

**Buena Vista Regional Medical Center**  
Storm Lake, Iowa

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

**Together with Independent Auditor's Report**

# Buena Vista Regional Medical Center

## Table of Contents

---

	<u>Page</u>
Officials - June 30, 2015.....	1
Independent Auditor's Report.....	2 – 3
Required Supplementary Information:	
Management's Discussion and Analysis.....	4 – 8
Basic Financial Statements:	
Statements of Net Position June 30, 2015 and 2014.....	9
Statements of Revenue, Expenses and Changes in Net Position For the Years Ended June 30, 2015 and 2014.....	10
Statements of Cash Flows For the Years Ended June 30, 2015 and 2014.....	11
Notes to Financial Statements June 30, 2015 and 2014.....	12 – 30
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis).....	31
Schedule of the Medical Center's Proportionate Share of the Net Pension Liability.....	32
Schedule of Medical Center Contributions.....	33
Notes to Required Supplementary Information – Pension Liability.....	34
Supplementary Information:	
Exhibit 1 - Net Patient Service Revenue For the Years Ended June 30, 2015 and 2014.....	35
Exhibit 2 - Other Operating Revenue For the Years Ended June 30, 2015 and 2014.....	36
Exhibit 3 - Departmental Expenses For the Years Ended June 30, 2015 and 2014.....	37
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts For the Years Ended June 30, 2015 and 2014.....	38
Exhibit 5 - Inventory / Prepaid Expenses June 30, 2015 and 2014.....	39
Exhibit 6 - Financial and Statistical Highlights June 30, 2015 and 2014.....	40
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.....	41 – 42
Schedule of Findings and Responses.....	43 – 44
Audit Staff.....	45

# Buena Vista Regional Medical Center

**Officials**  
**June 30, 2015**

---

<b>Board of Trustees</b>	<b>Address</b>	<b>Term Expires</b>
Rick Lampe, Chairman	Storm Lake, IA	2016
Edean Murray, Treasurer	Storm Lake, IA	2020
Randy Bobolz, Secretary	Albert City, IA	2018
Dan Bacon	Storm Lake, IA	2020
Brenda Halverson	Linn Grove, IA	2018
Paul Monson	Newell, IA	2016
Tara Hach	Alta, IA	2018

<b>Medical Center Officials</b>	<b>Address</b>	<b>Term Expires</b>
Rob Colerick, CEO	Storm Lake, IA	Indefinite
Krista Ketcham, CFO	Storm Lake, IA	Indefinite
Dawn Bach, CCO	Storm Lake, IA	Indefinite

## Independent Auditor's Report

To the Board of Trustees of  
Buena Vista Regional Medical Center  
Storm Lake, Iowa:

### Report on the Financial Statements

We have audited the accompanying financial statements of Buena Vista Regional Medical Center (Medical Center), as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Medical Center'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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Medical Center, as of and for the years ended June 30, 2015 and 2014, and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 15 to the financial statements, in 2015 the Medical Center 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**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the schedule of the Medical Center's proportionate share of the net pension liability, and the schedule of Medical Center contributions on pages 4 through 8 and 31 through 34 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 Medical Center's basic financial statements. The other supplementary statements (Exhibits 1 – 6) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information (Exhibits 1 – 6) are the responsibility of management and were 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 (Exhibits 1 – 6) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2015 on our consideration of the Medical Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Medical Center's internal control over financial reporting and compliance.

SEIM JOHNSON, LLP

Omaha, Nebraska,  
October 26, 2015.

# **Buena Vista Regional Medical Center**

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

---

This section of Buena Vista Regional Medical Center's (BVRMC) annual financial report presents background information and management's analysis of BVRMC's financial performance during the fiscal years ended on June 30, 2015 and 2014. Please read it in conjunction with the financial statements in this report, which follow.

### **Financial Highlights**

- BVRMC's 2015 total assets increased by approximately \$7,021,000 due to increases in net capital assets of approximately \$11,600,000 due to the Master Facility expansion / remodeling project (Note 5). BVRMC's 2014 total assets increased by approximately \$3,394,000 primarily due to increases in net patient accounts receivable.
- BVRMC's net position decreased approximately \$10,232,000 from June 30, 2014 to June 30, 2015, primarily due to the implementation of GASB 68 and the restatement of the 2015 beginning balance for net pension liability of approximately \$11,969,000 (note 15).
- BVRMC's operating income was approximately \$1,294,000, \$1,277,000, and \$732,000 for 2015, 2014, and 2013 respectively. The 2014 increase was due to increased inpatient and outpatient volumes.
- In 2015 and 2014, BVRMC received approximately \$416,000 and \$413,000, respectively, in County tax subsidies during the year that were used to fund the expense of operating 5 ambulances located in Storm Lake, Sioux Rapids, and Albert City.

### **Using This Annual Report**

BVRMC's financial statements consist of three statements: a statement of net position; a statement of revenue, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of BVRMC, including resources held by BVRMC but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. BVRMC 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.

#### ***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 BVRMC's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, deferred inflows and outflows, and 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 BVRMC's net position and changes in it. BVRMC's total net position – the difference between assets, deferred outflows, liabilities, and deferred inflows – is one measure of BVRMC's financial health or financial position. Over time, increases or decreases in BVRMC's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in BVRMC'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 BVRMC.

#### ***Statement 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.

# Buena Vista Regional Medical Center

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

### BVRMC's Net Position

BVRMC's net position is the difference between its assets, deferred inflows and outflows, and liabilities reported in the statement of net position. BVRMC's net position decreased by \$10,232,000 in 2015 compared to 2014 and increased by \$1,681,000 in 2014 compared to 2013 as shown in Table 1.

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
<b>Assets:</b>					
Total current assets	\$ 27,166,000	23,643,000	20,271,000	3,523,000	15%
Net capital assets	34,588,000	22,985,000	21,783,000	11,603,000	50%
Other assets, including funded depreciation	11,452,000	19,557,000	20,737,000	(8,105,000)	-41%
Total assets	<u>73,206,000</u>	<u>66,185,000</u>	<u>62,791,000</u>	<u>7,021,000</u>	11%
<b>Deferred outflows of Resources:</b>					
Pension related deferred outflows	2,529,000	--	--	2,529,000	100%
Total assets and deferred outflows	<u>\$ 75,735,000</u>	<u>66,185,000</u>	<u>62,791,000</u>	<u>9,550,000</u>	14%
<b>Liabilities:</b>					
Current liabilities	\$ 9,373,000	5,734,000	3,884,000	3,639,000	63%
Long-term debt	6,394,000	4,139,000	4,277,000	2,255,000	54%
Net pension liability	9,804,000	--	--	9,804,000	
Total liabilities	<u>25,571,000</u>	<u>9,873,000</u>	<u>8,161,000</u>	<u>15,698,000</u>	159%
<b>Deferred inflows of Resources:</b>					
Unavailable property tax revenue	410,000	397,000	396,000	13,000	3%
Pension related deferred inflows	4,071,000	--	--	4,071,000	100%
Total deferred inflows	<u>4,481,000</u>	<u>397,000</u>	<u>396,000</u>	<u>4,084,000</u>	1029%
<b>Net Position</b>	<u>45,683,000</u>	<u>55,915,000</u>	<u>54,234,000</u>	<u>(10,232,000)</u>	-18%
Total liabilities, deferred inflows, and net position	<u>\$ 75,735,000</u>	<u>66,185,000</u>	<u>62,791,000</u>	<u>9,550,000</u>	14%

Year ended June 30, 2015: Total assets increased by \$7,021,000 to \$73,206,000 in fiscal year 2015, up from \$66,185,000 in fiscal year 2014. The most significant change was an increase in net capital assets of \$11,600,000 due to Master Facility expansion / remodeling project (Note 5) costs. See Note 6 for a discussion of revenue bonds issued to finance the project.

Year ended June 30, 2014: Total assets increased by \$3,394,000 to \$66,185,000 in fiscal year 2014, up from \$62,791,000 in fiscal year 2013. The most significant increase was in total current assets, which reflects an increase in cash and receivables. The change in total net position results primarily from operating results in the current year.

### Operating Results and Changes in BVRMC's Net Position

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 approximately \$11,969,000 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.

