

Madison County Memorial Hospital

Auditor's Report and Financial Statements

June 30, 2015 and 2014



Madison County Memorial Hospital

June 30, 2015 and 2014

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Independent Auditor's Report

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Madison County Memorial Hospital (the Hospital), which comprise the balance sheets as of June 30, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Madison County Memorial Hospital as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2015, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

Our audits were performed for the purpose of forming an opinion on the basic financial statements as a whole. The Other Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
October 21, 2015

Madison County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Madison County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the Hospital. The amounts reported in the management's discussion and analysis for 2014 and 2013 have not been restated for GASB 68.

Financial Highlights

- Cash and cash equivalents increased between 2015 and 2014 by \$1,262,162 or 53% and increased \$888,868 or 60% between 2014 and 2013.
- Patient accounts receivable, net of allowances decreased \$223,159 or 11% in 2015 compared to 2014 and increased \$62,816 or 3% in 2014 compared to 2013.
- The Hospital's net position increased \$2,743,974 or 8% in 2015 (exclusive of the adoption of GASB 68) over 2014 and increased \$1,053,546 or 7% in 2014 over 2013.
- The Hospital reported operating income in 2015 of \$944,242 compared to a loss in 2014 of \$584,895. The operating income in 2015 represents an increase of \$1,529,137 from the operating loss reported in 2014. The loss in 2014 represents a decrease of \$346,054 from the operating loss reported in 2013.

Using This Annual Report

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

The Balance Sheet and Statement of Revenues, 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 Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's total net position—the difference between assets, liabilities and deferred inflows of resources—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position are an indicator of whether its financial health is improving or deteriorating.

Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Position

The Hospital's net position is the difference between its assets, deferred outflows of resources, liabilities and deferred inflows of resources reported in the Balance Sheet. The Hospital's net position decreased by \$2,720,467 or 17% in 2015 over 2014 as shown in Table 1.

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

	2015	2014	2013
Assets and Deferred Outflows of Resources			
Patient accounts receivable, net	\$ 1,802,693	\$ 2,025,852	\$ 1,963,036
Other current assets	6,774,012	5,876,580	4,259,520
Capital assets, net	15,193,370	16,617,281	17,575,353
Other noncurrent assets	13,177,003	11,069,513	11,235,704
Deferred outflows of resources - pension plan	873,481	-	-
Total assets and deferred outflows of resources	<u>\$ 37,820,559</u>	<u>\$ 35,589,226</u>	<u>\$ 35,033,613</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 2,849,440	\$ 3,308,459	\$ 3,224,344
Long-term debt	13,343,292	13,948,944	14,542,786
Pension liability	4,136,838	-	-
Deferred inflows of resources	3,832,452	1,952,819	1,941,025
Total liabilities and deferred inflows of resources	<u>24,162,022</u>	<u>19,210,222</u>	<u>19,708,155</u>
Net Position			
Net investment in capital assets	1,814,078	2,632,290	3,132,779
Restricted expendable	820,690	786,818	805,369
Unrestricted	11,023,769	12,959,896	11,387,310
Total net position	<u>13,658,537</u>	<u>16,379,004</u>	<u>15,325,458</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 37,820,559</u>	<u>\$ 35,589,226</u>	<u>\$ 35,033,613</u>

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 \$5,464,441 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.

In 2015, the Hospital's assets increased due to investing the additional funds generated from operations between 2014 and 2013, which were included in cash and cash equivalents.

In 2014, the Hospital's assets increased due to investing the additional funds generated from operations between 2014 and 2013, which were included in cash and cash equivalents.

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position exclusive of the adoption of GASB 68, increased by \$2,743,974 or 8% as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 17,699,321	\$ 16,342,382	\$ 15,790,158
Other operating revenues	1,355,109	80,617	111,873
Total operating revenues	<u>19,054,430</u>	<u>16,422,999</u>	<u>15,902,031</u>
Operating Expenses			
Salaries and wages and employee benefits	9,097,824	9,290,904	9,344,247
Medical and professional fees	3,235,249	3,095,318	2,712,059
Depreciation and amortization	1,674,012	1,745,317	1,768,941
Other operating expenses	4,103,103	2,876,355	3,007,733
Total operating expenses	<u>18,110,188</u>	<u>17,007,894</u>	<u>16,832,980</u>
Operating Income (Loss)	<u>944,242</u>	<u>(584,895)</u>	<u>(930,949)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,964,436	1,944,932	1,870,116
Interest expense	(782,739)	(792,246)	(877,500)
Bond issuance costs	-	-	(63,681)
Interest subsidy income	182,606	183,066	187,006
Interest income	125,617	99,438	108,376
Rent income	56,184	40,209	32,408
Non-capital grants and contributions	252,906	122,743	56,130
Total nonoperating revenues	<u>1,799,010</u>	<u>1,598,142</u>	<u>1,312,855</u>
Excess of Revenues Over Expenses, Before Capital Grants and Contributions	<u>2,743,252</u>	<u>1,013,247</u>	<u>381,906</u>
Capital Grants and Contributions	<u>722</u>	<u>40,299</u>	<u>5,146</u>
Increase in Net Position	<u>\$ 2,743,974</u>	<u>\$ 1,053,546</u>	<u>\$ 387,052</u>

Operating Income and Losses

The first component of the overall change in the Hospital's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2015, the Hospital reported operating income. In 2014 and 2013, the Hospital reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Madison County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients. The primary components of the change in operations from 2014 to 2015 are as follows:

In 2015, the Hospital had operating income of \$944,242 which was an increase of \$1,529,137 as compared to 2014. Some of the factors contributing to the increased operating income were:

- The Hospital's net patient revenue increased 8.3% or \$1,356,939 from 2014 to 2015. The Hospital received \$606,681 through the Electronic Health Records Incentive Program, for the Hospital demonstrating Stage 2 meaningful use of certified electronic health records technology in 2015.
- The Hospital's other operating revenues increased \$1,274,492 from 2014 to 2015, primarily due to the 340B drug retail program.
- The Hospital had an increase in patient days of 8.37% from 2014 to 2015. The Hospital revenue was positively impacted by the addition of a visiting oncologist in September 2014 after having been without an oncologist for a year.

