Financial Statements
December 31, 2015

Brookings Health System

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

The Board of Directors
Brookings Health System
Brookings, South Dakota

Report on the Financial Statements
We have audited the accompanying statement of net position and the related statement of revenues, expenses, and changes in net position and statement of cash flows of Brookings Health System (the Organization), an enterprise fund of the City of Brookings, South Dakota, and of its discretely presented component unit as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Organization's basic financial statements.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 opinions.

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of Brookings Health System, an enterprise fund of the City of Brookings, South Dakota, and its discretely presented component unit as of December 31, 2015 and the respective changes in their net position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only Brookings Health System, an enterprise fund of the City of Brookings, South Dakota, and its discretely presented component unit and do not purport to, and do not, present fairly the financial position of the City of Brookings, South Dakota, the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Standards

As discussed in Notes 1, 8, and 13 to the financial statements, the Organization has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of January 1, 2015. Our opinions are 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 Schedules of Funding Progress for the Retiree Health Plan, Pension Contributions, and Proportionate Share of Net Pension Liability (Asset) on pages 31 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB, 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. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued a report dated April 15, 2016, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Eide Bailly LLP

Sioux Falls, South Dakota
April 15, 2016

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Assets and Deferred Outflows of Resources	
Current Assets	
Cash and cash equivalents	$ 15,807,290
Receivables	
Patient and resident, net of estimated uncollectibles of $2,381,000	10,429,941
Other	103,467
Interest	17,118
Supplies	1,136,537
Prepaid expenses	280,479
Total current assets	27,774,832
Noncurrent Cash and Investments	
Internally designated by Board for capital improvements	9,368,043
Cash held in trust for debt service	133,534
Other long-term investments	4,988,650
Total noncurrent cash and investments	14,490,227
Capital Assets	
Land	1,617,996
Depreciable capital and intangible assets, net of accumulated depreciation and amortization	27,495,084
Construction in progress	4,821,303
Total capital assets, net	33,934,383
Other Assets	
Investment in joint venture	236,820
Net pension asset	3,871,106
Other receivables	11,111
Total other assets	4,119,037
Total assets	80,318,479
Deferred Outflows of Resources	
Related to pension	6,807,442
Total assets and deferred outflows of resources	$ 87,125,921

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources, and Net Position	
Current Liabilities	
Current maturities of long-term debt	$ 222,098
Accounts payable	
Trade	5,576,531
Estimated third-party payor settlements	568,031
Accrued expenses	
Salaries and wages	1,225,023
Compensated absences	789,446
Interest	78,694
Payroll taxes and other	266,564
Deposits	34,299
Unearned revenue	9,594
Total current liabilities	8,770,280
Long-Term Debt, Less Current Maturities	9,567,745
Other Noncurrent Liabilities	
Compensated absences	239,000
Amounts due under joint operating agreements	958,734
Post-employment benefit liability	468,575
Total noncurrent liabilities	1,666,309
Total liabilities	20,004,334
Deferred Inflows of Resources	
Related to pension	5,711,891
Net Position	
Net investment in capital assets	23,313,066
Restricted - expendable for debt service	133,534
Restricted - pension benefits	4,966,657
Unrestricted	32,996,439
Total net position	61,409,696
Total liabilities, deferred inflows of resources, and net position	$ 87,125,921

Assets	
Current Assets	
Cash and cash equivalents	$ 148,849
Restricted cash - by donors	894,129
Contributions receivable, net	1,527,334
Total current assets	2,570,312
Other Assets	
Contributions receivable, net	1,533,835
Total assets	$ 4,104,147
Liabilities and Net Assets	
Current Liabilities	
Accrued expenses	$ 2,129
Net Assets	
Unrestricted	146,720
Temporarily restricted	3,955,298
Total net assets	4,102,018
Total liabilities and net assets	$ 4,104,147

Operating Revenues	
Net patient and resident service revenue (net of provision for bad debts of $2,945,352)	$ 60,406,190
Other revenue	1,034,563
Electronic health record incentive	442,019
Total revenues, gains, and other support	61,882,772
Operating Expenses	
Salaries and wages	26,090,390
Employee benefits	2,885,513
Supplies and other expenses	20,254,732
Depreciation and amortization	3,441,349
Insurance	338,972
Total operating expenses	53,010,956
Operating Income	8,871,816
Nonoperating Revenues (Expenses)	
Investment income	285,821
Interest expense and financing costs	(597,462)
Equity interest in income of joint venture	91,051
Noncapital grants and contributions	20,112
Foundation transfers and other	(704,694)
Loss on disposal of property and equipment	(56,897)
Total nonoperating expenses, net	(962,069)
Revenues in Excess of Expenses	7,909,747
Grants and Contributions for Capital Assets	92,955
Increase in Net Position	8,002,702
Net Position, Beginning of Year (as restated)	53,406,994
Net Position, End of Year	$ 61,409,696