## Buena Vista Regional Medical Center

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

The following shows the changes in net position of BVRMC:

	2015	(not restated) 2014	2013	Dollar Change	Percent Change
Operating revenue:					
Net patient service revenue	\$ 42,284,000	40,595,000	37,772,000	1,689,000	4%
Other	3,412,000	4,077,000	3,517,000	(665,000)	-16%
Total operating revenue	<u>45,696,000</u>	<u>44,672,000</u>	<u>41,289,000</u>	<u>1,024,000</u>	2%
Operating expenses:					
Salaries and employee benefits	22,100,000	22,466,000	21,324,000	(366,000)	-2%
Professional fees	4,435,000	3,672,000	3,097,000	763,000	21%
Supplies and other expenses	14,636,000	13,849,000	12,537,000	787,000	6%
Depreciation and amortization	3,231,000	3,408,000	3,599,000	(177,000)	-5%
Total operating expenses	<u>44,402,000</u>	<u>43,395,000</u>	<u>40,557,000</u>	<u>1,007,000</u>	2%
Operating income	1,294,000	1,277,000	732,000	17,000	1%
Nonoperating revenue, net	357,000	322,000	268,000	35,000	11%
Excess of revenue over expenses before capital grants and contributions	1,651,000	1,599,000	1,000,000	52,000	3%
Capital grants and contributions	86,000	82,000	45,000	4,000	5%
Increase in net position	<u>1,737,000</u>	<u>1,681,000</u>	<u>1,045,000</u>	<u>56,000</u>	3%
Net position, beginning of year, as restated	<u>43,946,000</u>	<u>54,234,000</u>	<u>53,189,000</u>	<u>(10,288,000)</u>	-19%
Net position, end of year	<u>\$ 45,683,000</u>	<u>55,915,000</u>	<u>54,234,000</u>	<u>(10,232,000)</u>	-18%

The primary components impacting operating income are as follows:

- Year ended June 30, 2015 – Net patient service revenue increased \$1,689,000 in 2015 due to increased outpatient volumes. Salary and benefit expenses decreased \$366,000 in 2015 as full-time equivalents decreased from 339 in 2014 to 326 in 2015. Supplies and other expense increased \$751,000 from prior year primarily due to increases in patent volumes and a new information system service contract. Professional fees and purchased services increased \$799,000 primarily due to increased physician recruitment costs and bond issuance costs (Note 6). Depreciation decreased by \$177,000 in 2015 primarily due to assets becoming fully depreciated during the year.
- Year ended June 30, 2014 – Net patient service revenue increased \$2,823,000 in 2014 due to increased patient volumes. Salary and benefit expenses increased \$1,142,000 in 2014 as full-time equivalents increased from 335 in 2013 to 339 in 2014. Supplies and other expense increased \$1,312,000 from prior year primarily due to increase in drug costs. Professional fees and purchased services increased \$575,000 primarily due to contracted ARNP and contracted providers. Depreciation decreased by \$191,000 in 2014 primarily due to assets becoming fully depreciated during the year.

BVRMC at times provides care for patients who have little or no health insurance or other means of repayment. Because there is no expectation of repayment, charity care is not reported as patient service revenues of BVRMC.

## Buena Vista Regional Medical Center

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

The following table presents certain patient and hospital statistical data:

	Year Ended June 30			Change	Percent Change
	2015	2014	2013		
Total admissions:					
Acute	1,002	1,007	1,020	(5)	0%
Newborn	331	374	365	(43)	-11%
Swing bed	70	126	128	(56)	-44%
Hope harbor	191	175	169	16	9%
Total days care:					
Acute	2,883	2,998	3,002	(115)	-4%
Newborn	773	802	767	(29)	-4%
Swing bed	337	659	566	(322)	-49%
Hope harbor	2,332	3,185	3,343	(853)	-27%
Average daily census:					
Acute	7.90	8.21	8.22	(0.32)	-4%
Newborn	2.12	2.20	2.10	(0.08)	-4%
Swing bed	0.92	1.81	1.55	(0.88)	-49%
Hope harbor	6.39	8.73	9.16	(2.34)	-27%
Average length of stay:					
Acute	2.88	2.98	2.94	(0.10)	-3%
Newborn	2.34	2.14	2.10	0.19	9%
Swing bed	4.81	5.23	4.42	(0.42)	-8%
Hope harbor	12.21	18.20	19.78	(5.99)	-33%
Emergency room visits	8,523	7,469	7,852	1,054	14%
Total surgical procedures	3,177	3,193	2,847	(16)	-1%
Total radiology procedures	17,937	18,264	17,243	(327)	-2%
Total laboratory procedures	81,050	83,905	84,186	(2,855)	-3%
Full-time equivalents (FTE's)	325.84	338.55	334.52	(13)	-4%

The following table presents the percentage of gross charges billed for patient services, by payor:

	Year Ended June 30,		
	2015	2014	2013
Medicare	42.94	44.51	45.04
Medicaid	12.64	10.10	9.00
Wellmark	32.55	28.92	30.76
Other commercial	9.78	11.68	10.90
Self-pay and other	2.09	4.79	4.30
Total patient revenues	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

## **Buena Vista Regional Medical Center**

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

---

#### **Nonoperating Revenue and Expenses**

Nonoperating revenue and expenses includes interest expense, investment income and county tax subsidies. BVRMC holds funds in its statements of net position that are invested primarily in money market funds, CD's / corporate bonds. These investments earned \$148,000 and \$128,000 during fiscal year 2015 and 2014, respectively. BVRMC also received \$416,000 and \$413,000 in county tax subsidy in fiscal year 2015 and 2014, respectively. Interest expense from long-term debt was \$207,000 and \$219,000 in 2015 and 2014, respectively. See Note 6 for a discussion of revenue bonds issued to finance the Master Facility expansion / remodeling project.

#### **Cash Flows**

Year ended June 30, 2015: BVRMC's cash increased by \$3,831,000 in 2015 as compared to 2014. The primary reason for the increase is the operating income generated in 2015 (net of depreciation expense), the reduction in patient accounts receivable balances, and the increase estimated third-party payor settlement liability. BVRMC received proceeds from the issuance of long-term debt and liquidated over \$6,800,000 in investments limited as to use or restricted to purchase over \$13,285,000 in capital assets.

Year ended June 30, 2014: BVRMC's cash decreased by \$450,000 in 2014 as compared to 2013. The primary reason for the decrease in cash was the increase in patient accounts receivable balances as well as \$3,772,000 in purchases of capital assets.

#### **Capital Assets**

The Hospital had \$34,588,000 and \$22,985,000 invested in capital assets, net of accumulated depreciation, at the end of June 30, 2015 and 2014, respectively. At June 30, 2015, BVRMC had incurred over \$15,720,000 in construction costs related to a Master Facility expansion and remodeling project. The projected budget for the Master Facility expansion and remodeling project is approximately \$26,000,000 and will be completed in several phases during fiscal year 2016. The project will be funded with proceeds from the issuance of Series 2014 and Series 2015A Hospital Revenue Bonds (Note 6) and existing Medical Center reserves.

#### **Debt**

The Hospital had \$6,695,000 and \$4,687,000 in long-term debt and capital lease obligations at the end of June 30, 2015 and 2014, respectively. During 2015 BVRMC issued Series 2014 and Series 2015A Hospital Revenue Bonds to fund a Master Facility expansion and remodeling project as noted above. See Note 6 for further details.

#### **Contacting BVRMC's Chief Financial Officer**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of BVRMC's finances and to demonstrate BVRMC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact:

Krista L. Ketcham, CPA, FHFMA  
Chief Financial Officer  
Buena Vista Regional Medical Center  
1525 W. 5th St.  
Storm Lake, IA 50588  
(712) 213-8603  
[Ketcham.Krista@bvrmc.org](mailto:Ketcham.Krista@bvrmc.org)

