acquired long-lived assets are placed into service.

L. *Deferred Outflow of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

M. Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

N. Pensions

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

O. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources in the statements of net position consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

P. Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Q. Statements of Revenue, Expenses and Changes in Net Position

For the purposes of display, transactions deemed by management to be ongoing, major or central to the provision of healthcare services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as non-operating revenue and peripheral or incidental transactions are reported as non-operating revenue and expenses.

R. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs and discounted charges. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

S. *Charity Care*

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

The Hospital is dedicated to providing comprehensive healthcare services to all segments of society, including the aged and otherwise economically disadvantaged. In addition, the Hospital provides a variety of community health services at or below cost.

T. *Grants and Contributions*

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or restricted for a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

U. *Group Health Insurance Costs*

The Hospital is self-insured under its employee group health program, up to certain limits. Included in the accompanying statements of revenue, expenses and changes in net position is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year-end.

V. *Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

W. *Reclassification*

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 reporting format.

X. *Subsequent Events*

The Hospital considered events occurring through November 25, 2015 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(2) Cash and Deposits, Including Assets Limited as to Use or Restricted

The Hospital's deposits in banks at June 30, 2015 and 2014 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital manages the following risks in accordance with their formal investment policy:

Interest Rate Risk: The Hospital's investment policy allows for the investment of funds with varying maturities as a means for managing its exposure to fair value losses arising from changes in interest rates, so long as the maturities are consistent with the needs and uses of the Hospital's funds.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. The Hospital's investment policy for custodial credit risk mirrors requirements set forth by the Code of Iowa.

The composition of deposits, including assets limited as to use or restricted as of June 30, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 6,122,400	4,662,442
Short-term certificates of deposit	504,271	504,271
Assets limited as to use or restricted –		
By Board for capital improvements	483,708	481,683
Under loan agreement	163,002	162,492
By donor	<u>57,440</u>	<u>57,440</u>
	<u>\$ 7,330,821</u>	<u>5,868,328</u>

The Hospital's deposits are carried at fair value. At June 30, 2015 and 2014, the Hospital's deposits consisted of the following:

	<u>2015</u>	<u>2014</u>
Deposits	\$ 7,320,889	5,858,396
Accrued interest	<u>9,932</u>	<u>9,932</u>
	<u>\$ 7,330,821</u>	<u>5,868,328</u>

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(3) Net Patient Service Revenue

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

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient non-acute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. The Hospital's Medicare cost reports have been audited by the Medicare Administrative Contractor through June 30, 2013.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. As required by law, President Obama issued a sequestration order on March 1, 2013. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a two percent reduction in Medicare payment.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a critical access hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

Commercial - The Hospital has also entered into payment agreements with certain commercial insurance carriers. This basis for payment to the Hospital under these agreements includes discounts from established charges and prospectively determined rates.

The following illustrates the Hospital's gross patient service revenue at its established rates and revenue deductions by major third-party payors:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient and swing bed services	\$ 16,798,263	19,674,272
Outpatient	58,551,937	53,945,893
Clinic	8,264,780	7,672,271
Total gross patient service revenue	<u>83,614,980</u>	<u>81,292,436</u>
Deductions from gross patient service revenue:		
Medicare	21,150,298	18,837,271
Medicaid	7,477,972	6,066,138
Other payors	16,914,126	18,259,839
Charity care	370,893	803,848
Total deductions from gross patient service revenue	<u>45,913,289</u>	<u>43,967,096</u>
Net patient service revenue before provision for bad debt	<u>\$ 37,701,691</u>	<u>37,325,340</u>

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

The Hospital reports net patient service revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounts for approximately 37% and 9%, respectively, of the Hospital's net patient revenue for the year ended June 30, 2015 compared to 44% for Medicare and 8% for Medicaid in 2014. The Hospital grants credit without collateral to their patients, most of who are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
Patient receivables	\$ 10,137,367	10,699,065
Less estimated third-party contractual adjustments	(4,261,473)	(4,275,587)
Less allowance for doubtful accounts	<u>(1,468,402)</u>	<u>(1,370,823)</u>
	<u>\$ 4,407,492</u>	<u>5,052,655</u>

The Hospital is located in Boone, Iowa. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2015</u>	<u>2014</u>
Medicare	29%	32%
Medicaid	9	11
Blue Cross Blue Shield	20	18
Other third-party payors	21	18
Private payors	<u>21</u>	<u>21</u>
	<u>100%</u>	<u>100%</u>