Unrestricted Net Assets	
Support and revenue	
Contributions	$ 700,186
Net assets release from restrictions	96,101
Other	324
Total support and revenue	796,611
Expenses	
General services and administration	356,524
Distributions to Brookings Health System	96,101
Total expenses	452,625
Increase in Unrestricted Net Assets	343,986
Changes in Temporarily Restricted Net Assets	
Contributions for a specific purpose	3,837,238
Net assets release from restrictions	(96,101)
Increase in Temporarily Restricted Net Assets	3,741,137
Change in Net Assets	4,085,123
Net Assets, Beginning of Year	16,895
Net Assets, End of Year	$ 4,102,018

Operating Activities	
Receipts from and on behalf of patients and residents	$ 59,793,733
Payments to suppliers and contractors	(22,166,152)
Payments to and on behalf of employees	(29,412,352)
Other receipts and payments, net	1,072,633
Net Cash from Operating Activities	9,287,862
Noncapital Financing Activities	
Contributions to foundation	(228,215)
Noncapital grants and contributions	20,112
Net Cash used for Noncapital Financing Activities	(208,103)
Capital and Capital Related Financing Activities	
Proceeds from issuance of long-term debt	280,000
Principal payments on long-term debt	(214,896)
Capital grants and contributions	71,943
Interest payments on long-term debt	(319,240)
Payments of financing costs	(280,000)
Purchase of capital assets	(4,955,522)
Net Cash used for Capital and Capital Related Financing Activities	(5,417,715)
Investing Activities	
Interest and dividends received	190,342
Proceeds from sales and maturities of investments	8,001,440
Purchases of investments	(1,000,000)
Cash distributed to joint operating agreement partner	(575,848)
Net Cash from Investing Activities	6,615,934
Net Increase in Cash and Cash Equivalents	10,277,978
Cash and Cash Equivalents, Beginning of Year	11,065,219
Cash and Cash Equivalents, End of Year	$ 21,343,197
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position	
Cash and cash equivalents in current assets	$ 15,807,290
Board designated cash and cash equivalents	5,402,373
Cash held in trust for debt service	133,534
Total cash and cash equivalents	$ 21,343,197

Reconciliation of Operating Income to Net Cash from Operating Activities	
Operating income	$ 8,871,816
Adjustments to reconcile operating income to net cash from operating activities	
Depreciation and amortization	3,441,349
Provision for bad debts	2,945,352
Change in assets and liabilities	
Patient receivables	(4,659,450)
Other receivables	54,737
Supplies	(150,638)
Prepaid expenses	32,063
Change in deferred inflows and outflows of resources and net pension asset	(571,127)
Trade accounts payable	(1,470,540)
Estimated third-party payor settlements	658,850
Accrued expenses	134,678
Deposits	772
Net Cash from Operating Activities	$ 9,287,862
Supplemental Disclosures of Noncash Financing Activity	
Accounts payable for capital assets	$ 831,474

Note 1 - Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the Brookings Health System (Organization) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Organization are described below.

Reporting Entity

The Organization operates a 49-bed hospital, a 79-bed nursing home, a 25-unit congregate living center, and various medical clinics. The Organization is owned and operated as an enterprise fund of the City of Brookings, South Dakota. These financial statements present only the operations of the Health System and it's discretely presented component unit. Financial statements for the City of Brookings are prepared under separate cover.

For financial reporting purposes, the Organization has 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 Organization are such that the exclusion would cause the Organization's financial situation to be misleading or incomplete. The GASB 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 Organization 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 Organization.

Discretely Presented Component Unit – Brookings Health System Foundation

Brookings Health System Foundation (Foundation) is a legally separate, tax-exempt component unit of the Organization. Although the Organization does not control the timing or amount of receipts from the Foundation, the majority of the resources, or income thereon, are restricted to the activities of the Organization by the donors. Because these restricted resources held by the Foundation are primarily to be used by, or for the benefit of the Organization, the Foundation is considered a component unit of the Organization and is discretely presented in the Organization's financial statements.

During the year ended December 31, 2015, the Foundation distributed approximately $96,000 to the Organization to fund its operations and capital projects.

The Foundation is a private not-for-profit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC), including ASC Topic 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Foundation's financial reporting entity for these differences.

Measurement Focus and Basis of Accounting

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

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Organization's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Expendable **-** Expendable net position results when constraints placed on net position use are either externally imposed or imposed through enabling legislation.

Nonexpendable **-** Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Organization.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Organization's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient and Resident Receivables

Patient and resident receivables are uncollateralized patient, resident and third-party payor obligations. Unpaid patient and resident receivables, excluding amounts due from third-party payors, have interest assessed at 1¼ percent per month at the discretion of the business office. Due to the uncertainty of collecting private pay accounts, these interest charges are recognized as revenue when received. Payments of patient and resident receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient and resident receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient and resident 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 and residents due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

Physician Loans Receivable

Physician loans receivable are uncollateralized notes receivable issued to certain physician employees at market values as part of its physician recruitment process or in physician practice acquisitions. The notes are issued with forgiveness provisions that match the work commitment to encourage retention. Management reviews all notes receivable periodically and estimates a portion, if any, of the balance that will not be collected or earned under the work commitment arrangement. There was no allowance as of December 31, 2015. Physician loans receivable are included in other receivables in the statements of net position.