# Buena Vista Regional Medical Center

## Statements of Net Position June 30, 2015 and 2014

<b>ASSETS</b>	<b>2015</b>	<b>(not restated) 2014</b>
Current assets:		
Cash and cash equivalents	\$ 9,794,367	5,963,304
Investments	5,882,329	5,518,091
Receivables -		
Patient, net of allowance for doubtful accounts of \$2,515,000 in 2015 and \$2,148,000 in 2014	6,287,929	7,588,513
Other receivables	924,140	1,685,985
Succeeding year property taxes receivable	410,000	396,745
Inventories	1,482,782	1,372,940
Prepaid expenses	444,968	457,520
Investments limited as to use or restricted	<u>1,939,435</u>	<u>659,888</u>
Total current assets	27,165,950	23,642,986
Investments limited as to use or restricted	11,452,088	19,557,483
Capital assets, net	<u>34,587,605</u>	<u>22,984,857</u>
Total assets	<u>73,205,643</u>	<u>66,185,326</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension related deferred outflows	<u>2,528,673</u>	--
Total assets and deferred outflows of resources	<u>\$ 75,734,316</u>	<u>66,185,326</u>
<b>LIABILITIES</b>		
Current liabilities:		
Current portion of long-term debt	\$ 301,057	547,196
Accounts payable -		
Trade	932,442	934,691
Capital assets	1,939,435	397,933
Accrued salaries and vacation	1,912,276	1,812,908
Accrued health insurance	242,000	242,000
Payroll taxes withheld and other accrued expenses	504,894	387,394
Estimated third-party payor settlements	<u>3,541,263</u>	<u>1,411,987</u>
Total current liabilities	9,373,367	5,734,109
Long term liabilities:		
Long term debt, net of current portion	6,393,857	4,139,348
Net pension liability	<u>9,803,827</u>	--
Total liabilities	<u>25,571,051</u>	<u>9,873,457</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable property tax revenue	410,000	396,745
Pension related deferred inflows	<u>4,070,693</u>	--
Total deferred inflows of resources	<u>4,480,693</u>	<u>396,745</u>
Commitments and contingencies		
<b>NET POSITION</b>		
Net investment in capital assets	27,892,691	18,298,313
Restricted - expendable	201,437	114,259
Unrestricted	<u>17,588,444</u>	<u>37,502,552</u>
Total net position	<u>45,682,572</u>	<u>55,915,124</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 75,734,316</u>	<u>66,185,326</u>

*See notes to financial statements*

## Buena Vista Regional Medical Center

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

	<u>2015</u>	<u>(not restated) 2014</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 43,061,016	41,649,702
Provision for bad debt	<u>(776,874)</u>	<u>(1,054,338)</u>
Net patient service revenue	42,284,142	40,595,364
Other operating revenue	<u>3,412,041</u>	<u>4,076,660</u>
Total operating revenue	<u>45,696,183</u>	<u>44,672,024</u>
OPERATING EXPENSES:		
Salaries and wages	17,321,775	17,513,163
Employee benefits	4,777,880	4,953,236
Purchased services and professional fees	4,435,561	3,671,734
Supplies	10,044,307	9,679,478
Other expenses	4,592,045	4,169,553
Depreciation and amortization	<u>3,230,588</u>	<u>3,408,009</u>
Total operating expenses	<u>44,402,156</u>	<u>43,395,173</u>
OPERATING INCOME	<u>1,294,027</u>	<u>1,276,851</u>
NONOPERATING REVENUE (EXPENSE), NET:		
County tax revenue	415,702	412,818
Interest expense	(207,236)	(218,804)
Investment income	<u>148,154</u>	<u>127,998</u>
Nonoperating revenue, net	<u>356,620</u>	<u>322,012</u>
EXCESS OF REVENUE OVER EXPENSES BEFORE CAPITAL GRANTS AND CONTRIBUTIONS	1,650,647	1,598,863
CAPITAL GRANTS AND CONTRIBUTIONS	<u>86,111</u>	<u>82,550</u>
INCREASE IN NET POSITION	1,736,758	1,681,413
NET POSITION, beginning of year, as restated (Note 15)	<u>43,945,814</u>	<u>54,233,711</u>
NET POSITION, end of year	<u>\$ 45,682,572</u>	<u>55,915,124</u>

See notes to financial statements

# Buena Vista Regional Medical Center

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

	<u>2015</u>	<u>(not restated) 2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patient services and third party payors	\$ 45,714,002	39,842,325
Cash paid for employee salaries and benefits	(22,501,466)	(22,285,044)
Cash paid to suppliers and contractors	(19,171,452)	(18,009,073)
Other receipts and payments, net	<u>4,191,554</u>	<u>4,110,148</u>
Net cash provided by operating activities	<u>8,232,638</u>	<u>3,658,356</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES,		
County tax receipts	<u>415,702</u>	<u>412,816</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payments on capital lease obligations	(340,104)	(316,616)
Payments on long-term debt	(210,000)	(200,000)
Proceeds from long-term debt	2,533,974	--
Interest payments	(212,020)	(218,804)
Capital grants and contributions	86,111	82,550
Proceeds from sale of property and equipment	--	4,350
Purchase of capital assets	<u>(13,285,002)</u>	<u>(3,771,689)</u>
Net cash used in capital and related financing activities	<u>(11,427,041)</u>	<u>(4,420,209)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	148,154	127,998
Deposits to investments, net	(364,238)	(1,020,111)
Change in investments limited as to use or restricted, net	<u>6,825,848</u>	<u>790,729</u>
Net cash provided by (used in) investing activities	<u>6,609,764</u>	<u>(101,384)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,831,063	(450,421)
CASH AND CASH EQUIVALENTS, beginning of year	<u>5,963,304</u>	<u>6,413,725</u>
CASH AND CASH EQUIVALENTS, end of year	\$ <u>9,794,367</u>	<u>5,963,304</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Capital assets acquired under capital lease obligation	\$ <u>24,500</u>	<u>470,596</u>

*See notes to financial statements*

## Buena Vista Regional Medical Center

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

	<u>2015</u>	<u>(not restated)</u> <u>2014</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,294,027	1,276,851
Adjustments to reconcile operating income to net cash provided by operating activities -		
Depreciation and amortization	3,230,588	3,408,009
Loss on sale of capital assets	17,668	11,085
Decrease in net pension liability	(3,738,168)	--
Increase in deferred outflows of resources	(955,988)	--
Increase in deferred inflows of resources	4,070,693	--
(Increase) decrease in current assets -		
Receivables -		
Patients	1,300,584	(2,318,845)
Other	761,845	22,403
Inventories	(109,842)	(201,764)
Prepaid expenses	12,552	(68,567)
Estimated third-party payor settlements	--	153,819
Increase (decrease) in current liabilities -		
Accounts payable	(2,249)	(217,977)
Accrued salaries, vacation, health insurance, payroll taxes withheld and other	221,652	181,355
Estimated third-party payor settlements	<u>2,129,276</u>	<u>1,411,987</u>
Net cash provided by operating activities	<u>\$ 8,232,638</u>	<u>3,658,356</u>

*See notes to financial statements*

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

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

The following is a description of the reporting entity and a summary of significant accounting policies of Buena Vista Regional Medical Center (Medical Center). These policies are in accordance with accounting principles generally accepted in the United States of America. The Medical Center is a county Critical Access Hospital with related healthcare ancillary and outpatient services. The Medical Center is organized under Chapter 347 of the Iowa Code and is governed by a seven member board of trustees elected for six year terms.

#### A. *Reporting Entity*

For financial reporting purposes, the Medical Center has included all the funds of the Medical Center, specifically all assets, deferred outflows, liabilities, deferred inflows, revenue and expenses over which the Medical Center's governing board exercises oversight responsibility. The Medical Center has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Medical Center are such that exclusion would cause the Medical Center's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Medical Center 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 Medical Center. The Medical Center 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 Medical Center 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 Medical Center'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 Medical Center's assets, deferred outflows, liabilities, and deferred inflows with the differences reported as net position. Net position is reported in three categories:

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

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

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

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

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

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

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

The Medical Center'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 outflow, 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 investments in highly liquid instruments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees, donors, or debt agreements.

### G. *Investments*

Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in excess of revenue over expenses before capital grants and contributions unless the income is restricted by donor or law.

### H. *Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

*I. Inventories*

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

*J. Property Tax Receivable*

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property taxes receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that fiscal year. By statute, the Board of Supervisors 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 taxes receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

*K. Investments Limited as to Use or Restricted*

Investments limited as to use or restricted include the following:

*By Board of Trustees* – Periodically, the Medical Center's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these assets and may, at its discretion, subsequently use them for other purposes.

*By Medical Center Revenue Bond Agreement* – These funds are reserve funds held as security for the Series 2007 Hospital Revenue Bonds (Series 2007 bonds). These funds are used for the payment of principal and interest on the Series 2007 bonds when insufficient funds are available.

*By Donor* – These funds consist of contributed assets that have been restricted by the donor for specific capital improvements or operating activities.

*L. Capital Assets, Net*

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided in 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 is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Useful lives range by capital asset classification as follows:

Land improvements	5 to 20 years
Buildings, improvements, and fixed equipment	3 to 40 years
Major movable equipment	3 to 20 years

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restriction are reported when the donated or acquired long-lived assets are placed in service.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

The Medical Center's long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized.

*M. Deferred Outflows of Resources*

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. 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.