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(5) Capital Assets

Capital assets activity for the years ended June 30, 2015 and 2014 were as follows:

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	\$ 748,512	--	--	748,512
Construction in progress	1,730,242	1,041,476	(1,977,883)	793,835
Total capital assets, not being depreciated	<u>2,478,754</u>	<u>1,041,476</u>	<u>(1,977,883)</u>	<u>1,542,347</u>
Capital assets, being depreciated:				
Land improvements	464,443	38,500	--	502,943
Buildings and fixed equipment	25,347,141	230,393	181,381	25,758,915
Major moveable equipment	19,168,733	203,473	1,796,502	21,168,708
Total capital assets, being depreciated	<u>44,980,317</u>	<u>472,366</u>	<u>1,977,883</u>	<u>47,430,566</u>
Less accumulated depreciation:				
Land improvements	300,713	20,224	--	320,937
Buildings and fixed equipment	15,283,837	1,046,287	--	16,330,124
Major moveable equipment	13,100,371	2,083,494	--	15,183,865
Total accumulated depreciation	<u>28,684,921</u>	<u>3,150,005</u>	<u>--</u>	<u>31,834,926</u>
Total capital assets, being depreciated, net	<u>16,295,396</u>	<u>(2,677,639)</u>	<u>1,977,883</u>	<u>15,595,640</u>
Total capital assets, net	<u>\$ 18,774,150</u>	<u>(1,636,163)</u>	<u>--</u>	<u>17,137,987</u>
	June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:				
Land	\$ 748,512	--	--	748,512
Construction in progress	1,137,855	733,915	(141,528)	1,730,242
Total capital assets, not being depreciated	<u>1,886,367</u>	<u>733,915</u>	<u>(141,528)</u>	<u>2,478,754</u>
Capital assets, being depreciated:				
Land improvements	464,443	--	--	464,443
Buildings and fixed equipment	25,299,749	47,392	--	25,347,141
Major moveable equipment	18,060,757	1,041,752	66,224	19,168,733
Total capital assets, being depreciated	<u>43,824,949</u>	<u>1,089,144</u>	<u>66,224</u>	<u>44,980,317</u>
Less accumulated depreciation:				
Land improvements	280,645	20,068	--	300,713
Buildings and fixed equipment	14,226,004	1,057,833	--	15,283,837
Major moveable equipment	11,495,597	1,680,078	(75,304)	13,100,371
Total accumulated depreciation	<u>26,002,246</u>	<u>2,757,979</u>	<u>(75,304)</u>	<u>28,684,921</u>
Total capital assets, being depreciated, net	<u>17,822,703</u>	<u>(1,668,835)</u>	<u>141,528</u>	<u>16,295,396</u>
Total capital assets, net	<u>\$ 19,709,070</u>	<u>(934,920)</u>	<u>--</u>	<u>18,774,150</u>

The Hospital is in the process of meeting the various stages of meaningful use with an electronic health record project. Original budgeted amounts were approximately \$6,000,000 for hardware and software. Additional capitalized costs include salaries, benefits and interest as part of the project. The Hospital will incur additional amounts as it moves to the next stages. There is currently approximately \$650,000 of costs within construction in progress as of June 30, 2015 related to the electronic health record project. Remaining project costs will be funded with internal funds along with funds received from Medicare and Medicaid as discussed in Note 10.

Depreciation expense for the years ending June 30, 2015 and 2014 amounted to \$3,150,005 and \$2,757,979, respectively.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2015 and 2014 consisted of the following:

	<u>June 30, 2014</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2015</u>	<u>Due Within One Year</u>
Hospital revenue notes (A)	\$ --	1,636,968	(40,741)	1,596,227	500,252
Hospital revenue notes (B)	--	332,683	(8,055)	324,628	98,923
Hospital revenue notes (C)	--	678,000	(9,152)	668,848	112,873
Hospital revenue notes (D)	--	3,216,839	(92,899)	3,123,940	1,139,844
Note payable (E)	522,855	--	(101,699)	421,156	104,954
Capital lease obligation (F)	--	244,271	(3,520)	240,751	45,625
Hospital revenue notes (G)	746,929	--	(746,929)	--	--
Hospital revenue notes (H)	2,408,490	--	(2,408,490)	--	--
Capital lease obligation (I)	4,062,678	--	(4,062,678)	--	--
	<u>\$ 7,740,952</u>	<u>6,108,761</u>	<u>(7,474,163)</u>	<u>6,375,550</u>	<u>2,002,471</u>
	<u>June 30, 2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2014</u>	<u>Due Within One Year</u>
Note payable (E)	\$ --	539,484	(16,629)	522,855	101,653
Hospital revenue notes (G)	849,354	--	(102,425)	746,929	105,800
Hospital revenue notes (H)	2,942,029	--	(533,539)	2,408,490	573,854
Capital lease obligation (I)	4,986,075	--	(923,397)	4,062,678	958,913
Capital lease obligation	25,056	--	(25,056)	--	--
	<u>\$ 8,802,514</u>	<u>539,484</u>	<u>1,601,046</u>	<u>7,740,952</u>	<u>1,740,220</u>