Supplies

Supplies are valued at lower of average cost or market and are expensed when used.

Noncurrent Cash and Investments

Noncurrent cash and investments are set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, restricted by trustee for debt reserve, and other long-term investments. All investments are measured at fair value.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenue when earned.

Capital Assets

Capital asset acquisitions in excess of $3,000 are capitalized and recorded at historical cost, or in the case of capital leases, based on the present value of future lease payments. Contributed capital assets are reported at their estimated fair value at the time of their donation. Intangible assets are amortized over their estimated economic life. All capital assets other than land are depreciated using the straight-line method of depreciation. The estimated useful lives of capital assets are as follows:

Land improvements	8-25 years
Buildings and improvements	10-40 years
Equipment	3-20 years
Intangible assets	4 years

Costs of Borrowing

The Organization capitalized as part the costs of acquiring capital assets the interest cost on borrowed funds during the period of construction of capital assets. Capitalized interest was $1,193 for the year ended December 31, 2015.

Investment in Joint Ventures

The Organization records its interest in investments where the Organization has a twenty to fifty percent interest in a corporation under the equity method of accounting. Under the equity method, original investments are recorded at cost and adjusted for the Organization's share of undistributed earnings or losses and distributions. The Organization’s share of net earnings or losses of the entities is included in nonoperating revenues (expenses).

Deferred Outflows of Resources

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

Compensated Absences

The Organization’s employees earn vacation at varying rates depending on years of service. Employees also earn sick leave benefits based on varying rates depending on years of service. Sick leave benefits are not paid upon termination or leaving employment, thus are not accrued as liabilities in the financial statements.

Post-Employment Benefits

The Organization provides post-employment health insurance benefits. The Organization provides access to its health insurance program for certain retired employees that meet participation requirements based on age and employment tenure. Benefits are provided until the retiree reaches age 65. The benefit plan provides access to health benefits, but the premium payments are the responsibility of the retiree. In accordance with GASB No. 45, an actuarial determined net post-employment benefit obligation liability has been recorded to account for the implicit subsidy provided under the benefit plan (Note 9).

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and net pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. The Authority contributions and net pension asset are recognized on an accrual basis of accounting.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Health Center's four items that qualify for reporting in this category are deferred revenue related to succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied, deferred electronic health record incentive amounts that will be recognized as revenue ratably over the life of the qualifying assets, deferred nursing home charges which will be recognized in the month which the services are rendered, and unrecognized items not yet charged to pension expense.

Operating Revenues and Expenses

The Organization's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Organization's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient and Resident Service Revenue

The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, residents, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

Charity Care

The Organization provides care to patients and residents who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient and resident service revenue. The Organization maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were approximately $414,000 for the year ended December 31, 2015. The direct and indirect costs related to these foregone charges were $189,000 at December 31, 2015, based on the average ratio of cost to gross charges.

Grants and Contributions

The Organization may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Risk Management

The Organization is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years. Medical malpractice insurance is discussed in Note 12.

Electronic Health Record (EHR) Incentive Payments

The American Recovery and Reinvestment Act of 2009 (“ARRA”) established incentive payments under the Medicare and Medicaid programs for certain professionals and hospitals that meaningfully use certified electronic health record (“EHR”) technology. The Medicare incentive payments are paid out to qualifying hospitals over four consecutive years on a transitional schedule. To qualify for Medicare incentives, hospitals and physicians must meet EHR “meaningful use” criteria that become more stringent over three stages as determined by the Centers for Medicare & Medicaid Services (CMS).

During the year ended December 31, 2015, the Organization recorded $442,019, related to the Medicare and Medicaid programs, in other operating revenue for meaningful use incentives. These incentives have been recognized into income ratably over the applicable reporting period as management becomes reasonably assured of meeting the required criteria.

Amounts recognized represent management’s best estimates for payments ultimately expected to be received based on estimated discharges, charity care, and other input data. Subsequent changes to these estimates will be recognized in other operating revenue in the period in which additional information is available. Such estimates are subject to audit by the federal government or its designee.

Implementation of GASB Statement No. 68 and GASB Statement No. 71

As of January 1, 2015, the Organization adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments to calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. The effect of the implementation of these standards on beginning net position is disclosed in Note 13 and the additional disclosures required by these standards are included in Note 8.