*N. Compensated Absences*

Medical Center employees accumulate a limited amount of earned but unused paid time off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount ranging from 252 hours to 420 hours based on length of service. PTO is accrued as an expense and a liability as it is earned. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015 and 2014, respectively.

*O. 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.

*P. 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 statement of net position consists of succeeding year property taxes receivable which 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.

*Q. Self-Insured Employee Health Benefits*

The estimated losses from self-insured claims, including incurred but unreported claims, are accrued as the losses occur.

*R. 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 health care services are reported as operating revenue and expenses. Property tax levied to finance the current year is included as nonoperating revenues and peripheral or incidental transactions are reported as non-operating revenues and expenses.

*S. Net Patient Service Revenue*

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

The Medical Center has agreements with third-party payors who provide payment based on fee schedule amounts. 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.

### T. *Charity Care*

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Medical Center does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue at the time of the charity determination. Charges excluded from patient service revenue under the Medical Center's charity care policy were \$843,021 and \$973,041, for 2015 and 2014, respectively.

### U. *Grants and Contributions*

From time to time, the Medical Center receives contributions from Buena Vista Regional Medical Center Foundation, as well as 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 that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenue and expenses.

### V. *Income Taxes*

Under the Code of Iowa, Chapter 347, the Medical Center is an instrumentality of the County of Buena Vista, Iowa. As such, the Medical Center is exempt from paying income taxes. However, the Medical Center is subject to federal income tax on any unrelated business income tax.

### W. *Excess of Revenue Over Expenses Before Capital Grants and Contributions*

The statements of revenue, expenses and changes in net position include excess of revenue over expenses before capital grants and contributions as a performance indicator. Changes in unrestricted net position that are excluded from excess of revenue over expenses before capital grants and contributions, consistent with industry practice, include unrealized gains and losses on investments other than trading securities and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets.)

### X. *Insurance*

The Medical Center is commercially insured for property and casualty, general and professional liability and worker's compensation risks. The Medical Center is self-insured under its employee group health program. Claims are charged to expense in the period in which they are incurred.

### Y. *Reclassifications*

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

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

### Z. Subsequent Events

The Medical Center considered events occurring through October 26, 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.

### (2) Cash, Investments, and Assets Limited as to Use or Restricted

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

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

*Credit Risk:* The Medical Center has invested in certificates of deposit, corporate bonds, and U.S. Government Agency securities. The value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

*Interest Rate Risk:* The Medical Center has a formal investment policy that limits investment maturities to 397 days or less as a means of managing its exposure to fair value losses arising from changes in interest rates for current operating funds (funds which are reasonably expected to be used for the operation of the Medical Center within fifteen months). Funds not identified as operating funds may be invested in investments with maturities in excess of 397 days.

The weighted average duration of maturities of investments as of June 30, 2015 is as follows:

Certificates of deposit	7 months
Corporate bonds	2 months

*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 or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Medical Center's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Medical Center's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Medical Center's agent in the Medical Center's name.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

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

	<u>2015</u>	<u>2014</u>
Investments (operating reserves):		
Cash and cash equivalents	\$ 9,614	9,614
Certificates of deposit	5,862,032	5,502,033
Interest receivable	10,683	6,444
Total investments	<u>\$ 5,882,329</u>	<u>5,518,091</u>
Investments Limited as to Use or Restricted:		
By Board of Trustees for capital improvements:		
Cash and cash equivalents	\$ 4,962,529	7,996,278
Certificates of deposit	7,802,830	11,683,127
Interest receivable	24,727	23,707
	<u>12,790,086</u>	<u>19,703,112</u>
By Hospital Revenue Bond Agreement:		
Cash and cash equivalents	400,000	400,000
By Donor:		
Cash and cash equivalents	<u>201,437</u>	<u>114,259</u>
Total investments limited as to use or restricted	13,391,523	20,217,371
Less amounts required to meet current obligations	<u>1,939,435</u>	<u>659,888</u>
Long-term portion	<u>\$ 11,452,088</u>	<u>19,557,483</u>

Investment return, including return on investments limited as to use or restricted, for the years ended June 30, 2015 and 2014 is summarized as follows:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 146,162	127,188
Change in unrealized gains	<u>1,992</u>	<u>810</u>
Total investment return	<u>\$ 148,154</u>	<u>127,998</u>

### (3) Net Patient Service Revenue

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as 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 nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare Administrative Contractor. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2011.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. The "American Taxpayer Relief Act of 2012" postponed sequestration for two months. 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.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

---

**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 Medical Center is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Medical Center.

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

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Gross patient service revenue:		
Inpatient	\$ 14,450,895	12,592,978
Outpatient	56,724,198	50,620,150
Swingbed	582,043	1,018,801
Behavioral health	3,198,559	4,336,587
Hospice	16,005	176,288
	<u>74,971,700</u>	<u>68,744,804</u>
Total gross patient service revenue		
Contractual adjustments:		
Medicare	15,351,188	14,213,892
Medicaid	3,779,699	2,638,131
Other	11,936,776	9,270,038
Charity care services	843,021	973,041
	<u>31,910,684</u>	<u>27,095,102</u>
Total contractual adjustments		
Net patient service revenue before provision for bad debt	<u>\$ 43,061,016</u>	<u>41,649,702</u>

The Medical Center 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 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 accounted for approximately 43% and 13%, respectively, of the Medical Center's gross patient service revenue for the year ended June 30, 2015, and 45% and 10%, respectively, for the year ended June 30, 2014. The Medical Center 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. The 2015 and 2014 net patient service revenue decreased approximately \$440,000 and \$855,000, respectively, due to the establishment of estimated allowances necessary as a result of re-openings of years previously determined to be no longer subject to audits, reviews, and investigations.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

### (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	\$ 12,774,929	14,861,013
Less estimated third-party contractual adjustments	(3,972,000)	(5,124,500)
Less allowance for doubtful accounts	<u>(2,515,000)</u>	<u>(2,148,000)</u>
	<u>\$ 6,287,929</u>	<u>7,588,513</u>

The Medical Center grants credits without collateral to its patients, most of whom 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%	37%
Medicaid	14	11
Commercial insurance	53	40
Patients and residents	<u>4</u>	<u>12</u>
	<u>100%</u>	<u>100%</u>

### (5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2015</u>
Capital assets, not being depreciated,				
Land	\$ 627,698	--	--	627,698
Construction in progress	<u>2,365,538</u>	<u>13,956,710</u>	<u>(598,975)</u>	<u>15,723,273</u>
Total capital assets not being depreciated	<u>2,993,236</u>	<u>13,956,710</u>	<u>(598,975)</u>	<u>16,350,971</u>
Capital assets, being depreciated:				
Land improvements	1,676,920	--	(16,290)	1,660,630
Buildings	31,392,391	190,905	(216,883)	31,366,413
Fixed equipment	2,648,772	--	4,178	2,652,950
Major movable equipment	<u>16,470,365</u>	<u>863,657</u>	<u>403,584</u>	<u>17,737,606</u>
Total capital assets, being depreciated	<u>52,188,448</u>	<u>1,054,562</u>	<u>174,589</u>	<u>53,417,599</u>
Less accumulated depreciation:				
Land improvements	(836,007)	(59,582)	11,733	(883,856)
Buildings	(17,934,663)	(1,207,004)	46,076	(19,095,591)
Fixed equipment	(1,654,953)	(201,177)	1,745	(1,854,385)
Major movable equipment	<u>(11,771,204)</u>	<u>(1,762,825)</u>	<u>186,896</u>	<u>(13,347,133)</u>
Total accumulated depreciation	<u>(32,196,827)</u>	<u>(3,230,588)</u>	<u>246,450</u>	<u>(35,180,965)</u>
Total capital assets, being depreciated, net	<u>19,991,621</u>	<u>(2,176,026)</u>	<u>421,039</u>	<u>18,236,634</u>
Total capital assets, net	<u>\$ 22,984,857</u>	<u>11,780,684</u>	<u>(177,936)</u>	<u>34,587,605</u>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