- (A) Hospital Revenue Note, Series 2015A, due through July 2018, principal and interest payments due monthly at a fixed rate of interest of 3.20%, secured by the Hospital's net revenue.
- (B) Hospital Revenue Note, Series 2015B, due through August 2018, principal and interest payments due monthly at a fixed rate of interest of 3.20%, secured by the Hospital's net revenue.
- (C) Hospital Revenue Note, Series 2015C, due through December 2020, principal and interest payments due monthly at a fixed rate of interest of 3.20%, secured by the Hospital's net revenue.
- (D) Hospital Revenue Note, Series 2015D, due through February 2018, principal and interest payments due monthly at a fixed rate of interest of 3.20%, secured by the Hospital's net revenue.
- (E) Note payable to Wells Fargo Equipment Finance, \$539,484 plus accrued interest, fixed rate of interest of 3.20%, monthly payments of principal and interest due until April 2019, collateralized by equipment.
- (F) Capital lease obligation, collateralized by leased equipment with a cost of \$244,271, monthly payments of \$4,443, including interest through June 2020, imputed interest rate of 3.50%.
- (G) Hospital Revenue Note, Series 2010. In April 2015, the Series 2010 Note was fully refunded by Hospital Revenue Notes, Series 2015A through 2015D.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

- (H) Hospital Revenue Note, Series 2008. In April 2015, the Series 2008 Note was fully refunded by Hospital Revenue Notes, Series 2015A through 2015D.
- (I) Capital lease obligation, collateralized by leased equipment with a cost of \$5,296,882, imputed rate of interest of 3.81%, paid in full in 2015 through the issuance of Hospital Revenue Notes, Series 2015A through 2015D.

Property and equipment include the following property under capital leases at June 30:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 244,271	--
Electronic health record designated assets	--	5,296,882
Less accumulated depreciation	<u>3,840</u>	<u>1,589,065</u>
	<u>\$ 240,431</u>	<u>3,707,817</u>

Under the terms of the loan agreement, the Hospital is required to make deposits into a sinking fund, sufficient to pay principal and interest due on the revenue notes. Such deposits are included with assets limited as to use or restricted in the accompanying financial statements. The terms of the loan agreement contain affirmative and negative covenants, requiring, among other things, certain periodic reporting, compliance items, financial covenants and restrictions on additional borrowings. The loan agreement contains affirmative covenants that require the Hospital to maintain a minimum debt service coverage ratio of not less than 1.15. At June 30, 2015, the Hospital met the minimum debt service coverage ratio.

A summary of the Hospital's future principal and interest payments as of June 30, 2015 is as follows:

<u>Year Ending June 30</u>	<u>Long-Term Debt</u>		<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 1,956,846	170,395	45,625	7,699
2017	2,021,642	105,599	47,248	6,076
2018	1,678,299	40,746	48,929	4,396
2019	283,618	10,115	50,669	2,656
2020	128,541	4,420	48,280	853
2021-2025	<u>65,853</u>	<u>627</u>	<u>--</u>	<u>--</u>
	<u>\$ 6,134,799</u>	<u>331,902</u>	<u>240,751</u>	<u>21,680</u>

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(7) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$5,000,000 per occurrence and aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. The Hospital could have exposure on possible incidents that have occurred for which claims will be made in the future, should professional liability insurance not be obtained or should coverage be limited and/or not available.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. The Hospital does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending June 30, 2015 and 2014, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(8) Pension Plan

Plan Description

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

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

Pension Benefits

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

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

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

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

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

In fiscal years 2015 and 2014, pursuant to the required rate, regular members contributed 5.95 percent of pay and the Hospital contributed 8.93 percent for a total rate of 14.88 percent.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$1,401,115 and \$1,458,547, respectively.