Note 2 - Net Patient and Resident Service Revenue

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

Medicare - During 2009, the Organization began participation in the Centers for Medicare and Medicaid Services (CMS) Rural Community Hospital Demonstration Program (RCHD) as mandated under Section 410A of the Medicare Modernization Act. For inpatient services provided to patients after January 1, 2009, the Organization is reimbursed on a cost-based methodology subject to retrospective settlement within prescribed limits compared to their initial year base costs under the program. The RCHD program concluded on September 30, 2015 and has yet to be extended. Beginning October 1, 2015, inpatient acute care services rendered to Hospital Medicare program beneficiaries were paid at prospectively determined rates per discharge. These rates varied according to a patient classification system that was based on clinical, diagnostic, and other factors. The Organization is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Organization and audits thereof by the Medicare Administrative Contractor. The Organization’s Medicare cost reports have been audited by the Medicare Administrative Contractor through the year ended December 31, 2013.

Medicaid - Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a reimbursement methodology based on historical cost. Retroactive settlements are not carried out by the Medicaid program.

Blue Cross - Services rendered to Blue Cross subscribers are reimbursed under a prospectively determined methodology.

Nursing Home - The Organization is reimbursed for resident services at established billing rates which are determined based on historical costs adjusted annually for inflation and subject to certain limitations as prescribed by South Dakota Department of Social Services regulations. These rates are subject to retroactive adjustment by field audit. The Organization also participates in the Medicare program for which payment for resident services is made on a prospectively determined per diem rate which varies based on a case-mix resident classification system.

The Organization has also entered into payments with certain commercial insurance carriers and other organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Concentration of gross revenues by major payor accounted for the following percentages of the Organization’s patient and resident service revenues for the year ended December 31, 2015:

Medicare	41%
Medicaid	7%
Blue Cross	25%
Other third-party payors, patients, and residents	27%
	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient and resident service revenue for the year ended December 31, 2015 increased by approximately $248,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

Note 3 - Deposits, Investments, and Investment Income

The carrying amounts of deposits and investments as of December 31, 2015 are included in the Organization's statements of net position as follows:

Carrying amount	
Cash and deposits	$ 21,343,197
Investments	8,954,320
	$ 30,297,517
Included in the following statement of net position captions	
Cash and cash equivalents	$ 15,807,290
Noncurrent cash and investments - cash held in trust for debt service	133,534
Noncurrent cash and investments - Designated by Board	9,368,043
Noncurrent cash and investments - Other long-term investments	4,988,650
	$ 30,297,517

Deposits – Custodial Credit Risk

South Dakota statutes require that all municipal deposits are made in qualified public depositories, and that these depositories maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as FDIC and NCUA. As of December 31, 2015, all of the Organization's deposits were secured in accordance with these provisions.

Investments

The Organization's investments are reported at fair value, as discussed in Note 1. At December 31, 2015, the Organization had the following investments and maturities, all of which were held in the name of the City of Brookings by a custodial bank that is an agent of the City and the Organization:

		Investment in Maturities (in Years)			
December 31, 2015	Carrying Amount	Less Than 1	1 - 5	6-10	10 +
Federal Home Loan Bank	$ 992,670	$ -	$ 992,670	$ -	$ -
Federal Farm Credit Bank	2,991,350	-	2,991,350	-	-
Fed. Home Loan Mortgage Corp	2,990,730	-	2,990,730	-	-
U.S. Treasury Notes	1,979,570	-	1,979,570	-	-
	$ 8,954,320	$ -	$ 8,954,320	$ -	$ -

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Organization does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Investments - In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). As of December 31, 2015, the Organization’s investments in Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, and U.S. Treasury Notes were rated AA+ by Standard and Poor’s and Aaa by Moody’s Investor Services.

Concentration of Credit Risk

The Organization places no limit on the amount it may invest in any one issuer.

Investment Income

Investment income consists of the following for the year ended December 31, 2015:

Interest and dividend income	$ 169,357
Realized gains, net	7,180
Net unrealized gain on investments	109,284
Investment income	$ 285,821

Note 4 - Investment in Joint Venture

Based on the Organization's ownership percentage, the joint venture investment and allocated earnings for the year ended December 31, 2015 are as follows:

	Investment	Share of Income
Avera Home Medical Equipment of Brookings, LLC	$ 236,820	$ 91,051

Note 5 - Capital Assets

A summary of capital assets at December 31, 2015, is as follows:

	December 31, 2014	Additions	Retirements	December 31, 2015
Land	$ 1,617,996	$ -	$ -	$ 1,617,996
Land improvements	2,301,707	-	-	2,301,707
Buildings	37,712,063	2,557	60,952	37,653,668
Equipment	23,094,283	1,048,253	638,553	23,503,983
Intangible assets	152,000	-	-	152,000
Construction in progress	85,117	4,736,186	-	4,821,303
Total at historical cost	64,963,166	5,786,996	699,505	70,050,657
Less accumulated depreciation for				
Land improvements	1,173,074	124,038	-	1,297,112
Buildings	15,706,348	1,462,812	60,952	17,108,208
Equipment	16,286,111	1,854,499	581,656	17,558,954
Intangible assets	152,000	-	-	152,000
Total accumulated depreciation	33,317,533	3,441,349	642,608	36,116,274
Capital assets, net	$ 31,645,633	$ 2,345,647	$ 56,897	$ 33,934,383

Construction in progress at December 31, 2015, represents costs incurred for the construction of the Organization's new hospital addition, renovation of the existing hospital and construction of a medical office building, including the furnishings and equipment of these facilities. The estimated cost to complete this project is approximately $45,000,000, with construction and engineering commitments of approximately $22,900,000 as of December 31, 2015, a portion of which will be financed with the proceeds from the 2015A and 2015B certificates of participation (see note 7). An additional change order of approximately $2,757,000 was approved subsequent to year-end.