	<u>June 30, 2013</u>	<u>Additions</u>	<u>Transfers and Disposals</u>	<u>June 30, 2014</u>
Capital assets, not being depreciated,				
Land	\$ 627,698	--	--	627,698
Construction in progress	218,783	3,710,222	(1,563,467)	2,365,538
Total capital assets not being depreciated	<u>846,481</u>	<u>3,710,222</u>	<u>(1,563,467)</u>	<u>2,993,236</u>
Capital assets, being depreciated:				
Land improvements	1,652,329	24,591	--	1,676,920
Buildings	31,638,666	118,381	(364,656)	31,392,391
Fixed equipment	2,216,926	478,082	(46,236)	2,648,772
Major movable equipment	14,562,684	548,908	1,358,773	16,470,365
Total capital assets, being depreciated	<u>50,070,605</u>	<u>1,169,962</u>	<u>947,881</u>	<u>52,188,448</u>
Less accumulated depreciation:				
Land improvements	(773,146)	(62,861)	--	(836,007)
Buildings	(16,768,265)	(1,282,394)	115,996	(17,934,663)
Fixed equipment	(1,466,865)	(224,707)	36,619	(1,654,953)
Major movable equipment	(10,126,094)	(1,838,047)	192,937	(11,771,204)
Total accumulated depreciation	<u>(29,134,370)</u>	<u>(3,408,009)</u>	<u>345,552</u>	<u>(32,196,827)</u>
Total capital assets, being depreciated, net	<u>20,936,235</u>	<u>(2,238,047)</u>	<u>1,293,433</u>	<u>19,991,621</u>
Total capital assets, net	<u>\$ 21,782,716</u>	<u>1,472,175</u>	<u>(270,034)</u>	<u>22,984,857</u>

Total depreciation for the year ended June 30, 2015 and 2014, including depreciation on rental property owned by the Medical Center, was \$3,230,588 and \$3,408,009 respectively.

Construction in progress as of June 30, 2015 consisted of costs related to a Master Facility expansion and remodeling project and various other minor projects. The projected budget for the Master Facility expansion and remodeling project is approximately \$26 million and will be completed in several phases during fiscal year 2016. The project will be funded with proceeds from the issuance of Series 2014 and Series 2015A Hospital Revenue Bonds (Note 6) and existing Medical Center reserves.

#### (6) Long-Term Debt

Long-term debt activity of the Medical Center 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>
Series 2007 hospital revenue bonds (A)	\$ 4,015,000	--	(210,000)	3,805,000	220,000
Capital lease obligation (B)	261,954	--	(261,954)	--	--
Capital lease obligation (C)	409,590	24,500	(78,150)	355,940	81,057
Series 2014 hospital revenue bonds (D)	--	2,483,973	--	2,483,973	--
Series 2015A hospital revenue bonds (E)	--	50,001	--	50,001	--
	<u>\$ 4,686,544</u>	<u>2,558,474</u>	<u>(550,104)</u>	<u>6,694,914</u>	<u>301,057</u>

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

	<u>June 30,</u> <u>2013</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30,</u> <u>2014</u>	<u>Due Within</u> <u>One Year</u>
Series 2007 hospital revenue bonds (A)	\$ 4,215,000	--	(200,000)	4,015,000	210,000
Capital lease obligation (B)	517,564	--	(255,610)	261,954	261,954
Capital lease obligation (C)	--	470,596	(61,006)	409,590	75,242
	<u>\$ 4,732,564</u>	<u>--</u>	<u>(516,616)</u>	<u>4,686,544</u>	<u>547,196</u>

- (A) The Medical Center issued \$5,090,000 of Series 2007 Hospital Revenue Bonds. The proceeds of these bonds were used to pay construction and renovation costs. The Series 2007 bonds bear interest at rates ranging from 4.45% to 5.00% payable semi-annually. Annual principal payments are due in amounts ranging from \$210,000 to \$1,000,000 through December 1, 2027.
- (B) Capital lease obligation at 2.46% interest, payable in quarterly installments of \$66,500 through April 2015, collateralized by leased equipment with a cost of \$605,616.
- (C) Capital lease obligation at 2.49% interest payable in monthly installments of \$7,045 through August 2019, collateralized by leased equipment with a cost of \$470,596.
- (D) On October 21, 2014 the Medical Center issued \$9,000,000 of Series 2014 Hospital Revenue Bonds. The Medical Center will receive drawdown advances during fiscal year 2016 and will make interest only payments until the full amount of the bonds are drawn. The Series 2014 bonds will be payable in amounts ranging from \$545,000 to \$760,000 beginning June 1, 2016 and will mature on June 1, 2029. The proceeds from the drawdowns will be used to pay construction and renovation costs associated with the Master Facility expansion and remodeling project (Note 6). The Series 2014 bonds bear interest at 2.81% through June 1, 2024 at which time the interest rate will be adjusted to 65% of a five year U.S. treasury rate plus 1.8%.
- (E) On January 21, 2015 the Medical Center issued \$9,000,000 of Series 2015A Hospital Revenue Bonds. The Medical Center will receive drawdown advances during fiscal year 2016 and will make interest only payments until the full amount of the bonds are drawn. The Series 2015A bonds will be payable in amounts ranging from \$545,000 to \$765,000 beginning June 1, 2016 and will mature on June 1, 2029. The proceeds from the drawdowns will be used to pay construction and renovation costs associated with the Master Facility expansion and remodeling project (Note 6). The Series 2014 bonds bear interest at 2.886% through June 1, 2024 at which time the interest rate will be adjusted to 65% of a five year U.S. treasury rate plus 1.8%.

On December 15, 2015 the Medical Center intends to issue \$3,220,000 of Series 2015B Hospital Revenue Refunding Bonds. The Series 2015B proceeds will be used to repay the outstanding Series 2007 bonds. The Series 2015B bonds will be payable in amounts ranging from \$255,000 to \$335,000 beginning June 1, 2017 and will mature on June 1, 2027. The Series 2015B bonds will bear interest at 2.893% through June 1, 2024 at which time the interest rate will be adjusted to 65% of a five year U.S. treasury rate plus 1.8%.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

Scheduled principal and interest repayments on long-term debt obligation are as follows:

	<u>Long-Term Debt Principal</u>	<u>Capital Lease Principal</u>	<u>Interest</u>
2016	\$ 220,000	81,057	251,916
2017	230,000	83,323	241,789
2018	240,000	86,683	230,977
2019	250,000	89,641	219,459
2020	260,000	15,236	207,216
2021-2025	860,000	--	871,525
2026-2029	4,278,974	--	403,039
	<u>\$ 6,338,974</u>	<u>355,940</u>	<u>2,425,921</u>

#### (7) Other Operating Revenue

Other operating revenue for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
340B drug pricing program revenue	\$ 1,772,168	1,707,709
Electronic health record incentive payment	--	602,393
Cafeteria	390,269	427,320
Rental income	317,103	327,251
School nurse	266,902	261,530
Fitness center	276,894	228,361
Contracted revenue	62,417	162,630
Grants	145,157	108,277
Miscellaneous	74,090	131,132
Lifeline	65,842	69,471
Purchasing rebates	34,168	34,998
Coffee shop	22,882	25,086
Vending machines	1,817	1,587
Loss on sale of capital assets	(17,668)	(11,085)
	<u>\$ 3,412,041</u>	<u>4,076,660</u>

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2012, Medical Center qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2015. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2016. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

## Buena Vista Regional Medical Center

### Notes to Financial Statements June 30, 2015 and 2014

---

The Medical Center has elected to record a portion of the incentive payment as other operating revenue in the period earned, and defer amounts related to future Medicare reimbursement. Amounts recorded are as follows:

	<u>2015</u>	<u>2014</u>
Medicare Electronic health record incentive payments	\$ --	335,610
Medicaid Electronic health record incentive payments	--	<u>266,783</u>
Total electronic health record incentive payments	<u>\$ --</u>	<u>602,393</u>
Medicare reimbursement receivable	<u>\$ --</u>	<u>966,070</u>
Deferred Medicare reimbursement	<u>\$ 356,987</u>	<u>555,276</u>

#### (8) Pension and Retirement Benefits

The Medical Center 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 Medical Center, 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, P.O. Box 9117, Des Moines, Iowa, 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rule 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.

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.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

### 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 year 2015 and 2014, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Medical Center contributed 8.93 percent for a total rate of 14.88 percent.

The Medical Center's contributions to IPERS for the year ended June 30, 2015 and 2014 were \$1,509,349 and \$1,572,685, respectively.