In 2014, the operating loss decreased by \$346,054 as compared to 2013. Some of the factors contributing to the decreased operating loss were:

- The Hospital's net patient revenue increased 3.5% or \$552,224 from 2013 to 2014 primarily due to a significant increase in surgeries and pain management procedures of 102% or 458 procedures from 2013 to 2014.
- The Hospital appropriately managed operating expenses which increased only 1.04% or \$174,914 from 2013 to 2014. Salaries, wages and employee benefits decreased .6% or \$55,631 from 2013 to 2014 due to management closely evaluating open positions and in relation to patient volume and need of the facility.
- The Hospital closed Middle River Hospice agency on June 1, 2014 due to declining patient volumes. Another Hospice agency opened a full-time office on the Hospital campus to continue providing care for patients in the area. The overall financial impact will be positive for the Hospital as hospice care is considered a non-allowable service for Medicare patients under the Hospital's Critical Access Hospital status.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property tax, grants, gifts and bequests and investment income. In total the nonoperating revenues increased by \$200,868 or 13% from 2014 to 2015 and increased by \$285,287 or 22% from 2013 to 2014. The increase in 2015 was primarily due to an increase in non-capital grants and interest income. The Hospital received grant revenue of \$60,422 as a recipient of the Center for Medicare & Medicaid Innovation grant through the Mercy Accountable Care Organization (3 year grant). The increase in 2014 was primarily due to the Hospital being awarded a grant through the Health Resources and Services Administration (HRSA) to expand health coach services

in six physician clinics within the Central Iowa Mercy Health Network. As the grantee, the Hospital received \$72,438 in 2014 for this grant.

Contributions and Grants

The Hospital received contributions and grants of \$252,906 from various individuals and grants in 2015, an increase of \$130,163 or 106% from 2014. The Hospital also received capital contributions of \$772 in 2015.

The Hospital received contributions and grants of \$122,743 from various individuals and grants in 2014, an increase of \$66,613 or 119% from 2013. The Hospital also received capital contributions of \$40,299 in 2014.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2015, 2014 and 2013, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had approximately \$15,200,000 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2015, the Hospital purchased new capital assets costing \$229,752.

At the end of 2014, the Hospital had approximately \$16,600,000 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2014, the Hospital purchased new capital assets costing \$771,460.

Debt

In 2015, the Hospital had \$13,969,292 in revenue notes and bonds and loans outstanding. The Hospital had no changes to debt other than normal payments in 2015.

In 2014, the Hospital had \$14,564,944 in revenue notes and bonds and loans outstanding. The Hospital had no changes to debt other than normal payments in 2014.

Factors Bearing on Madison County Memorial Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of some existing circumstances that could significantly affect its financial health in the future.

- The Hospital relies heavily on the continuance of the Critical Access Hospital program and the associated cost reimbursement for Medicare and Medicaid patients. The Hospital is closely monitoring cost cutting measures at the Congressional level and will continue grass roots efforts to educate Congressional leaders about the detrimental impact significant changes to the Critical Access Hospital program would mean to the Hospital.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 515.462.2373.

Madison County Memorial Hospital

Balance Sheets

June 30, 2015 and 2014

Assets and Deferred Outflows of Resources

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 3,638,153	\$ 2,375,991
Certificates of deposit	-	530,000
Assets held under bond indenture agreement	243,718	242,500
Patient accounts receivable, net of allowance; \$682,000 and \$654,600 in 2015 and 2014, respectively	1,802,693	2,025,852
Property taxes receivable	2,034,873	1,975,034
Other receivables	250,595	68,385
Supplies	350,938	324,581
Prepaid expenses	<u>255,735</u>	<u>360,089</u>
Total current assets	<u>8,576,705</u>	<u>7,902,432</u>
Noncurrent Cash, Deposits, Investments and Other		
Internally designated	11,930,121	9,864,379
Externally restricted		
Held under bond indenture agreement	1,455,760	1,447,634
By donors	<u>34,840</u>	<u>-</u>
	13,420,721	11,312,013
Less amount required to meet current obligations	<u>243,718</u>	<u>242,500</u>
	<u>13,177,003</u>	<u>11,069,513</u>
Capital Assets, Net of Accumulated Depreciation	<u>15,193,370</u>	<u>16,617,281</u>
Total assets	36,947,078	35,589,226
Deferred Outflows of Resources - Pension Plan	<u>873,481</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 37,820,559</u>	<u>\$ 35,589,226</u>

Liabilities, Deferred Inflows of Resources and Net Position

	2015	2014
Current Liabilities		
Current maturities of long-term debt	\$ 626,000	\$ 616,000
Accounts payable	534,149	502,319
Accrued vacation	369,454	370,917
Accrued payroll and related liabilities	648,763	609,642
Accrued interest	64,691	65,581
Estimated amounts due to third-party payers	606,383	1,144,000
	<hr/>	<hr/>
Total current liabilities	2,849,440	3,308,459
Long-term Debt	13,343,292	13,948,944
Pension Liability	4,136,838	-
	<hr/>	<hr/>
Total liabilities	20,329,570	17,257,403
	<hr/>	<hr/>
Deferred Inflows of Resources		
Property taxes	2,012,841	1,952,819
Pension plan	1,819,611	-
	<hr/>	<hr/>
Total deferred inflows of resources	3,832,452	1,952,819
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	1,814,078	2,632,290
Restricted-expendable for		
Debt service	785,850	786,818
Specific operating activities	34,840	-
Unrestricted	11,023,769	12,959,896
	<hr/>	<hr/>
Total net position	13,658,537	16,379,004
	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 37,820,559	\$ 35,589,226
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Madison County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 18,537,691	\$ 17,316,841
Provision for uncollectible accounts	(838,370)	(974,459)
	17,699,321	16,342,382
Other	1,355,109	80,617
	19,054,430	16,422,999
Operating Expenses		
Salaries and wages	7,374,759	7,150,335
Employee benefits	1,723,065	2,140,569
Contract labor and services	1,621,051	1,538,904
Other services	1,614,198	1,556,414
Supplies	1,587,278	1,309,223
Facility costs	481,621	506,129
Repairs and maintenance	469,518	378,522
Equipment lease and rental	174,064	198,161
Insurance	161,303	158,617
Depreciation and amortization	1,674,012	1,745,317
Other	1,229,319	325,703
	18,110,188	17,007,894
Operating Income (Loss)	944,242	(584,895)
Nonoperating Revenues (Expenses)		
Property taxes	1,964,436	1,944,932
Interest expense	(782,739)	(792,246)
Interest subsidy income	182,606	183,066
Interest income	125,617	99,438
Rent income	56,184	40,209
Noncapital grants and contributions	252,906	122,743
	1,799,010	1,598,142
Excess of Revenues Over Expenses, Before Capital Grants and Contributions	2,743,252	1,013,247
Capital Grants and Contributions	722	40,299
Increase in Net Position	2,743,974	1,053,546
Net Position, Beginning of Year	16,379,004	15,325,458
Change in Beginning Net Position for Restatement (GASB No. 68)	(5,464,441)	-
Net Position, End of Year	\$ 13,658,537	\$ 16,379,004