Note 6 - Leases

The Organization leases clinic office space and equipment under certain non-cancellable and cancellable long-term lease agreements. Total lease expense for the year ended December 31, 2015, for all operating leases was $901,336. Minimum future lease payments for the operating leases are $116,463 in 2016.

Note 7 - Long Term Debt

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Amounts due within one year
Series 2012 - Certificates of Participation	$ 9,724,739	$ -	$ (214,896)	$ 9,509,843	$ 222,098
Series 2015A - Certificates of Participation	-	79,400	-	79,400	-
Series 2015B - Certificates of Participation	-	200,600	-	200,600	-
	$ 9,724,739	$ 280,000	$ (214,896)	$ 9,789,843	$ 222,098

Long-term debt maturities are as follows:

Year Ending December 31,	Principal	Interest	Total
2016	$ 222,098	$ 320,741	$ 542,839
2017	509,541	314,614	824,155
2018	237,233	296,903	534,136
2019	245,184	288,952	534,136
2020	253,401	280,735	534,136
2021 to 2025	1,400,224	1,270,453	2,670,677
2026 to 2030	1,651,116	1,019,561	2,670,677
2031 to 2035	1,946,962	723,715	2,670,677
2036 to 2040	2,295,818	374,859	2,670,677
2041 to 2042	1,028,266	38,618	1,066,884
Total	$ 9,789,843	$ 4,929,151	$ 14,718,994

Certificates of Participation relate to debt issued by the City of Brookings to facilitate the financing of public capital projects.

In October 2012, the City of Brookings issued $10,000,000 in Series 2012 certificates of participation, which was subsequently refinanced in July 2013 to gain a lower interest rate, to fund the construction of the Organization’s skilled nursing facility. The certificates bear interest at 3.31% and are due in quarterly installments through October 2042. The City leases the assets acquired with the proceeds from the certificates of participation under a Master Lease Purchase Agreement. For financial reporting purposes, the Organization accounts for the certificates of participation as its own debt.

During the year ended December 31, 2015, the City of Brookings issued $8,000,000 in Series 2015A certificates of participation and $22,000,000 in Series 2015B certificates of participation, to fund the in-progress construction of the Organization's new hospital addition, renovation of the existing hospital and construction of a medical office building, including the furnishings and equipment of these facilities. The 2015A certificates bear interest fixed at 2.60% and requires quarterly interest payments through July 2017, at which time the Organization will begin making quarterly installments, including principal and interest, of $271,211, through October 2020. In October 2020, the interest rate associated with the 2015A certificates will adjust to a variable interest rate equal to the lesser of (a) WSJ Prime minus 0.65% or (b) 4.60%, with quarterly installments, including principal and interest, of $284,145 through October 2025. The 2015B certificates bear interest fixed at 3.95% and requires quarterly interest payment through July 2017, at which time the Organization will begin making quarterly installments, including principal and interest, of $285,219, through October 2020, at which time the quarterly installments will decrease to $271,211 through October 2025. In October 2025, the interest rate associated with the 2015B certificates will adjust to a variable interest rate equal to the lesser of (a) WSJ Prime plus 0.70% or (b) 4.95%, with quarterly installments, including principal and interest, of $555,356 through October 2030. In October 2030, the interest rate associated with the 2015B certificates will adjust to a variable interest rate equal to the lesser of (a) WSJ Prime plus 0.70% or (b) 5.95%, with quarterly installments, including principal and interest, remaining consistent through October 2037.

The City leases the assets acquired with the proceeds from the certificates of participation under a Master Lease Purchase Agreement. For financial reporting purposes, the Organization accounts for the certificates of participation as its own debt.

Note 8 - Pension Plan

Plan Description

Eligible employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor's benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications/ or by writing to SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% or service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percentage of the employee's final average salary.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary, Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Organization's share of contributions to the SDRS, at 6% of salary for the year ending December 31, 2015 was $1,009,830.

Pension Assets, Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2015, SDRS is 104% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the Organization as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	$ 98,359,575
Less proportionate share of total pension liability	94,488,469
Proportionate share of net pension asset	$ 3,871,106

The net pension asset was measured as of June 30, 2015 and the total pension liability used to calculate the net pension asset was determined by actuarial valuation as of that dates. At December 31, 2015, the Organization reported an asset of $3,871,106 for its proportionate share of the net pension asset. The total pension assets used to calculate the net pension assets were based on a projection of the Organization's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Organization's proportion was 0.9127200%.

For the year ended December 31, 2015, the Organization recognized pension expense of $431,621.