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

At June 30, 2015, the Medical Center reported a liability of \$9,803,827 for its proportionate share of the net pension liability. The Medical Center'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 Medical Center's proportion of the net pension liability was based on the Medical Center's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Medical Center's proportion was .2501408 percent, which was an increase of .01129 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Medical Center recognized pension expense of \$885,886. At June 30, 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 109,024	20,521
Changes of assumptions	442,719	490
Net difference between projected and actual earnings on pension plan investments	--	4,049,682
Changes in proportion and differences between Medical Center contributions and proportionate share of contributions	467,582	--
Medical Center contributions subsequent to the Measurement date	<u>1,509,349</u>	<u>--</u>
Total	<u>\$ 2,528,673</u>	<u>4,070,693</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

Deferred outflows of resources related to pensions included \$1,509,349 resulting from the Medical Center 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:

<b>Year Ended June 30,</b>	
2016	\$ (778,235)
2017	(778,235)
2018	(778,235)
2019	(778,235)
2020	<u>61,572</u>
	\$ <u><u>(3,051,368)</u></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)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 percent, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50 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.

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:

<b>Asset Class</b>	<b>Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
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	<u>1</u>	<u>(0.69)</u>
Total	<u><u>100%</u></u>	

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

### 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 Medical Center will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### Sensitivity of the Medical Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Medical Center's proportionate share of the net pension liability	\$ <u>19,273,333</u>	<u>9,803,827</u>	<u>1,811,916</u>

### Pension Plan Fiduciary Net Position

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

### Payables to the Pension Plan

At June 30, 2015, the Medical Center reported payables to the defined benefit pension plan of \$254,727 for legally required employer contributions and \$169,818 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

## **(9) Affiliated Organization**

The Medical Center has an operating agreement with UnityPoint Health – Trinity (Trinity). Under the agreement, the Medical Center's Chief Executive Officer is an employee of Trinity and the Medical Center reimburses Trinity for the cost of the Chief Executive Officer's salaries and benefits. The Medical Center also pays Trinity a monthly management fee. Under the agreement, Trinity exercises joint authority over the Medical Center's operations with the Medical Center's board. Trinity consults and works with the Medical Center's board in formulating management strategies and recommendations regarding operations.

The following is a list of year end balances and transactions between the Medical Center and these affiliates for the years ended June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Fees to affiliate for personnel and services	\$ <u>561,712</u>	<u>468,936</u>

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

### (10) Risk Management

The Medical Center is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore, no related liability has been accrued. The Medical Center is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the three years ended June 30, 2015.

### (11) Professional Liability Insurance

The Medical Center 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 Medical Center carries an umbrella policy which also provides \$4,000,000 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. In the event the Medical Center should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Accounting principles generally accepted in the United States of America require a healthcare provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made.

### (12) Foundation

Buena Vista Regional Medical Center Foundation (Foundation) was established to raise funds exclusively for the benefit of the Medical Center. All funds raised, except funds required for the operations of the Foundation, will be distributed to or be held for the benefit of the Medical Center as required to comply with the purposes specified by donors. Management has determined that the economic resources received from or held by the Foundation are not significant to the Medical Center. Therefore, the Foundation is not reported with the Medical Center under GASB Statement 39.

A summary of the Foundation's assets, liabilities and net position, based on a modified cash basis, as of June 30, 2015 and 2014 follows:

	<u>(Unaudited)</u>	
	<u>2015</u>	<u>2014</u>
Assets	\$ 4,088,780	3,613,034
Net position	\$ 4,081,858	3,594,564

The Medical Center received \$86,111 and \$82,550 from the Foundation during the year ended June 30, 2015 and 2014, respectively, for the purchase of property and equipment. As of June 30, 2015, the Foundation has no pledges receivable related to Medical Center projects.

### (13) Self-Funded Health Insurance

The Medical Center has established an employee health insurance fund. Under the self-insured plan, the Medical Center pays claims from this fund up to maximum limits and carries stop loss insurance for claim in excess of the limits. At June 30, 2015 and 2014, the Medical Center has accumulated funds in excess of actual claims paid of \$507,110 and \$582,721, respectively. These funds, shown under cash, are to be used to pay claims as they are filed in the future. The amount of estimated incurred but unpaid claims at June 30, 2015 and 2014 was \$242,000.

# Buena Vista Regional Medical Center

## Notes to Financial Statements June 30, 2015 and 2014

---

### (14) Contingencies

The Medical Center is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters are adequately reserved for and will be resolved without material adverse effect on the Medical Center's financial position or results from operations.

### (15) 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	\$ 55,915,124
Net pension liability at June 30, 2014	(13,541,995)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	<u>1,572,685</u>
Net position July 1, 2014, as restated	<u>\$ 43,945,814</u>

## Buena Vista Regional Medical Center

### Budgetary Comparison Schedule of Revenue, Expenses, and Changes in Net Position Budget and Actual (Accrual Basis) Required Supplementary Information 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 Medical Center on the accrual 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 Medical Center's expenditures did not exceed the amounts budgeted.

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated raised by taxation	\$ 415,702	--	415,702	410,000	5,702
Estimated other revenues / receipts	45,930,448	6,743,347	52,673,795	61,867,258	(9,193,463)
Expenses / disbursements	<u>44,609,392</u>	<u>11,110,652</u>	<u>55,720,044</u>	<u>69,050,692</u>	<u>13,330,648</u>
Net	1,736,758	(4,367,305)	(2,630,547)	(6,773,434)	<u>4,142,887</u>
Balance, beginning of year	<u>43,945,814</u>	<u>(12,247,048)</u>	<u>31,698,766</u>	<u>31,698,766</u>	
Balance, end of year	<u>\$ 45,682,572</u>	<u>(16,614,353)</u>	<u>29,068,219</u>	<u>24,925,332</u>	

*See accompanying independent auditor's report*

**Buena Vista Regional Medical Center**

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

---

Iowa Public Employee's Retirement System  
Last Fiscal Year\*  
(In Thousands)

	<u>2015</u>
Medical Center's proportion of net pension liability	0.2501408%
Medical Center's proportionate share of the net pension liability	\$ 9,804
Medical Center's covered-employee payroll	\$ 17,615
Medical Center's proportionate share of the net pension liability as a percentage of its covered-employee payroll	55.66%
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.

**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 Medical Center will present information for those years for which information is available.

*See accompanying independent auditor's report*

**Buena Vista Regional Medical Center**

**Schedule of the Medical Center Contributions  
Required Supplementary Information  
June 30, 2015**

---

Iowa Public Employee's 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	\$ 1,509	1,573	1,433	1,331	1,118	964	870	777	691	636
Contributions in relation to the statutorily required contribution	<u>(1,509)</u>	<u>(1,573)</u>	<u>(1,433)</u>	<u>(1,331)</u>	<u>(1,118)</u>	<u>(964)</u>	<u>(870)</u>	<u>(777)</u>	<u>(691)</u>	<u>(636)</u>
Contribution deficiency (excess)	\$ <u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>	<u>    --</u>
Medical Center's covered-employee payroll	\$ 16,898	17,615	16,509	16,473	16,110	14,518	13,701	12,822	12,059	11,061
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*