Madison County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients	\$ 17,384,863	\$ 16,303,073
Payments to suppliers and contractors	(7,419,039)	(6,067,026)
Payments to employees	(9,441,639)	(9,209,890)
Other receipts, net	1,355,192	85,017
Net cash provided by operating activities	1,879,377	1,111,174
Noncapital Financing Activities		
Property taxes	1,964,436	1,944,932
Noncapital grants and gifts	293,906	122,743
Other	50,024	40,209
Net cash provided by noncapital financing activities	2,308,366	2,107,884
Capital and Related Financing Activities		
Principal paid on capital debt and leases	(616,000)	(611,000)
Interest paid on capital debt and leases	(783,629)	(792,962)
Interest subsidy	182,622	182,820
Capital grants and contributions	722	40,299
Proceeds from sale of capital assets	-	3,154
Purchase of capital assets	(221,349)	(907,625)
Net cash used in capital and related financing activities	(1,437,634)	(2,085,314)
Investing Activities		
Interest on deposits and investments	125,617	99,438
Purchase of deposits and investments	(6,790,342)	(8,868,848)
Proceeds from disposition of deposits and investments	5,185,350	8,742,283
Net cash used in investing activities	(1,479,375)	(27,127)
Increase in Cash and Cash Equivalents	1,270,734	1,106,617
Cash and Cash Equivalents, Beginning of Year	2,381,370	1,274,753
Cash and Cash Equivalents, End of Year	\$ 3,652,104	\$ 2,381,370

Madison County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2015 and 2014

	2015	2014
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents in current assets	\$ 3,638,153	\$ 2,375,991
Cash and cash equivalents in noncurrent cash and deposits		
Internally designated	13,951	5,379
	\$ 3,652,104	\$ 2,381,370
 Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 944,242	\$ (584,895)
Depreciation and amortization	1,674,012	1,745,317
Amortization of deferred outflows and deferred inflows	401,491	-
(Gain) loss on sale of capital assets	(100)	3,220
Changes in		
Receivables, net	40,949	(124,749)
Supplies	(26,258)	(24,406)
Estimated amounts due to third-party payers	(537,617)	23,507
Accounts payable and accrued expenses	61,268	193,668
Pension liability	(1,948,586)	-
Deferred outflows of resources	(199,076)	-
Deferred inflows of resources	1,364,698	-
Other current assets	104,354	(120,488)
Net cash provided by operating activities	\$ 1,879,377	\$ 1,111,174
 Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	\$ 8,450	\$ 47

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Madison County Memorial Hospital (the Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Madison County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Madison County area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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, liabilities and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2015 and 2014, cash equivalents consisted primarily of money market accounts.

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. 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.

Madison County Memorial Hospital

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Property Taxes

The Hospital received approximately 9% and 11% of its financial support from property tax revenues for the years ended June 30, 2015 and 2014, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 property tax 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 the next 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 tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

Madison County Memorial Hospital

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Investments and Investment Income

All investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend, interest income and the realized gains and losses on investments carried at fair value

Risk Management

The Hospital 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, dental, vision, short-term disability and accident benefits. 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.

Compensated Absences and Benefits

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

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.

Deferred Inflows of Resources

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

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$111,705 and \$420,565 for 2015 and 2014, respectively.

Income Taxes

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (EHR) technology. Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share fraction, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use

Madison County Memorial Hospital
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criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2015 and 2014, which were the periods during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare and Medicaid beneficiaries. The Hospital recorded revenue of \$606,681 and \$50,600, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended June 30, 2015 and 2014, respectively.

Implementation of New Accounting Principle

In 2015, the Hospital adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. 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. Prospective application was elected by the Hospital based on the determination that restatement of all prior periods presented was not practical based on availability of information. 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:

	Net Position
Net position June 30, 2014, as previously reported	\$ 16,379,004
Net pension liability at June 30, 2014	(6,085,424)
Deferred outflows of resources related to contributions made after the July 30, 2013 measurement date	620,983
Net position July 1, 2014, as restated	\$ 10,914,563

Madison County Memorial Hospital

Notes to Financial Statements

June 30, 2015 and 2014

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare.** The Hospital is recognized as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2023.
- **Medicaid.** Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Administrative Contractor.

The Hospital had been notified by the Medicare Administrative Contractor (MAC) that Medicare cost reports have been reopened for 2008 through 2012 to reevaluate certain costs included in those cost reports. Management has evaluated the impact on the financial statements and provided for estimated amounts on years that have not been recouped by the MAC; however, it is reasonably possible that estimates will change materially in the near term.

Approximately 52% and 50% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2015 and 2014, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

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

Investments

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

At June 30, 2015 and 2014, the Hospital had the following investments and maturities:

<u>Type</u>	June 30, 2015				
	<u>Maturities in Years</u>				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 265,541	\$ 265,541	\$ -	\$ -	\$ -

<u>Type</u>	June 30, 2014				
	<u>Maturities in Years</u>				
	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money market funds	\$ 257,398	\$ 257,398	\$ -	\$ -	\$ -

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments to maturities consistent with the needs and uses of the Hospital. The money market funds are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

Madison County Memorial Hospital
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Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2015 and 2014, the Hospital’s investments in money market funds were rated AAA by Standard & Poor’s.