At December 31, 2015 the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 792,627	$ -
Changes in assumption	3,069,544	-
Net difference between projected and actual earnings on pension plan investments	2,364,793	5,711,891
Changes in proportion and difference between Organization contributions and proportionate share of contributions	55,984	-
Organization contributions subsequent to measurement date	524,494	-
Total	$ 6,807,442	$ 5,711,891

Deferred outflows of resources related to pensions resulting from Organization contributions subsequent to the June 30, 2015 measurement date of $524,494 will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in net pension expense as follows:

Year Ended December 31,	
2016	$ 199,705
2017	199,705
2018	(477,201)
2019	648,848
Total	$ 571,057

Actuarial Assumptions

The total pension asset in the SDRS June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.5% thereafter, net of pension plan investment expense
Mortality rates	RP-2000 Employee Mortality Table for males and females

The actuarial assumptions used in the SDRS June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (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.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. 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 asset.

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

The following presents the Organization's proportionate share of net pension asset at June 30, 2015 calculated using the discount rate of 7.25% through 2017 and 7.50% thereafter, as well as what the Organization's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.25/6.50%) or one percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Organization's proportionate share of the net pension asset (liability)	$ (9,743,531)	$ 3,871,106	$ 14,972,670

Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

Note 9 - Post-Employment Benefits

The Organization has adopted GASB Codification Section P50, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions*. The Organization engaged an actuary to determine the Organization's liability for post-employment health care benefits other than pensions and the actuary determined the only obligation the Organization has to record is the implied subsidy portion as described in the standard.

Plan Description – All employees of the Organization are allowed upon meeting the eligibility requirements, to participate in the Organization's health insurance plan after retirement. This plan covers active and retired employees. The benefit provisions for employees represented by a collective bargaining agreement are established and amended through collective bargaining with the recognized bargaining agent for each group. Benefits and eligibility for administrators, and those not covered by a collective bargaining agreement, are established and amended by the governing body. The Organization's plan is a self-funded plan reported as an internal service fund of the City of Brookings.

Plan Administration and Reporting – Brookings Health System administers the plan through an internal service fund of the City of Brookings. No separate financial reporting is done by the plan.

Authority for Establishment of Benefit Provisions – Under the authority of SDCL 6-1-16, Brookings Health System, through the Authority of the City Of Brookings as a South Dakota municipality, may provide for health insurance for retiring employees as the governing body deems appropriate subject to the limitations as described in SDCL 9-14-35.

Obligations of Plan Members and Sponsoring Organization – The governing board of the Organization determines the contribution amounts for the plan, which currently requires participating members to pay 100% of the group rate premium. Future amendments to the funding mechanism of the benefit plan are determined by the governing board.

Funding Policy – The Organization has elected to fund the plan on a pay-as-you-go method.

Annual OPEB Cost and Net OPEB Obligation – The Organization's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the Organization, an amount actuarially determined in accordance with the parameters of GASB Codification Section P50. The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of thirty years.

The following table shows the components of the Organization’s annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Organization’s net OPEB obligation:

Annual required contribution	$ 102,033
Interest on net OPEB obligation	11,969
Adjustment to annual required contribution	(14,186)
Annual OPEB cost	99,816
Contributions made	(30,216)
Increase in OPEB obligation	69,600
Net OPEB obligation, beginning of year	398,975
Net OPEB obligation, end of year	$ 468,575

The Organization’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the previous three fiscal periods are summarized as follows:

Fiscal Year Ended	Annual OPEB Cost	Contributed	OPEB Obligation
12/31/2015	$ 99,816	30.27%	$ 69,600
12/31/2014	$ 100,211	29.15%	$ 71,003
12/31/2013	$ 102,654	36.32%	$ 65,375

Funded Status and Funding Progress – As of January 1, 2014, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $1,086,409, and the actuarial value of assets was $-0- resulting in an unfunded actuarial accrued liability (UAAL) of $1,086,409. As noted above, unfunded actuarial liabilities are being amortized over a period of thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to the continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Organization’s schedule of funding progress, which presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits, is included in the required supplementary information (RSI).

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.00 percent investment rate of return (net of administrative expense), which is a blended rate of the expected long-term investment returns on the employer's own investments, and an annual healthcare cost trend rate of 5.70 percent initially, reduced by decrements to an ultimate rate of 5.40 percent after seven years. Both rates include an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Note 10 - Concentration of Credit Risk

The Organization grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors, patients, and residents at December 31, 2015, was as follows:

Medicare	35%
Medicaid	6%
Blue Cross	20%
Dakotacare	7%
Commercial	7%
Other third-party payors, patients, and residents	25%
	100%

Note 11 - Related Party Transactions

As discussed in Note 1, the Organization is an enterprise fund of the City of Brookings, South Dakota. The Organization purchased services, equipment, supplies, and insurance from the City of Brookings for the year ended December 31, 2015 for $603,261. As of December 31, 2015, accounts payable to related parties was $31,238.