## Buena Vista Regional Medical Center

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

---

#### Notes to Required Supplementary Information – Pension Liability

##### 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	Swing Bed	Behavioral Health	Hospice	Total	Inpatient	Outpatient	Swing Bed	Behavioral Health	Hospice	Total
<b>DAILY PATIENT SERVICES:</b>												
Behavioral health	\$ --	268,600	--	2,577,211	--	2,845,811	--	301,667	--	3,433,197	--	3,734,864
Medical and surgical	1,329,984	514,575	--	--	16,005	1,860,564	1,264,097	398,853	--	--	37,750	1,700,700
Obstetric	1,477,162	--	--	--	--	1,477,162	1,578,417	--	--	--	--	1,578,417
Coronary care	292,440	--	--	--	--	292,440	347,820	--	--	--	--	347,820
Swing bed	--	--	136,017	--	--	136,017	--	--	225,598	--	--	225,598
	<u>3,099,586</u>	<u>783,175</u>	<u>136,017</u>	<u>2,577,211</u>	<u>16,005</u>	<u>6,611,994</u>	<u>3,190,334</u>	<u>700,520</u>	<u>225,598</u>	<u>3,433,197</u>	<u>37,750</u>	<u>7,587,399</u>
<b>OTHER NURSING SERVICES:</b>												
Operating and recovery room	2,057,886	7,666,833	--	--	--	9,724,719	2,297,746	7,178,092	462	--	--	9,476,300
Medical and surgical supplies	3,881,498	2,561,806	9,934	--	--	6,453,238	2,377,953	1,713,138	16,887	--	2,234	4,110,212
Outpatient service	137,120	2,913,706	4,428	10,635	--	3,065,889	100,611	3,244,379	11,144	8,299	399	3,364,832
Emergency services	12,211	3,207,370	--	947	--	3,220,528	6,491	2,700,243	--	--	--	2,706,734
Delivery and labor room	--	219,064	--	--	--	219,064	--	276,978	--	--	--	276,978
Cardiac rehabilitation	--	163,302	--	--	--	163,302	--	133,041	--	--	--	133,041
Maternal child care	--	3,525	--	--	--	3,525	--	4,598	--	--	--	4,598
	<u>6,088,715</u>	<u>16,735,606</u>	<u>14,362</u>	<u>11,582</u>	<u>--</u>	<u>22,850,265</u>	<u>4,782,801</u>	<u>15,250,469</u>	<u>28,493</u>	<u>8,299</u>	<u>2,633</u>	<u>20,072,695</u>
<b>OTHER PROFESSIONAL SERVICES:</b>												
Pharmacy	2,002,554	16,544,684	170,476	245,757	--	18,963,471	1,685,414	13,721,000	332,942	537,437	130,647	16,407,440
Laboratory	681,741	3,189,394	25,859	206,983	--	4,103,977	635,291	3,164,944	44,915	218,997	440	4,064,587
Radiology	72,328	4,388,334	3,563	5,732	--	4,469,957	86,521	4,239,935	7,848	8,393	--	4,342,697
Respiratory therapy	1,344,391	839,456	154,620	88,948	--	2,427,415	1,248,210	534,559	240,201	69,388	4,338	2,096,696
CT scans	231,403	3,037,576	4,372	5,468	--	3,278,819	180,178	2,287,072	12,445	1,543	--	2,481,238
Nuclear medicine	58,810	2,079,912	1,393	--	--	2,140,115	60,065	1,912,197	4,006	--	--	1,976,268
ER physicians	70,867	1,722,398	--	576	--	1,793,841	2,277	1,593,128	--	--	--	1,595,405
Oncology	554	1,579,148	--	--	--	1,579,702	2,334	1,545,170	--	--	--	1,547,504
Physical therapy	120,379	1,264,762	40,830	10,857	--	1,436,828	133,191	1,155,072	60,322	18,656	161	1,367,402
Ultrasound	96,269	1,097,069	1,176	379	--	1,194,893	89,961	1,096,054	6,517	--	--	1,192,532
Ambulance	176,392	1,117,549	1,750	12,511	--	1,308,202	142,856	1,028,874	3,025	6,837	319	1,181,911
Anesthesiology	226,180	779,455	--	--	--	1,005,635	130,628	776,958	--	--	--	907,586
Occupational therapy	66,223	394,935	24,952	3,167	--	489,277	81,647	389,186	41,940	5,190	--	517,963
Electrocardiology	33,858	422,349	952	25,976	--	483,135	52,447	435,387	1,746	23,839	--	513,419
Electroencephalography	8,726	568,501	161	247	--	577,635	--	631,858	--	--	--	631,858
Blood administration	66,981	73,326	1,560	573	--	142,440	84,598	91,680	5,710	1,112	--	183,100
Diabetic education	--	58,220	--	--	--	58,220	--	51,208	--	--	--	51,208
Speech therapy	4,938	21,100	--	2,592	--	28,630	4,225	11,922	3,093	3,699	--	22,939
Dietary	--	19,157	--	--	--	19,157	--	2,357	--	--	--	2,357
Infection control	--	8,092	--	--	--	8,092	--	600	--	--	--	600
	<u>5,262,594</u>	<u>39,205,417</u>	<u>431,664</u>	<u>609,766</u>	<u>--</u>	<u>45,509,441</u>	<u>4,619,843</u>	<u>34,669,161</u>	<u>764,710</u>	<u>895,091</u>	<u>135,905</u>	<u>41,084,710</u>
Gross patient service revenue	\$ <u>14,450,895</u>	<u>56,724,198</u>	<u>582,043</u>	<u>3,198,559</u>	<u>16,005</u>	<u>74,971,700</u>	<u>12,592,978</u>	<u>50,620,150</u>	<u>1,018,801</u>	<u>4,336,587</u>	<u>176,288</u>	<u>68,744,804</u>
<b>LESS: DEDUCTIONS FROM PATIENT SERVICE REVENUE</b>												
Contractual allowances and other deductions, primarily Medicare and Medicaid						(31,067,663)						(26,122,061)
Charity care services and other discounts, based on charges forgone						(843,021)						(973,041)
<b>NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT</b>						43,061,016						41,649,702
Provision for bad debt						(776,874)						(1,054,338)
<b>NET PATIENT SERVICE REVENUE</b>						\$ <u>42,284,142</u>						<u>40,595,364</u>

See accompanying independent auditor's report

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

---

	<u>2015</u>	<u>2014</u>
340B drug pricing program revenue	\$ 1,772,168	1,707,709
Electronic health record incentive payment	--	602,393
Cafeteria	390,269	427,320
Rental income	317,103	327,251
School nurse	266,902	261,530
Fitness center	276,894	228,361
Contracted revenue	62,417	162,630
Grants	145,157	108,277
Miscellaneous	74,090	131,132
Lifeline	65,842	69,471
Purchasing rebates	34,168	34,998
Coffee shop	22,882	25,086
Vending machines	1,817	1,587
Loss on sale of capital assets	<u>(17,668)</u>	<u>(11,085)</u>
	<u>\$ 3,412,041</u>	<u>4,076,660</u>

*See accompanying independent auditor's report*

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

	2015				2014 (not restated)			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
<b>NURSING SERVICES:</b>								
Medical and surgical	\$ 1,557,422	100,008	638,175	2,295,605	1,791,823	100,008	629,276	2,521,107
Operating and recovery room	714,916	224,038	1,493,815	2,432,769	669,051	144,250	1,373,263	2,186,564
Emergency services	1,407,054	--	571,239	1,978,293	1,307,444	600	484,787	1,792,831
Obstetric	1,064,778	--	470,437	1,535,215	1,095,674	--	459,857	1,555,531
Behavioral health	1,011,461	37,498	411,539	1,460,498	1,072,040	42,559	410,156	1,524,755
Outpatient services	809,659	--	586,598	1,396,257	845,859	--	593,333	1,439,192
Medical and surgical supplies	65,483	--	1,480,559	1,546,042	63,812	--	1,367,216	1,431,028
Coronary care	428,427	--	156,022	584,449	480,407	--	164,153	644,560
School	204,501	--	67,994	272,495	200,835	--	58,828	259,663
Cardiac rehabilitation	154,512	--	64,927	219,439	157,654	--	57,625	215,279
Nursing administration	151,883	--	52,281	204,164	144,556	--	44,768	189,324
Lifeline	2,037	--	54,750	56,787	2,370	--	55,755	58,125
Homecare	--	--	25,649	25,649	--	--	3,414	3,414
	<u>7,572,133</u>	<u>361,544</u>	<u>6,073,985</u>	<u>14,007,662</u>	<u>7,831,525</u>	<u>287,417</u>	<u>5,702,431</u>	<u>13,821,373</u>
<b>OTHER PROFESSIONAL SERVICES:</b>								
Pharmacy	515,821	--	5,067,669	5,583,490	499,667	--	4,829,256	5,328,923
Radiology	1,009,821	970,314	606,206	2,586,341	955,895	934,697	597,815	2,488,407
Laboratory	685,796	249,636	801,217	1,736,649	689,342	295,683	741,337	1,726,362
ER physicians	--	1,213,497	(3,934)	1,209,563	--	1,138,544	14,196	1,152,740
Physical therapy	654,016	51	258,911	912,978	635,344	--	232,850	868,194
Medical records	390,256	--	345,233	735,489	439,940	--	277,701	717,641
Oncology	421,102	--	197,508	618,610	447,861	--	196,068	643,929
Respiratory therapy	244,114	--	200,052	444,166	228,964	--	184,431	413,395
Fitness center	253,045	--	129,713	382,758	254,594	--	126,208	380,802
Occupational therapy	182,043	--	65,602	247,645	237,934	--	72,374	310,308
Ambulance	141,210	--	170,269	311,479	137,959	2,700	143,892	284,551
Nuclear medicine	--	9,684	211,715	221,399	--	16,348	180,092	196,440
Infection control	165,614	--	76,381	241,995	153,929	--	61,159	215,088
Women's center	147,355	--	73,118	220,473	161,287	--	56,440	217,727
Electroencephalography	124,819	--	77,560	202,379	111,264	--	82,066	193,330
Blood administration	--	--	113,924	113,924	--	--	124,175	124,175
Electrocardiology	78,267	17,776	40,698	136,741	79,071	17,637	46,208	142,916
Diabetic education	89,222	--	37,336	126,558	95,922	--	38,135	134,057
CT scans	--	--	197,944	197,944	--	--	133,604	133,604
Specialty clinics	51,900	--	36,685	88,585	54,991	--	48,235	103,226
Anesthesiology	--	35,740	65,282	101,022	--	37,680	64,033	101,713
Ultrasound	--	1,740	36,676	38,416	--	2,479	39,447	41,926
Speech therapy	757	14,916	220	15,893	1,164	12,313	317	13,794
	<u>5,155,158</u>	<u>2,513,354</u>	<u>8,805,985</u>	<u>16,474,497</u>	<u>5,185,128</u>	<u>2,458,081</u>	<u>8,290,039</u>	<u>15,933,248</u>
<b>GENERAL SERVICES:</b>								
Plant	436,525	--	883,892	1,320,417	425,260	--	962,565	1,387,825
Dietary	553,764	--	669,322	1,223,086	540,969	--	654,625	1,195,594
Housekeeping	476,916	--	211,329	688,245	478,766	--	205,509	684,275
Laundry and linen	--	--	112,643	112,643	--	--	121,153	121,153
	<u>1,467,205</u>	<u>--</u>	<u>1,877,186</u>	<u>3,344,391</u>	<u>1,444,995</u>	<u>--</u>	<u>1,943,852</u>	<u>3,388,847</u>
<b>ADMINISTRATIVE SERVICES:</b>	<u>3,127,279</u>	<u>1,560,663</u>	<u>5,664,286</u>	<u>10,352,228</u>	<u>3,051,515</u>	<u>926,236</u>	<u>6,047,835</u>	<u>10,025,586</u>
<b>NONDEPARTMENTAL:</b>								
Insurance	--	--	223,378	223,378	--	--	226,119	226,119
	<u>--</u>	<u>--</u>	<u>223,378</u>	<u>223,378</u>	<u>--</u>	<u>--</u>	<u>226,119</u>	<u>226,119</u>
<b>TOTAL EXPENSES</b>	<u>\$ 17,321,775</u>	<u>4,435,561</u>	<u>22,644,820</u>	<u>44,402,156</u>	<u>17,513,163</u>	<u>3,671,734</u>	<u>22,210,276</u>	<u>43,395,173</u>