Concentration of Credit Risk – The Hospital places no limit on the amount that may be invested in any one issuer. All money market funds are in Northern Institutional Government Fund for 2015 and 2014.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	\$ 16,777,674	\$ 13,944,931
Investments	265,541	257,398
Other	15,659	15,675
	<u>\$ 17,058,874</u>	<u>\$ 14,218,004</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,638,153	\$ 2,375,991
Certificates of deposit	-	530,000
Assets held under bond indenture agreement	243,718	242,500
Noncurrent cash, deposits, investments and other	13,177,003	11,069,513
	<u>\$ 17,058,874</u>	<u>\$ 14,218,004</u>

Investment Income

Investment income for the years ended June 30 consisted of:

	2015	2014
Interest income	<u>\$ 125,617</u>	<u>\$ 99,438</u>

Madison County Memorial Hospital
Notes to Financial Statements
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Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2015 and 2014 consisted of:

	2015	2014
Medicare	\$ 758,424	\$ 905,336
Medicaid	118,151	140,829
Other third-party payers	748,700	781,232
Patients	859,418	853,055
	2,484,693	2,680,452
Less allowance for uncollectible accounts	682,000	654,600
	\$ 1,802,693	\$ 2,025,852

Note 5: Capital Assets

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

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2015					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	1,407,636			8,229	1,415,865
Buildings and leasehold improvements	11,787,111				11,787,111
Fixed equipment	10,135,780			102,948	10,238,728
Major movable equipment	5,769,235		(452,208)	73,224	5,390,251
Construction in progress	4,460	229,752	-	(184,401)	49,811
	29,109,268	229,752	(452,208)	-	28,886,812
Less accumulated depreciation					
Land improvements	(526,637)	(77,755)			(604,392)
Buildings and leasehold improvements	(4,317,882)	(459,438)			(4,777,320)
Fixed equipment	(3,586,056)	(530,634)			(4,116,690)
Major movable equipment	(4,061,412)	(585,836)	452,208		(4,195,040)
	(12,491,987)	(1,653,663)	452,208	-	(13,693,442)
Capital assets, net	\$ 16,617,281	\$ (1,423,911)	\$ -	\$ -	\$ 15,193,370

Madison County Memorial Hospital
Notes to Financial Statements
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	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2014					
Land	\$ 5,046	\$ -	\$ -	\$ -	\$ 5,046
Land improvements	1,422,534		(14,898)		1,407,636
Buildings and leasehold improvements	11,787,111				11,787,111
Fixed equipment	10,128,409			7,371	10,135,780
Major movable equipment	5,114,800		(148,115)	802,550	5,769,235
Construction in progress	-	771,460		(767,000)	4,460
	<u>28,457,900</u>	<u>771,460</u>	<u>(163,013)</u>	<u>42,921</u>	<u>29,109,268</u>
Less accumulated depreciation					
Land improvements	(457,687)	(78,260)	9,310		(526,637)
Buildings and leasehold improvements	(3,853,459)	(464,423)			(4,317,882)
Fixed equipment	(3,051,301)	(534,755)			(3,586,056)
Major movable equipment	(3,520,100)	(645,721)	147,330	(42,921)	(4,061,412)
	<u>(10,882,547)</u>	<u>(1,723,159)</u>	<u>156,640</u>	<u>(42,921)</u>	<u>(12,491,987)</u>
Capital assets, net	<u>\$ 17,575,353</u>	<u>\$ (951,699)</u>	<u>\$ (6,373)</u>	<u>\$ -</u>	<u>\$ 16,617,281</u>

Note 6: Medical Malpractice Insurance

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care 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 Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

The Hospital provides tail coverage to certain employed physicians practicing at the Hospital upon termination of the physician's contract. The Hospital is liable for any medical liability claims as of the effective date of the physician's contract for which it is self-insured. As of June 30, 2015, there is no claim exposure to the Hospital due to no physician contracts being terminated.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2015 and 2014:

	Beginning Balance	2015		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Rural economic development loan (A)	\$ 252,000	\$ -	\$ (36,000)	\$ 216,000	\$ 36,000
Hospital revenue bonds					
Series 2010A (B)	7,015,000	-	(285,000)	6,730,000	290,000
Taxable hospital revenue bonds					
Series 2010B (C)	5,575,000	-	-	5,575,000	-
Hospital revenue refunding bonds					
Series 2013 (D)	1,865,000	-	(295,000)	1,570,000	300,000
Total long-term debt	14,707,000	\$ -	\$ (616,000)	14,091,000	\$ 626,000
Less unamortized discount	(142,056)			(121,708)	
	<u>\$ 14,564,944</u>			<u>\$ 13,969,292</u>	
	Beginning Balance	2014		Ending Balance	Current Portion
		Additions	Deductions		
Long-term debt					
Rural economic development loan (A)	\$ 288,000	\$ -	\$ (36,000)	\$ 252,000	\$ 36,000
Hospital revenue bonds					
Series 2010A (B)	7,295,000	-	(280,000)	7,015,000	285,000
Taxable hospital revenue bonds					
Series 2010B (C)	5,575,000	-	-	5,575,000	-
Hospital revenue refunding bonds					
Series 2013 (D)	2,160,000	-	(295,000)	1,865,000	295,000
Total long-term debt	15,318,000	\$ -	\$ (611,000)	14,707,000	\$ 616,000
Less unamortized discount	(164,214)			(142,056)	
	<u>\$ 15,153,786</u>			<u>\$ 14,564,944</u>	

- (A) Noninterest-bearing loan due December 16, 2020; payable \$36,000 annually, collateralized by net revenues of the Hospital.
- (B) Hospital Revenue Bonds, Series 2010A, originally aggregating \$7,565,000. Total bonds mature serially through 2026 bearing interest at 1.55% to 5.10%, collateralized by net revenues of the Hospital.