The Foundation contracts for the services of its development director and certain other operational costs from the Organization. During the year ended December 31, 2015, the Organization forgave previously accumulated costs of $476,479, along with costs incurred in the current year of $228,215. Collectively, this $704,694 is included in nonoperating expenses, as Foundations transfers and other, for the year ended December 31, 2015.

The Organization has an agreement with Avera Home Medical Equipment of Brookings, LLC for the lease of office space. Brookings Health System received rent revenue of $42,600 for the year ended December 31, 2015.

Note 12 - Commitments and Contingencies

Malpractice Insurance

The Organization has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of $1 million per claim and an annual aggregate limit of $3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Unemployment Benefits

The Organization provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Litigations, Claims, and Disputes

The Organization is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigation, claims, and disputes in process will not be material to the financial position of the Organization.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Management believes that the Organization is in substantial compliance with current laws and regulations.

Other Insurance

The Organization purchases liability insurance for workers' compensation from a commercial carrier.

The Organization insures the healthcare benefits of its employees under an indemnity plan.

Professional Service Agreement Commitments

The Organization contracts with a third party for various services in the operation of its provider-based clinic operations in Brookings, South Dakota. The Organization entered into a three year agreement for professional services. Under the agreement, the Organization pays compensation for physician services contingent on the amount of services provided at an agreed upon rate which is annually reviewed and adjusted by the parties based on various factors. Additionally, under the agreement, the Organization is required to pay approximately $7 million annually for other non-physician services provided. However, at any time, the agreement is cancellable upon ninety days’ notice.

Note 13 - Adoption of New Accounting Standard

As of January 1, 2015, the Organization adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning net pension asset and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position as December 31, 2014, as previously reported	$ 49,011,464
Net pension asset at December 31, 2014	6,700,528
Deferred outflows of resources related to pensions at December 31, 2014	5,455,343
Deferred inflows of resources related to pensions at December 31, 2014	(7,760,341)
Net position at January 1, 2015, as restated	$ 53,406,994

Note 14 - Disclosures Regarding Brookings Health System Foundation

Significant Accounting Policies

Contributions and Promises to Give

Contributions received and pledge receivables are recorded as unrestricted, temporarily restricted or permanently restricted depending on the existence or nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets in the statement of activities.

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statement of activities. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Contributions receivable as of December 31, 2015 represent unconditional promises to give. Maturities are as follows:

Receivable in less than one year	$ 1,627,491
Receivable in one to five years	1,109,375
Receivable in periods beyond five years	1,030,932
Total contributions receivable	3,767,798
Less discount to net present value	(706,629)
Net contributions receivable	$ 3,061,169

Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At December 31, 2015, management determined that no allowance was considered necessary.

Contributions Receivable

Contributions receivable are reflected at fair value based on estimated discounted future cash flows using an 8% discount rate factor.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors for a specific time period or purpose. The Foundation's statement of activities includes the changes in those temporarily restricted net assets. Temporarily restricted net assets at December 31, 2015 consisted of:

Restricted by donors for	
Contributions receivable for capital projects	$ 4,588,503
Capital Campaign	712,557
Brookings Health System Hospice	108,209
Make This House	13,507
Brookings Health System Tough Enough	27,472
Other	32,384
	$ 5,482,632

Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation's statement of activities includes changes in those permanently restricted assets. At December 31, 2015, the Organization did not have any permanently restricted net assets.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. The Foundation believes they have appropriate support for any tax positions taken affecting their annual filing requirements, and as such, do not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Required Supplementary Information
December 31, 2015

Brookings Health System

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (Unit Credit Cost Method) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2008	January 1, 2008	$ -	$ 627,105	$ 627,105	0.0%	$ 12,467,890	9.0%
2009	January 1, 2008	-	627,105	627,105	0.0%	12,467,890	9.0%
2010	January 1, 2010	-	468,328	468,328	0.0%	13,711,402	9.0%
2011	January 1, 2010	-	468,328	468,328	0.0%	13,711,402	9.0%
2012	January 1, 2012	-	1,088,282	1,088,282	0.0%	13,501,040	15.0%
2013	January 1, 2012	-	1,088,282	1,088,282	0.0%	13,501,040	15.0%
2014	January 1, 2014	-	1,086,409	1,086,409	0.0%	15,309,660	7.1%
2015	January 1, 2014	-	1,086,409	1,086,409	0.0%	15,309,660	7.1%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status, and funding progress.

South Dakota Retirement System
Last 10 Years **

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	$ 1,009,830	$ 985,828	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions in relation to the contractually required contribution	1,009,830	985,828	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Organization's covered employee payroll	$ 16,830,493	$ 16,430,470	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered employee payroll	6.00%	6.00%								

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Organization will present information for those years for which information is available. Data reported is measured as of the calendar year end.