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

At June 30, 2015, the Hospital reported a liability of \$9,376,803 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was 0.232307 percent, which was a decrease of 0.008720 from its proportion measured as of June 30, 2013.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

For the year ended June 30, 2015, the Hospital recognized pension expense of \$629,838. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 103,394	12,321
Changes of assumptions	419,856	294
Net difference between projected and actual earnings on pension plan investments	--	3,762,640
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(405,554)	--
Hospital contributions subsequent to the measurement date	<u>1,401,115</u>	<u>--</u>
Total	<u>\$ 1,518,811</u>	<u>3,775,255</u>

\$1,401,115 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	
2016	\$ (916,149)
2017	(916,149)
2018	(916,149)
2019	(916,149)
2020	<u>7,037</u>
	<u>\$ (3,657,559)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.0 percent
Salary increases (effective June 30, 2014)	4.0 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.5 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

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

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Hospital will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Hospital's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Hospital's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Hospital's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 18,119,834	9,376,803	1,997,192

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$67,132 for legally required employer contributions and \$45,295 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(9) Operating Leases

Noncancellable operating leases for primary care outpatient clinic offices and equipment expire in various years through 2020. The leases generally require the Hospital to pay all executory cost (maintenance and insurance). Rental payments include minimum rentals.

Future minimum lease payments at June 30, 2015 were:

2016	\$	381,006
2017		356,006
2018		331,006
2019		331,006
2020		<u>215,016</u>
Future minimum lease payments	\$	<u>1,614,040</u>

Rental expense for all operating leases totaled \$268,190 and \$224,603 for June 30, 2015 and 2014, respectively.

(10) Other Operating Revenue

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the hospital's Medicare share fraction, which includes a 20% incentive. A portion of this payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). The final amount for any payment year under both programs is determined based upon an audit by the Medicare Administrative Contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

During 2015 and 2014 the Hospital qualified for Medicare incentive payments by attesting it met specific criteria set by CMS. The Hospital elected to record \$1,058,327 and \$189,393 of the incentive payment as other operating revenue in the period earned for the years ending June 30, 2015 and 2014, respectively, and not defer any portion that may be related to future Medicare reimbursement. In addition, EHR incentive proceeds of \$83,202 and \$102,900 were received in 2015 and 2014, respectively, related to meaningful use attestation by eligible professionals employed by the Hospital.

A payment of \$216,759 was received from the Iowa Department of Health and Human Services during the year ended June 30, 2015, with the final payment to follow in a subsequent fiscal year. The amount recognized is based on management's best estimate and is subject to change, which would be recognized in the period in which the change occurs.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future. During 2015 and 2014 the Hospital recognized \$2,365,200 and \$2,120,150, respectively, of other operating revenue related to the 340B Program.

(11) **Boone County Health Care Foundation**

The Boone County Health Care Foundation is a not-for-profit corporation organized in 1992 for the purpose of supporting and promoting health care services in Boone County. The Foundation donated \$40,413 and \$20,846 to the Hospital for the years ended June 30, 2015 and 2014, respectively. The Hospital provided for the expenses of the Foundation director in the amount of \$52,349 and \$72,530 in 2015 and 2014, respectively. The unaudited financial position and results of operations of the Foundation for 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
Total assets	\$ <u>887,546</u>	<u>443,401</u>
Liabilities	\$ 9,232	6,231
Net assets	<u>878,314</u>	<u>437,170</u>
Total liabilities and net assets	\$ <u>887,546</u>	<u>443,401</u>
Revenue	\$ 664,008	145,241
Expenses	<u>222,863</u>	<u>127,714</u>
Revenue over expenses	\$ <u>444,145</u>	<u>17,527</u>

(12) **Management Services**

The Hospital has a contractual arrangement with Quorum Health Resources, Inc. (Quorum), under which Quorum provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Quorum for services during the years ended June 30, 2015 and 2014 were \$799,795 and \$1,120,694, respectively.

(13) **Contingencies**

The Hospital is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates these matters will be resolved without material adverse effect on the Hospital's future financial position or results from operations.