Madison County Memorial Hospital
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- (C) Taxable Hospital Revenue Bonds, Series 2010B (Recovery Zone Economic Development Bonds – Direct Payout), originally aggregating \$5,575,000. Total bonds mature serially starting in 2027 through 2031 bearing interest at 7.15% to 8.25%. The Hospital is eligible for subsidy payments of 45% of the amount of interest payments, collateralized by net revenues of the Hospital.
- (D) Hospital Revenue Refunding Bonds, Series 2013, originally aggregating \$2,210,000. Total bonds mature serially through 2020 bearing interest at 0.95% to 2.65%, collateralized by net revenues of the Hospital.

Revenue Bonds Payable - Series 2010

The Series 2010 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$800,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$825,323 and \$819,879 at June 30, 2015 and 2014, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

Revenue Refunding Bonds Payable - Series 2013

The Series 2013 Indenture of Trust provides that a Debt Service Reserve Fund be maintained in the amount of (\$370,000). The Debt Service Reserve, included in noncurrent cash and deposits, amounted to \$371,500 and \$370,020 at June 30, 2015 and 2014, respectively. The Hospital is also required to establish sinking funds and meet certain other covenants.

The debt service requirements for the Hospital Revenue Notes and Bonds Series 2010 and Series 2013 as of June 30, 2015, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2016	\$ 1,362,238	\$ 590,000	\$ 772,238
2017	1,363,353	605,000	758,353
2018	1,367,193	625,000	742,193
2019	1,363,335	640,000	723,335
2020	1,362,308	660,000	702,308
2021-2025	7,172,613	4,200,000	2,972,613
2026-2030	8,179,309	6,555,000	1,624,309
	<u>\$ 22,170,349</u>	<u>\$ 13,875,000</u>	<u>\$ 8,295,349</u>

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The debt service requirements as of June 30, 2015 are as follows for the Rural Economic Development Loan:

Year Ending June 30,	Total to be Paid	Principal
2016	\$ 36,000	\$ 36,000
2017	36,000	36,000
2018	36,000	36,000
2019	36,000	36,000
2020	36,000	36,000
2021	36,000	36,000
	\$ 216,000	\$ 216,000

Note 8: Restricted and Designated Net Position

At June 30, 2015 and 2014, restricted expendable net position was available for the following purposes:

	2015	2014
Debt service	\$ 785,850	\$ 786,818
Specific operating activities		
Other	34,840	-
Total restricted expendable net position	\$ 820,690	\$ 786,818

Note 9: Pension Plan

Plan Description

The Hospital contributes to the Iowa Public Employees' Retirement System (IPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the plan at IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

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

Madison County Memorial Hospital

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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, anytime 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.)

Protection occupation members may retire at normal retirement age which is generally at age 55. Protection occupation members may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation members' monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for years of service greater than 22 but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 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.

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.

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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, pursuant to the required rate, Regular members contributed 5.95% of pay and the Hospital contributed 8.93% for a total rate of 14.88%. Protection occupation members contributed 6.76% of pay and the Hospital contributed 10.14% for a total rate of 16.90%.

The Hospital's contributions to IPERS for the years ended June 30, 2015 and 2014 were \$644,877 and \$621,825, respectively.

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

At June 30, 2015, the Hospital reported a liability of \$4,136,838 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's collective proportion was 0.103%, which was a decrease of 0.004% from its proportion measured as of June 30, 2013.

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For the year ended June 30, 2015, the Hospital recognized pension expense of \$262,313. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 45,181	\$ -
Change of assumptions	183,423	-
Net difference between projected and actual earnings on pension plan investments	-	1,607,286
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	-	212,325
Hospital contributions subsequent to the measurement date	644,877	-
Total	\$ 873,481	\$ 1,819,611

Approximately \$645,000 reported as deferred outflows of resources related to pensions resulting from the Hospital contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows

Year Ended June 30,	
2016	\$ (401,491)
2017	(401,491)
2018	(401,491)
2019	(401,491)
2020	14,958
	\$ (1,591,006)

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:

Inflation	3.00%
Salary increases	4.00%, average, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

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:

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

Discount Rate

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

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

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

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

	1% Decrease	Current	Discount Rate	1% Increase
	6.50%	7.50%	7.50%	8.50%
Hospital's proportionate share of the net pension liability	\$ 8,132,605	\$ 4,136,838	\$	764,559

Pension Plan Fiduciary Net Position

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

Payables to the Pension Plan

At June 30, 2015, the Hospital reported payables to the defined benefit pension plan of \$82,848 for legally required employer contributions and \$45,591 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 10: Network Administration and Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services along with other services to the Hospital. Total fees of \$882,362 and \$884,866 were incurred for the years ended June 30, 2015 and 2014, respectively.

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 11: Operating Leases

Noncancellable operating leases for equipment expire in various years through 2016.

Future minimum lease payment at June 30, 2015 was:

2016	\$ 97,740
Future minimum lease payment	\$ 97,740

Rental expense for all operating leases was \$232,783 and \$251,536 for the years ended June 30, 2015 and 2014, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is reconciliation between reported amounts and cash basis presentation, as well as a comparison to budget for the year ended June 30, 2015:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,964,436	\$ -	\$ 1,964,436	\$ 1,940,903
Other revenues/receipts	19,672,465	(496,668)	19,175,797	16,362,731
	21,636,901	(496,668)	21,140,233	18,303,634
Expenses/disbursements	18,892,927	139,364	19,032,291	17,933,857
	2,743,974	(636,032)	2,107,942	369,777
Balance, beginning of year (as restated)	10,914,563	(86,448)	10,828,115	10,828,115
Balance, end of year	\$ 13,658,537	\$ (722,480)	\$ 12,936,057	\$ 11,197,892

Madison County Memorial Hospital
Notes to Financial Statements
June 30, 2015 and 2014

Note 13: Significant Estimates

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates. Those matters include the following:

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Other Estimates

The Hospital has other significant estimates for the allowance for uncollectible accounts, capital assets and property taxes, all of which are described in *Note 1* and third-party payer settlements described in *Note 2*. Events could occur that would change these estimates materially in the near term.