See accompanying independent auditor's report

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

ANALYSIS OF AGING:

Days Since Discharge	<u>2015</u>		<u>2014</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
0 - 60	\$ 8,914,780	69.78 %	9,978,324	67.15 %
61 - 120	1,822,419	14.27	3,243,358	21.82
121 - 180	877,304	6.87	503,333	3.39
181 - and over	<u>1,160,426</u>	<u>9.08</u>	<u>1,135,998</u>	<u>7.64</u>
	12,774,929	100.00 %	14,861,013	100.00 %
Less:				
Allowance for doubtful accounts	(2,515,000)		(2,148,000)	
Allowance for contractual adjustments	<u>(3,972,000)</u>		<u>(5,124,500)</u>	
	<u>\$ 6,287,929</u>		<u>7,588,513</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS:				
Balance, beginning of year	\$ 2,148,000		1,946,000	
Provision of uncollectible accounts	776,874		1,054,338	
Recoveries of accounts previously written off	502,739		441,662	
Accounts written off	<u>(912,613)</u>		<u>(1,294,000)</u>	
Balance, end of year	<u>\$ 2,515,000</u>		<u>2,148,000</u>	

*See accompanying independent auditor's report*

**Inventory / Prepaid Expenses**  
**June 30, 2015 and 2014**

---

	<u>2015</u>	<u>2014</u>
INVENTORY:		
Surgery	\$ 779,175	707,709
Pharmacy	482,849	456,140
Central service	<u>220,758</u>	<u>209,091</u>
	<u>\$ 1,482,782</u>	<u>1,372,940</u>
PREPAID EXPENSES:		
Service contracts	\$ 138,780	123,731
Dues	91,101	87,885
Other	183,175	202,151
Insurance	<u>31,912</u>	<u>43,753</u>
	<u>\$ 444,968</u>	<u>457,520</u>

See accompanying independent auditor's report

**Financial and Statistical Highlights  
For the Years Ended June 30, 2015 and 2014**

---

	<u>2015</u>	<u>2014</u>
Patient days:		
Hospital -		
Adult and pediatric	2,883	2,998
Newborn	773	802
Swing bed - skilled	337	659
Hope Harbor	<u>2,332</u>	<u>3,185</u>
	<u>6,325</u>	<u>7,644</u>
Discharges:		
Hospital adult and pediatric	<u>1,004</u>	<u>1,003</u>
Average length of stay:		
Hospital adult and pediatric	2.87	2.99
Observation visits	384	423
Surgical procedures	3,177	3,193
Emergency room visits	8,523	7,469
Full-time equivalents personnel	326	339

*See accompanying independent auditor's report*

## 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 of  
Buena Vista Regional Medical Center  
Storm Lake, Iowa:

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 Buena Vista Regional Medical Center (Medical Center), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements, and have issued our report thereon dated October 26, 2015.

### Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as Item II-A-15 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Medical Center'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*. However, we noted certain immaterial instances of noncompliance or other matters which are described in Part III of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the Medical Center'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 Medical Center. 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.

**Hospital's Response to Findings**

The Medical Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Medical Center's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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

SEIM JOHNSON, LLP

Omaha, Nebraska,  
October 26, 2015.

# Buena Vista Regional Medical Center

## Schedule of Findings and Responses June 30, 2015

---

### Part I: Summary of the Independent Auditor's Results

- a. An unmodified opinion was issued on the financial statements.
- b. A material weakness in internal control over financial reporting was identified during 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

<u>Item II-A-15</u>	<b>Material Weakness</b>
<i>Criteria:</i>	The design or operation of the Medical Center's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements and unreconciled account difference during the audit that were not initially identified and corrected by the Medical Center's internal controls.
<i>Effect:</i>	An audit entry was required to record the impact of GASB 68 for IPERS, an audit entry was required to adjust third-party payor settlement at year end, an audit entry was required to record year end construction costs and accounts payable, an audit entry was required to adjust depreciation expense to actual, an audit entry was required to correct unreconciled cash and other accounts receivable differences, an audit entry was required to adjust prepaid expense to actual, and unreconciled cash and accounts payable differences remain at fiscal year end.
<i>Cause:</i>	Management did not properly reconcile several accounts as of fiscal year end. Management was aware of the need to record the impact of GASB 68 for IPERS but did not make the necessary entries as of fiscal year end.
<i>Recommendation:</i>	The Medical Center should review and revise its reconciliation process.
<i>Response:</i>	The Medical Center concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

#### **Instances of Non-Compliance**

No matters were reported.

### Part III: Other Findings Related to Required Statutory Reporting

#### **III-A-15**

Certified Budget: Medical Center disbursements during the year ended June 30, 2015, did not exceed budgeted amounts.

# Buena Vista Regional Medical Center

## Schedule of Findings and Responses June 30, 2015

---

### III-B-15

Questionable Expenditures: During the audit, we noted certain expenditures approved in the Board minutes that may not meet the requirements of the public purpose as defined in the attorney General's opinion dated March 12, 1975. The expense was as follows:

<u>Paid To</u>	<u>Purpose</u>	<u>Amount</u>
Various vendors	Employee recognition banquet	\$16,452

Recommendation: We recommend that the Board continue to document the public purpose of such an expenditure before authorization is given.

Response: The expenditure is considered part of the employee benefit package and the Medical Center feels it meets the requirements of public purpose as defined by the Attorney General's opinion dated March 12, 1975.

Conclusion: Response accepted.

### III-C-15

Travel Expense: No expenditures of Medical Center money for travel expenses of spouses of Medical Center officials and/or employees were noted.

### III-D-15

Business Transactions: No business transactions between the Medical Center and Medical Center officials and/or employees were noted to violate Chapter 347.15 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 Medical Center to \$1,500 without publicly invited and opened written competitive bids.

### III-E-15

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

### III-F-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 Medical Center's investment policy.

### III-G-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 Medical Center publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

## **Buena Vista Regional Medical Center**

### **Audit Staff**

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

---

#### **This audit was performed by:**

- Brian D. Green, FHFMA, CPA, Partner
- Jeremy J. Behrens, FHFMA, CPA, Senior Manager
- Blake L. Berke, CPA, Senior Auditor
- Christie A. Schaffert, Staff Auditor