Boone County Hospital

Notes to Financial Statements June 30, 2015 and 2014

(14) Change in Accounting Principle

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	<u>Net Position</u>
Net position June 30, 2014, as previously reported	\$ 17,915,252
Net pension liability at June 30, 2014	(13,863,071)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>1,458,547</u>
Net position July 1, 2014, as restated	<u>\$ 5,510,728</u>

Boone County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis) Required Supplementary Information For the Year Ended June 30, 2015

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

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2015, the Hospital's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amount	Variance Favorable (Unfavorable)
Amount to be raised by taxation	\$ 1,774,260	8,268	1,782,528	1,724,538	57,990
Estimated other revenues / receipts	<u>40,845,113</u>	<u>6,043,763</u>	<u>46,888,876</u>	<u>47,262,631</u>	<u>(373,755)</u>
Total	42,619,373	6,052,031	48,671,404	48,987,169	(315,765)
Expenses / Disbursements	<u>40,265,181</u>	<u>6,943,730</u>	<u>47,208,911</u>	<u>50,277,000</u>	<u>3,068,089</u>
Net	2,354,192	(891,699)	1,462,493	(1,289,831)	\$ <u><u>2,752,324</u></u>
Balance beginning of year	<u>5,510,728</u>	<u>357,600</u>	<u>5,868,328</u>	<u>4,199,478</u>	
Balance end of year	\$ <u><u>7,864,920</u></u>	<u><u>(534,099)</u></u>	<u><u>7,330,821</u></u>	<u><u>2,909,647</u></u>	

See accompanying independent auditor's report

Boone County Hospital

**Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
June 30, 2015**

Iowa Public Employees' Retirement System Last Fiscal Year* (In Thousands)		<u>2015</u>
Hospital's proportion of net pension liability		0.232307%
Hospital's proportionate share of the net pension liability	\$	9,377
Hospital's covered-employee payroll	\$	16,333
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		57.41%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

**The amounts presented for each fiscal year were determined as of June 30.*

See accompanying independent auditor's report

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

Boone County Hospital

**Schedule of Hospital Contributions
Required Supplementary Information
June 30, 2015**

Iowa Public Employees' Retirement System
Last 10 Fiscal Years
(In Thousands)

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contribution	\$ 1,401	1,459	1,401	1,263	1,046	994	896	827	719	660
Contributions in relation to the statutorily required contribution	(1,401)	(1,459)	(1,401)	(1,263)	(1,046)	(994)	(896)	(827)	(719)	(660)
Contribution deficiency (excess)	\$ --	--	--	--	--	--	--	--	--	--
Hospital's covered-employee payroll	\$ 15,690	16,333	16,143	15,630	15,071	14,971	14,110	13,654	12,554	11,472
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.73%	5.75%

See accompanying independent auditor's report

Boone County Hospital

Notes to Required Supplementary Information – Pension Liability June 30, 2015

Changes of Benefit Terms

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

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

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

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements. Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

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

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

**Net Patient Service Revenue
For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
NURSING SERVICES:						
Medical surgical	\$ 4,216,133	551,086	4,767,219	4,586,389	554,289	5,140,678
Obstetrics	286,545	129,799	416,344	387,782	163,805	551,587
Special care	364,298	(15,279)	349,019	441,030	(8,730)	432,300
Nursery	253,042	2,412	255,454	358,146	1,715	359,861
Skilled	13,243	--	13,243	36,416	--	36,416
	<u>5,133,261</u>	<u>668,018</u>	<u>5,801,279</u>	<u>5,809,763</u>	<u>711,079</u>	<u>6,520,842</u>
OTHER PROFESSIONAL SERVICES:						
Radiology	2,983,542	14,653,234	17,636,776	2,974,059	13,378,846	16,352,905
Operating room	1,049,137	10,130,922	11,180,059	2,931,635	10,043,254	12,974,889
Emergency room	440,483	10,182,683	10,623,166	350,152	8,820,957	9,171,109
Laboratory	1,839,229	6,890,017	8,729,246	2,028,540	6,521,664	8,550,204
Pharmacy	3,282,925	5,408,605	8,691,530	3,300,685	4,720,038	8,020,723
Physical therapy	842,236	4,020,742	4,862,978	846,018	3,597,012	4,443,030
BCFM clinic	--	3,950,161	3,950,161	--	3,461,815	3,461,815
Ambulance	265,928	2,677,215	2,943,143	233,047	2,572,554	2,805,601
Anesthesiology	311,949	1,294,198	1,606,147	447,573	995,330	1,442,903
Home health	--	1,354,892	1,354,892	--	1,247,578	1,247,578
Wound clinic	--	1,177,721	1,177,721	--	374,951	374,951
Obstetric clinic	--	999,785	999,785	--	1,071,994	1,071,994
Ogden clinic	--	920,122	920,122	--	1,054,608	1,054,608
Surgery clinic	--	768,019	768,019	--	750,883	750,883
Occupational therapy	344,116	290,251	634,367	398,676	310,671	709,347
Labor and delivery	218,733	217,588	436,321	268,961	251,535	520,496
Specialty clinic	--	399,368	399,368	374	351,092	351,466
Madrid clinic	--	398,278	398,278	--	355,358	355,358
Speech therapy	80,468	94,192	174,660	68,344	141,350	209,694
Cardiac rehabilitation	364	133,490	133,854	--	138,220	138,220
Central supply	5,892	71,209	77,101	16,445	68,112	84,557
Diabetes education	--	65,313	65,313	--	76,602	76,602
Orthopedic clinic	--	50,694	50,694	--	602,661	602,661
	<u>11,665,002</u>	<u>66,148,699</u>	<u>77,813,701</u>	<u>13,864,509</u>	<u>60,907,085</u>	<u>74,771,594</u>
GROSS PATIENT SERVICE REVENUE	\$ 16,798,263	66,816,717	83,614,980	19,674,272	61,618,164	81,292,436
DEDUCTIONS FROM PATIENT SERVICE REVENUE:						
Medicare and Medicaid			(28,628,270)			(24,903,409)
Other adjustments			(16,914,126)			(18,259,839)
Charity care			(370,893)			(803,848)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			37,701,691			37,325,340
Provision for bad debt			(2,233,574)			(2,961,296)
NET PATIENT SERVICE REVENUE			\$ 35,468,117			34,364,044