Required Supplementary Information

Madison County Memorial Hospital
Schedule of Hospital's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
Required Supplementary Information

	Regular Group 2015	Protection Group 2015
Hospital's proportion of the net pension asset (liability)	0.1027%	0.0261%
Hospital's proportionate share of the net pension asset (liability)	\$ (4,157,201)	\$ 20,363
Hospital's covered-employee payroll	\$ 6,916,910	\$ 83,405
Hospital's proportionate share of the net pension asset (liability) as a percentage of its covered-employee payroll	-60.1%	24.4%
Plan fiduciary net position as a percentage of the total pension liability	86.6%	106.3%

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

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

Madison County Memorial Hospital
Schedule of Hospital Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years
Required Supplementary Information
June 30, 2015

	<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	\$ 644,877	\$ 621,825	\$ 616,657	\$ 578,844	\$ 494,833	\$ 457,758	\$ 416,915	\$ 392,873	\$ 353,577	\$ 323,356
Contributions in relation to the statutorily required contribution	<u>(644,877)</u>	<u>(621,825)</u>	<u>(616,657)</u>	<u>(578,844)</u>	<u>(494,833)</u>	<u>(457,758)</u>	<u>(416,915)</u>	<u>(392,873)</u>	<u>(353,577)</u>	<u>(323,356)</u>
Contribution deficiency (excess)	<u>\$ -</u>									
Hospital's covered-employee payroll	\$ 7,188,351	\$ 7,000,315	\$ 7,058,852	\$ 7,111,066	\$ 6,993,985	\$ 6,884,421	\$ 6,449,972	\$ 6,068,413	\$ 6,163,540	\$ 5,758,634
Contributions as a percentage of covered-employee payroll	8.97%	8.88%	8.74%	8.14%	7.08%	6.65%	6.46%	6.47%	5.74%	5.62%

Madison County Memorial Hospital

Notes to Required Supplementary Information – Pension Liability

Year Ended June 30, 2015

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% 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% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the 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.

Madison County Memorial Hospital
Notes to Required Supplementary Information – Pension Liability
Year Ended June 30, 2015

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% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

Supplementary Information

Madison County Memorial Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2015 and 2014

	2015				2014			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Daily Patient Services								
Medical and surgical	\$ 2,454,566	\$ 1,699,223	\$ 755,343	\$ -	\$ 2,196,946	\$ 1,389,630	\$ 807,316	\$ -
Swing-bed	695,646	-	-	695,646	672,840	-	-	672,840
	<u>3,150,212</u>	<u>1,699,223</u>	<u>755,343</u>	<u>695,646</u>	<u>2,869,786</u>	<u>1,389,630</u>	<u>807,316</u>	<u>672,840</u>
Nursing Services								
Operating and recovery rooms	2,830,595	48,140	2,782,455	-	2,138,158	37,847	2,095,383	4,928
Emergency room	4,534,103	122,841	4,411,262	-	3,854,280	70,778	3,783,502	-
	<u>7,364,698</u>	<u>170,981</u>	<u>7,193,717</u>	<u>-</u>	<u>5,992,438</u>	<u>108,625</u>	<u>5,878,885</u>	<u>4,928</u>
Other Professional Services								
Laboratory	5,445,118	447,562	4,949,177	48,379	4,920,649	402,644	4,484,594	33,411
Central services and supplies	464,946	71,844	391,999	1,103	1,069,895	95,824	938,911	35,160
Blood administration	183,992	24,024	159,132	836	85,044	35,409	47,223	2,412
Electrocardiology	198,912	11,077	187,208	627	179,656	11,256	167,998	402
Echocardio/Vascular	449,233	47,765	396,145	5,323	423,893	31,556	390,363	1,974
Stress test	108,928	-	108,928	-	96,757	-	96,757	-
Radiology	2,249,327	92,310	2,149,982	7,035	2,085,039	74,246	2,000,737	10,056
MRI	993,667	27,589	963,014	3,064	1,192,150	37,781	1,150,960	3,409
Mammography	269,466	-	269,466	-	264,876	-	264,876	-
CT	2,694,700	257,220	2,427,047	10,433	2,451,166	210,276	2,228,357	12,533
Chronic disease management	520,287	-	520,287	-	362,092	-	362,092	-
Nuclear medicine	303,944	7,558	296,386	-	181,787	-	181,787	-
Pharmacy	3,600,213	581,004	2,794,006	225,203	2,543,128	468,635	1,872,878	201,615
Intravenous therapy	377,188	160,632	183,679	32,877	307,371	141,696	154,374	11,301
Anesthesiology	504,127	14,848	489,279	-	465,814	10,575	453,445	1,794
Respiratory therapy	166,167	138,528	999	26,640	112,640	91,200	320	21,120
Physical therapy	692,367	32,741	572,786	86,840	694,522	24,586	568,343	101,593
Occupational therapy	210,604	11,761	134,171	64,672	167,410	6,929	97,715	62,766
Speech therapy	39,578	13,162	14,612	11,804	15,949	3,952	8,322	3,675

See Independent Auditor's Report

Madison County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
Years Ended June 30, 2015 and 2014

	2015				2014			
	Total	Inpatient	Outpatient	Swing-Bed	Total	Inpatient	Outpatient	Swing-Bed
Health Trust Physicians Clinic	\$ 3,980,211	\$ 236,211	\$ 3,716,757	\$ 27,243	\$ 3,838,663	\$ 196,961	\$ 3,614,493	\$ 27,209
Earlham Medical Clinic	464,675	-	464,675	-	417,387	-	417,387	-
Outpatient Clinic	8,893	-	8,893	-	27,177	-	27,177	-
Chemotherapy	77,704	-	77,704	-	15,541	-	15,541	-
Sleep study	105,045	-	105,045	-	60,168	-	60,168	-
Dietitian patient revenue	1,596	-	1,596	-	1,376	-	1,376	-
Middle River Hospice	-	-	-	-	1,256,721	-	1,256,721	-
	<u>24,110,888</u>	<u>2,175,836</u>	<u>21,382,973</u>	<u>552,079</u>	<u>23,236,871</u>	<u>1,843,526</u>	<u>20,862,915</u>	<u>530,430</u>
Gross Patient Service Revenue	34,625,798	<u>\$ 4,046,040</u>	<u>\$ 29,332,033</u>	<u>\$ 1,247,725</u>	32,099,095	<u>\$ 3,341,781</u>	<u>\$ 27,549,116</u>	<u>\$ 1,208,198</u>
Contractual Adjustments	(16,694,788)				(14,832,854)			
Electronic Health Records								
Incentive Program Revenue	606,681				50,600			
Net Patient Service Revenue								
before Provision for								
Uncollectible Accounts	18,537,691				17,316,841			
Provision for Uncollectible Accounts	<u>(838,370)</u>				<u>(974,459)</u>			
Net Patient Service Revenue	<u>\$ 17,699,321</u>				<u>\$ 16,342,382</u>			