South Dakota Retirement System
Last 10 Years **

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Organization's proportion of the net pension liability (asset)	0.9127200%	0.9300359%	%	%	%	%	%	%	%	%
Organization's proportionate share of net pension liability (asset)	$ (3,871,106)	$ (6,700,528)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Organization's covered employee payroll	$ 16,663,679	$ 16,263,771	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Organization's proportionate share of the ne pension liability (asset) as a percentage of its covered employee payroll	-23.23%	-41.20%								
Plan fiduciary net position as a percentage of the total pension liability (asset)	104%	107%								

NOTE: The amounts presented for each year were determined as of 06/30

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Organization will present information for those years for which information is available. Data reported is measured as of the measurement date.

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

The Board of Directors
Brookings Health System
Brookings, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Brookings Health System, which comprise the statement of net position as of December 31, 2015, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 15, 2016.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered Brookings Health System'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 Brookings Health System's internal control. Accordingly, we do not express an opinion on the effectiveness of Brookings Health System's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Finding 2015-1 through 2015-3 that we consider to be significant deficiencies.

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

Brookings Health System's Response to Findings
Brookings Health System's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Brookings Health System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Eide Bailly LLP

Sioux Falls, South Dakota
April 15, 2016

Finding No. 2015-1 – Segregation of Duties

Criteria: An organization's internal control structure should be designed such that the functions of executing transactions, recording transactions, and accountability for assets are performed by different individuals.

Condition: The limited size of office staff does not provide for adequate segregation of duties.

Cause: The Organization has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas. Specific areas noted include review and approval of monthly account reconciliations and general journal entries and posting of cash receipts and adjustments.

Effect: Inadequate segregation of duties could adversely affect the Organization's ability to detect misstatements that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities. Given the changes that have occurred at the Organization in recent years with clinic acquisitions, staff turnover, and increasing complexity of hospital reimbursement systems including Medicare Rural Demonstration, and in comparison to your peer group, we recommend that you consider adjusting the current staffing model and responsibilities by ensuring there is a monitoring control in place over monthly account reconciliations and general journal entries.

Response: In early 2016, additional controls over the review of account reconciliations and general journal entries were added. Management plans to further review this finding in 2016 to determine whether cost effective solutions exist to further improve this deficiency.

Finding No. 2015-2 – Preparation of Financial Statements and Audit Adjustments

Criteria: An effective system of internal control contemplates the ability on the part of management to prepare complete financial statements which includes all footnote disclosures in accordance with general accepted accounting principles.

Condition: The Organization does not have an internal control system designed to provide for the preparation of the full financial statements in accordance with accounting standards generally accepted in the United States of America. As auditors, we proposed significant audit adjustments to the financial statements. These entries would not have been identified as a result of the Organization's existing internal controls, and therefore resulted in misstatements. We were also requested to draft the financial statements and accompanying notes to the financial statements.

Cause: The Organization has limited staff to prepare full disclosure financial statements. Management has elected to have the financial statements and footnotes prepared by the external audit firm as part of the audit.

Effect: Audit adjustments were recorded to the December 31, 2015 financial statements. The inability to prepare the financial statements in accordance with accounting standards generally accepted in the United States of America, may affect the ability to properly report the Organization's financial position and results of operations.

Recommendation: While we recognize that this condition is not unusual for an organization with limited staffing, it is important that the Organization is aware of this condition for financial reporting purposes. Management and the board of directors should continually be aware of the financial accounting and reporting of the Organization and changes in the accounting and reporting requirements.

Response: Management will review the year-end adjustments. Management and the board of directors will review for propriety the draft financial statements and footnotes. Due to the Organization's limited staffing, we will accept the risk associated with this condition based on cost and other considerations. The cost of any further controls would outweigh the related benefits.

Finding No. 2015-3 –Foundation Net Asset Restrictions and Revenue Recognition

Criteria: An effective system of internal accounting control for a not-for-profit organization ensures accurate revenue recognition and reporting of donor restrictions on contribution activity in accordance with accounting standards generally accepted in the United States of America.

Condition: Adjusting journal entries were necessary to record the foundation net asset restrictions and contribution revenue accurately in accordance with accounting standards generally accepted in the United States of America. In addition, it was noted that certain conditional pledges were recorded to income prior to the conditions having been met.

Cause: The Foundation has experienced significant growth and financial activity. The Foundation has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in certain areas impacting the revenue recognition and tracking of foundation activity.

Effect: Inadequate staff available to perform the necessary controls as it relates to the Foundation could adversely affect the Organization's ability to detect misstatements that would be significant in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. As a result, journal entries were necessary to appropriately record Foundation activity for the year ended December 31, 2015.

Recommendation: While we recognize that your office staff may not be large enough to assure optimal internal control, it is important that you are aware of this condition. Under this condition, management's close supervision and review of accounting information is the best means of preventing and detecting errors and irregularities. We recommend that you consider adjusting the current staffing model to provide additional accounting oversight and review of the foundation financial reporting.

Response: Management has implemented a new accounting system in 2016 to better address the deficiencies noted in the Foundation financial reporting. Management plans to continue to review this finding in 2016 to determine whether further cost effective solutions exist to improve the control environment and financial reporting of foundation activities.