See accompanying independent auditor's report

Other Operating Revenue
For the Years Ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(not restated)</u>
340B drug pricing program	\$ 2,365,200	2,120,150
Electronic health records incentive payments	1,358,288	292,293
Cafeteria and catering	408,991	414,823
Grants and donations	337,137	356,397
Employee retail pharmacy	298,974	351,807
Community outreach	142,657	118,311
Rentals	94,202	94,077
Lifeline	74,030	79,908
Adult daycare	63,449	61,208
Other	125,624	102,419
	<u>\$ 5,268,552</u>	<u>3,991,393</u>

See accompanying independent auditor's report

**Departmental Expenses
For the Years Ended June 30, 2015 and 2014**

	2015			2014 (not restated)		
	Salaries	Other	Total	Salaries	Other	Total
NURSING SERVICES:						
Medical surgical	\$ 1,369,674	470,876	1,840,550	1,465,672	494,331	1,960,003
Obstetrics	446,733	155,493	602,226	465,395	222,835	688,230
Special care	228,847	91,084	319,931	227,092	77,751	304,843
Nursery	--	12,615	12,615	--	9,805	9,805
Skilled	3,622	466	4,088	37,992	14,085	52,077
	<u>2,048,876</u>	<u>730,534</u>	<u>2,779,410</u>	<u>2,196,151</u>	<u>818,807</u>	<u>3,014,958</u>
OTHER PROFESSIONAL SERVICES:						
Pharmacy	459,447	2,578,886	3,038,333	373,885	2,564,479	2,938,364
BCFM clinic	2,081,044	930,764	3,011,808	2,128,897	752,236	2,881,133
Radiology	1,026,950	1,536,476	2,563,426	1,061,831	1,656,417	2,718,248
Emergency room	1,656,674	534,070	2,190,744	1,671,666	547,618	2,219,284
Operating room	641,840	1,376,867	2,018,707	690,156	1,360,792	2,050,948
Physical therapy	--	1,635,172	1,635,172	--	1,705,348	1,705,348
Laboratory	618,650	795,762	1,414,412	661,571	863,513	1,525,084
Home health	880,387	532,356	1,412,743	934,042	569,120	1,503,162
Obstetric clinic	719,982	365,469	1,085,451	922,374	272,967	1,195,341
Anesthesiology	19,306	950,334	969,640	--	769,613	769,613
Ogden clinic	606,717	218,862	825,579	553,387	196,498	749,885
Ambulance	567,919	207,496	775,415	578,109	205,934	784,043
Wound clinic	217,131	468,363	685,494	142,408	79,212	221,620
Surgery clinic	470,759	176,537	647,296	390,567	243,448	634,015
Madrid clinic	158,347	112,374	270,721	172,428	114,827	287,255
Occupational therapy	--	208,519	208,519	--	288,263	288,263
Specialty clinic	152,052	42,267	194,319	124,613	35,179	159,792
Orthopedic clinic	46,190	85,501	131,691	667,586	95,876	763,462
Cardiac rehabilitation	106,711	24,637	131,348	106,489	29,228	135,717
Daycare	66,057	56,855	122,912	59,078	57,261	116,339
Diabetes education	68,855	15,247	84,102	80,572	19,064	99,636
Speech therapy	--	56,008	56,008	--	76,535	76,535
Central supply	--	53,509	53,509	--	129,764	129,764
Labor and delivery	--	12,637	12,637	--	18,175	18,175
	<u>10,565,018</u>	<u>12,974,968</u>	<u>23,539,986</u>	<u>11,319,659</u>	<u>12,651,367</u>	<u>23,971,026</u>
GENERAL SERVICES:						
Plant operations	268,275	737,120	1,005,395	256,523	792,630	1,049,153
Dietary	327,608	385,801	713,409	345,814	385,999	731,813
Housekeeping	419,433	161,456	580,889	418,393	143,761	562,154
Laundry	--	93,461	93,461	--	104,900	104,900
	<u>1,015,316</u>	<u>1,377,838</u>	<u>2,393,154</u>	<u>1,020,730</u>	<u>1,427,290</u>	<u>2,448,020</u>
ADMINISTRATIVE SERVICES						
	<u>2,841,688</u>	<u>5,098,563</u>	<u>7,940,251</u>	<u>2,751,750</u>	<u>6,768,693</u>	<u>9,520,443</u>
NONDEPARTMENTAL:						
Depreciation and amortization	--	3,265,395	3,265,395	--	2,757,979	2,757,979
Insurance	--	128,611	128,611	--	171,762	171,762
	<u>--</u>	<u>3,394,006</u>	<u>3,394,006</u>	<u>--</u>	<u>2,929,741</u>	<u>2,929,741</u>
TOTAL EXPENSES	<u>\$ 16,470,898</u>	<u>23,575,909</u>	<u>40,046,807</u>	<u>17,288,290</u>	<u>24,595,898</u>	<u>41,884,188</u>