Madison County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2015 and 2014

	2015	2014
Cafeteria	\$ 56,000	\$ 48,666
Medical records	11,569	10,260
Other	19,489	6,311
340B Pharmacy Program	1,267,951	-
Gain (loss) on disposal of property and equipment	100	(3,220)
Health Trust Physicians Clinic other revenue	-	18,600
	\$ 1,355,109	\$ 80,617

Madison County Memorial Hospital
Schedules of Operating Expenses
Years Ended June 30, 2015 and 2014

	2015			2014		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 1,044,882	\$ 967,513	\$ 77,369	\$ 988,066	\$ 892,196	\$ 95,870
Emergency room	1,014,954	423,106	591,848	961,074	404,730	556,344
Operating and recovery rooms	413,258	305,465	107,793	337,782	270,526	67,256
Nursing administration	126,037	106,143	19,894	119,393	99,790	19,603
	2,599,131	1,802,227	796,904	2,406,315	1,667,242	739,073
Other Professional Services						
Laboratory	697,347	309,662	387,685	614,910	253,197	361,713
Central services and supplies	206,404	66,423	139,981	254,233	79,989	174,244
Blood administration	78,046	8,272	69,774	40,091	2,838	37,253
Electrocardiology	3,368	3,167	201	4,188	3,977	211
Echocardio/Vascular	99,189	-	99,189	78,466	-	78,466
Stress test	18,409	13,914	4,495	13,092	9,842	3,250
Radiology	320,337	272,237	48,100	305,744	246,709	59,035
MRI	79,794	692	79,102	97,778	525	97,253
Mammography	127,328	12,511	114,817	40,554	13,811	26,743
CT	227,020	19,092	207,928	263,483	16,089	247,394
Chronic disease management	185,065	158,161	26,904	171,105	149,069	22,036
Nuclear medicine	50,918	401	50,517	32,062	403	31,659
Pharmacy	992,699	37,707	954,992	757,656	36,200	721,456
Intravenous solutions	20,876	-	20,876	12,779	-	12,779
Anesthesiology	238,687	209,166	29,521	290,454	242,088	48,366
Respiratory therapy	27,970	-	27,970	24,660	-	24,660
Physical therapy	210,372	23,392	186,980	205,526	14,739	190,787
Occupational therapy	74,821	2,754	72,067	56,097	1,160	54,937
Speech therapy	8,477	344	8,133	11,368	82	11,286
Health Trust Physicians Clinic	2,545,598	2,164,327	381,271	2,283,200	1,952,615	330,585
Earlham Medical Clinic	257,296	222,889	34,407	244,460	222,003	22,457
Outpatient Clinic	152,492	95,186	57,306	159,503	97,567	61,936
Chemotherapy	7,427	5,905	1,522	1,848	1,310	538

Madison County Memorial Hospital
Schedules of Operating Expenses (Continued)
Years Ended June 30, 2015 and 2014

	2015			2014		
	Total	Salaries	Other	Total	Salaries	Other
Sleep study	\$ 26,556	\$ 641	\$ 25,915	\$ 16,148	\$ 619	\$ 15,529
Middle River Hospice	-	-	-	466,177	289,829	176,348
Medical records	257,691	179,857	77,834	222,122	158,707	63,415
Social services	17,334	16,935	399	15,279	15,104	175
Observation care	49,994	49,994	-	65,294	65,294	-
340B pharmacy program	889,806	-	889,806	-	-	-
	<u>7,871,321</u>	<u>3,873,629</u>	<u>3,997,692</u>	<u>6,748,277</u>	<u>3,873,766</u>	<u>2,874,511</u>
General Services						
Operation of plant	619,466	164,428	455,038	630,223	156,958	473,265
Dietary	337,459	225,323	112,136	303,443	211,178	92,265
Housekeeping	207,134	156,139	50,995	197,047	142,715	54,332
	<u>1,164,059</u>	<u>545,890</u>	<u>618,169</u>	<u>1,130,713</u>	<u>510,851</u>	<u>619,862</u>
Administrative Services	<u>2,935,812</u>	<u>1,153,013</u>	<u>1,782,799</u>	<u>2,696,525</u>	<u>1,098,476</u>	<u>1,598,049</u>
Employee Benefits	<u>1,704,550</u>		<u>1,704,550</u>	<u>2,122,130</u>		<u>2,122,130</u>
Depreciation	<u>1,674,012</u>		<u>1,674,012</u>	<u>1,745,317</u>		<u>1,745,317</u>
Insurance	<u>161,303</u>		<u>161,303</u>	<u>158,617</u>		<u>158,617</u>
	<u>\$ 18,110,188</u>	<u>\$ 7,374,759</u>	<u>\$ 10,735,429</u>	<u>\$ 17,007,894</u>	<u>\$ 7,150,335</u>	<u>\$ 9,857,559</u>

Madison County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2015 and 2014

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2015	2014	2015	2014
Days Since Discharge				
0 – 60	\$ 2,731,326	\$ 2,768,387	75%	70%
61 – 120	416,363	549,677	11%	14%
121 – 180	276,009	345,441	8%	9%
181 – 365	155,871	235,154	4%	6%
366 and over	80,124	34,093	2%	1%
	<u>3,659,693</u>	<u>3,932,752</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	1,175,000	1,252,300		
Allowance for uncollectible accounts	<u>682,000</u>	<u>654,600</u>		
	<u>1,857,000</u>	<u>1,906,900</u>		
	<u>\$ 1,802,693</u>	<u>\$ 2,025,852</u>		