See accompanying independent auditor's report

**Patient Receivables and Allowance for Doubtful Accounts
June 30, 2015 and 2014**

ANALYSIS OF AGING:

	<u>2015</u>		<u>2014</u>	
	Amount	Percent of Total	Amount	Percent of Total
Days since discharge				
0-30	\$ 5,651,151	61.2 %	5,622,751	58.9 %
31-60	1,254,607	13.6	1,262,127	13.2
61-90	683,007	7.4	753,967	7.9
91-120	576,923	6.2	499,772	5.2
121 and over	1,067,293	11.6	1,408,157	14.8
	<u>9,232,981</u>	100.0 %	<u>9,546,774</u>	100.0 %
Clinic and other receivables	904,386		1,152,291	
Less:				
Allowance for doubtful accounts	(1,468,402)		(1,370,823)	
Allowance for contractual adjustments	<u>(4,261,473)</u>		<u>(4,275,587)</u>	
	<u>\$ 4,407,492</u>		<u>5,052,655</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 1,370,823		1,956,373	
Provision for year	2,347,332		3,257,610	
Recoveries of accounts previously written off	(113,758)		(296,314)	
Accounts written off	<u>(2,135,995)</u>		<u>(3,546,846)</u>	
Balance, end of year	<u>\$ 1,468,402</u>		<u>1,370,823</u>	

See accompanying independent auditor's report

Inventories/Prepaid Expenses
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
INVENTORIES:		
Pharmacy	\$ 377,010	297,191
Operating room	122,691	304,385
Other	83,107	95,783
General	34,172	72,431
Laboratory	23,570	30,370
BCFM Clinic	20,760	17,013
Dietary	15,812	16,913
Plant operations	<u>6,209</u>	<u>4,662</u>
	<u>\$ 683,331</u>	<u>838,748</u>
PREPAID EXPENSES:		
Maintenance	\$ 395,006	101,361
Insurance	<u>40,065</u>	<u>30,087</u>
	<u>\$ 435,071</u>	<u>131,448</u>