Allowance for Uncollectible Accounts

	2015	2014
Balance, beginning of year	\$ 654,600	\$ 640,200
Provision for year	838,370	974,459
Recoveries of accounts previously written off	<u>164,633</u>	<u>143,025</u>
	1,657,603	1,757,684
Less accounts written off	<u>975,603</u>	<u>1,103,084</u>
Balance, end of year	<u>\$ 682,000</u>	<u>\$ 654,600</u>

Madison County Memorial Hospital
Schedules of Supplies and Prepaid Expenses
June 30, 2015 and 2014

Supplies

	2015	2014
General	\$ 171,468	\$ 166,818
Pharmacy	172,159	148,809
Other	7,311	8,954
	\$ 350,938	\$ 324,581

Prepaid Expenses

	2015	2014
Insurance	\$ 121,128	\$ 125,661
Maintenance and other	134,607	234,428
	\$ 255,735	\$ 360,089

Madison County Memorial Hospital
Schedule of Activity for Assets Limited
as to Use for Construction and
Capital Loan Note Related Accounts
Year Ended June 30, 2015

	Balance			Balance
	June 30, 2014	Additions	Deductions	June 30, 2015
Held under capital loan note agreements				
Bond Reserve Fund (2010)	\$ 819,879	\$ 5,539	\$ 95	\$ 825,323
2010A Bond Interest & Principal	192,150	595,831	593,489	194,492
2010B Bond Interest & Principal	22,491	437,364	438,588	21,267
2010B Bond Interest Subsidy	15,235	-	16	15,219
2013 Bond Interest & Principal	27,859	335,953	335,853	27,959
Bond Reserve Fund (2013)	370,020	1,480	-	371,500
	<u>\$ 1,447,634</u>	<u>\$ 1,376,167</u>	<u>\$ 1,368,041</u>	<u>\$ 1,455,760</u>

Other Supplementary Information

Madison County Memorial Hospital
Schedule of Officials
Year Ended June 30, 2015

Name	Title	Term Expires
Board of Trustees		
Mary Corkrean	Chairwoman	2020
Tom Collins	Vice Chairman	2016
Bob Waldron	Secretary/Treasurer	2020
Jared McDonald	Member	2016
Jacque Mohs	Member	2018
Cathy Simon	Member	2020
Dick Weidman	Member	2018
Hospital Officials		
Marcia Hendricks	Chief Executive Officer	
Rebekah Mitchell	Chief Financial Officer	

Madison County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2015 and 2014

	2015	2014
Patient Days (Exclusive of Swing-bed)		
Medicare	854	784
Medicaid	27	18
Private and other	262	221
	1,143	1,023
Medicare and Medicaid Percent	77.1%	78.4%
Percent of Occupancy (Acute)	13%	11%
Discharges (Exclusive of Swing-bed)		
Medicare	249	229
Medicaid	11	8
Private and other	88	71
	348	308
Average Length of Stay in Days	3.3	3.3

Madison County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2015

Chubb – Federal Insurance Company	
Policy No. 3538-81-95, expiring January 1, 2016	
Blanket building and contents	\$ 33,831,424
Loss of income and extra expense	14,369,386
Personal property in-transit	250,000
Personal property at a temporary storage site	250,000
Nuclear hazard	5,000,000
Valuable papers	1,030,000
Accounts receivable	412,000
EDP Media/Software	515,000
Earthquake	5,000,000
Depositors forgery	250,000
Policy No. 7324-54-55, expiring January 1, 2016	
Comprehensive automobile liability	
Liability	1,000,000
Hired and non-owned auto physical damage	25,000
ProAssurance	
Comprehensive hospital liability, expiring January 1, 2016	
Hospital professional liability, Policy No. CH332	1,000,000/3,000,000
General liability, Policy No. CH332	1,000,000/3,000,000
Employee benefits, Policy No. CH332	1,000,000/3,000,000
Excess Liability: expiring January 1, 2016	
Excess Medical Liability, Policy No. CH333	5,000,000/5,000,000
Umbrella Liability, Policy No. CH333	5,000,000/5,000,000
Chubb – Federal Insurance Company	
Policy No. 6802-0186, expiring January 1, 2016	
Directors’ and officers’ liability	4,000,000/4,000,000
Employee Practices Liability	4,000,000/4,000,000
Chubb – Federal Insurance Company	
Policy No. 8223-2759, expiring January 1, 2016	
Cyber liability	1,000,000
Travelers	
Policy No. 105890785, expiring January 1, 2016	
Crime/ Employee Theft	1,000,000

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

Board of Trustees
Madison County Memorial Hospital
Winterset, Iowa

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Madison County Memorial Hospital (Hospital), which comprise the balance sheet as of June 30, 2015, and the related statements 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 October 21, 2015, which contained an "Emphasis of Matter" paragraph regarding a change in accounting principles.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2015. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

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

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2015 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable limits.

Business Transactions

We noted no transactions between Hospital and Hospital officials or employees other than those exempted by law; *i.e.*, bankers on the Board of Trustees.

Trustee Minutes

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

Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.

Unclaimed Property

The Hospital is required to evaluate the need to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

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 compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Kansas City, Missouri
October 21, 2015

Madison County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2015

**Reference
Number**

Finding

No matters are reportable.

Board of Trustees and Management
Madison County Memorial Hospital
Winterset, Iowa

During our audit of the financial statements of Madison County Memorial Hospital as of and for the year ended June 30, 2015, we observed the following matters and offer these comments and suggestions. The matters discussed herein are not considered to be material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting.

Medicare Reimbursement

Certain provisions of the *Federal Government's Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. *The American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2023. The estimated annual impact of sequestration for the Hospital is \$106,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Governmental Accounting Standards Board Statement No. 69, Government Combinations and Disposals of Government Operations

GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations and applies to all state and local government entities. The term government combinations includes a variety of transactions referred to as mergers, acquisitions and transfers of operations. The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction.

Statement 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. Statement 69 is effective for the Hospital's year ending June 30, 2015.

Future Accounting Pronouncements and GASB Projects

- Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* – Effective June 30, 2017
- Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – Effective June 30, 2019

- Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State & Local Governments* – Effective June 30, 2017
- GASB Project – Lease Accounting
- GASB Project – Asset Retirement Obligations

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This communication is intended solely for the information and use of Management, the Board of Trustees and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 21, 2015