See accompanying independent auditor's report

Schedule of Insurance
June 30, 2015

The Cincinnati Insurance Company		
Policy No. BEP 266 37 36; 7/1/13-7/1/16		
Boiler & Machinery; \$1,000 deductible		\$ 9,000,000
MMIC		
Policy No. MHP 000348; 10/01/14-10/01/15		
General Liability		
Institutional each claim		\$ 1,000,000
Institutional (General) Aggregate		\$ 3,000,000
Personal Injury / Property Damage each		\$ 1,000,000
Personal Injury / Property Damage aggregate		\$ 3,000,000
Personal Injury; \$1,000 deductible		
MMIC		
Policy No. MHP 000348; 10/01/14-10/01/15		
Professional Liability		
Institutional each claim		\$ 1,000,000
Institutional (General) Aggregate		\$ 3,000,000
Cyber Liability		\$ 100,000
Physician Liability each claim		\$ 1,000,000
Physician Liability Aggregate		\$ 3,000,000
MMIC		
Policy No. MHP 000348; 10/01/14-10/01/15		
Umbrella Policy		
Liability Limit		\$ 5,000,000
Annual Aggregate		\$ 5,000,000
Retention Limit		\$ 10,000
MMIC		
Policy No. MHP 000348; 10/01/14-10/01/15		
Entity Professional Liability Excess		
Each Professional Health Care Incident		\$ 5,000,000
Annual Aggregate		\$ 5,000,000
United Heartland		
Policy No.1800004276; 10/1/14-10/1/15		
Workers Compensation		\$ 500,000
Bodily Injury - each accident		\$ 500,000
Bodily Injury - by disease - each employee		\$ 500,000
Bodily Injury - by disease - policy limit		
Jester Insurance (Chubb)		
Policy No.6802-9686; 7/1/14-7/1/15		
Directors and Officers Liability		
Each loss (claim)		\$ 2,000,000
IRC Coverage		\$ 50,000
EMTALA Coverage		\$ 50,000
Excess Benefit Coverage		\$ 10,000
HIPAA Coverage		\$ 25,000
Aggregate		\$ 2,000,000
Employers Mutual Casualty Company		
Policy No. OA6-60-22-15; 7/1/14-7/1/15		
Business Property & Income Protection; \$5,000 deductible		
Buildings & Personal Property		\$ 48,123,676
Business Income		\$ 6,600,000
Employers Mutual Casualty Company		
Policy No. OC6-60-22-15; 7/1/14-7/1/15		
Inland Marine		
Data Processing Equipment		\$ 550,000
Deductible (General)		\$ 1,000
Deductible (Earthquake and Volcano)		\$ 10,000
Employers Mutual Casualty Company		
Policy No. OE6-60-22-15; 7/1/14-7/1/15		
Automobile		
Liability		\$ 1,000,000
Uninsured Individual Limit		\$ 50,000
Medical Payments		\$ 2,000
Employers Mutual Casualty Company		
Policy No. OF6-60-22-15; 7/1/14-7/1/15; \$5,000 deductible		
Employee Dishonesty		\$ 500,000
Employers Mutual Casualty Company		
Policy No. OM6-60-22-15; 7/1/14-7/1/15; \$100/\$250 deductible		
Garage		\$ 45,000

**Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with
Government Auditing Standards**

To the Board of Trustees
Boone County Hospital
Boone, IA

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 financial statements of Boone County Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 25, 2015.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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 result 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

Spim Johnson, LLP

Omaha, Nebraska,
November 25, 2015.

Boone County Hospital

Schedule of Findings and Responses For the Year Ended June 30, 2015

Part I: Summary of the Independent Auditor's Results

- (a) An unmodified opinion was issued on the financial statements.
- (b) No significant deficiencies or material weaknesses in internal control over financial reporting were identified by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-15 *Internal control deficiencies:*

No matters were reported.

Instances of Non-Compliance:

No matters were reported.

Part III: Other Findings Related to Required Statutory Reporting

III-A-15 Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2015.

III-B-15 Certified Budget: Hospital disbursements during the year ended June 30, 2015 did not exceed amounts budgeted.

III-C-15 Questionable Expenditure: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-D-15 Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

III-E-15 Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.9A(2)(a) of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said Hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-15 Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

III-G-15 Deposits and Investments: We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

III-H-15 Publication of Bills Allowed and Salaries: Chapter 347.13(11) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Boone County Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2015

<u>Finding</u>	<u>Finding Title</u>	<u>Status</u>
2014-001	Significant audit adjustments were proposed to management primarily related to accrued payroll and net position. Other adjustments were also proposed related to accounts payable, supplies inventory, long-term debt and receivables.	Corrected

Boone County Hospital

**Audit Staff
For the Year Ended June 30, 2015**

This audit was performed by:

Roger Thompson, CPA, FHFMA, Partner

Jess D. Paisley, CPA, FHFMA, Manager

Gavin D. Blum, In-charge

Jordan L. Jewell, Auditor