Monroe County Hospital
Albia, Iowa

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

Together with Independent Auditor's Report

Monroe County Hospital

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Monroe County Hospital

Officials
June 30, 2015

Name	Title	Term Expires
Board of Trustees:		
Marilee Scieszinski	Chair	December 2020
Lorraine Starcevic	Vice Chair	December 2016
Lana Kaldenberg	Secretary	December 2020
Mike Spieler	Member	December 2016
Matt Foster	Member	December 2016
Jason Summers	Member	December 2018
Joseph Bates	Member	December 2018
Hospital Officials:		
Veronica Fuhs	Chief Executive Officer	
Larry Brown	Chief Financial Officer	

SEIM JOHNSON

Independent Auditor's Report

To the Board of Trustees
Monroe County Hospital
Albia, Iowa:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2015, and the respective change 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.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

Emphasis of Matter

As discussed in Note 13 to the financial statements, in 2015 the Hospital adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

The financial statements of the Hospital, as of and for the year ended June 30, 2014, were audited by other auditors whose report dated November 25, 2014 expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 4 through 8), the budgetary comparison information (page 30), the schedule of the Hospital's proportionate share of the net pension liability (page 31), the schedule of Hospital contributions (page 32) and the notes to the pension schedules (page 33) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Hospital's basic financial statements. The other supplementary statements (Exhibits 1 – 8) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information (Exhibits 1 – 8) is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information (Exhibits 1 – 8) is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

SEIM JOHNSON, LLP

Omaha, Nebraska,
November 25, 2015.

Introduction

This management's discussion and analysis of the financial performance of Monroe County 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.

Financial Highlights

- Cash and cash equivalents increased between 2015 and 2014 by $1,116,119 or 80% and increased between 2014 and 2013 by $1,267,229 or 967%.
- The Hospital's net position decreased $4,027,005 or 69% in 2015, and increased $296,644 or 5% in 2014. The large decrease in 2015 was primarily due to the implementation of GASB Statement 68 and the restatement of the beginning balance for net pension liability $5,069,415.
- The Hospital reported operating income in 2015 of $165,343 and an operating loss in 2014 of $474,488.
- Net nonoperating revenues increased by $105,935 or 14% in 2015 compared to 2014 which increased by $77,312 or 11% in 2014 compared to 2013.

Using This Annual Report

The Hospital's financial statements consist of three statements—a statement of net position; 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 Statement of Net Position 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 statement of net position 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 and all liabilities and all deferred inflows and outflows 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 it. The Hospital's total net position—the difference between assets and deferred outflows of resources, and 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 and deferred inflows and outflows, and liabilities reported in the statement of net position. The Hospital's net position decreased by $4,027,005 or 69% in 2015 over 2014 as shown in Table 1, as explained earlier due primarily to GASB Statement 68.

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

	2015	(not restated) 2014	(not restated) 2013
Assets			
Patient accounts receivable, net	$ 2,313,831	2,387,796	2,743,491
Other current assets	4,873,025	3,376,862	2,367,194
Capital assets, net	4,736,664	5,837,844	6,752,994
Other noncurrent assets	795,551	750,338	746,333
Total assets	12,719,071	12,352,840	12,610,012
Deferred Outflows of Resources	747,019	--	--
Total asssets and deferred outflows of resources	$ 13,466,090	12,352,840	12,610,012
Liabilities			
Current liabilities	$ 2,613,921	2,213,596	2,948,831
Net pension liability	3,887,063	--	--
Long-term debt, net current portion	2,047,987	2,712,954	3,344,972
Total liabilities	8,548,971	4,926,550	6,293,803
Deferred Inflows of Resources	3,139,316	1,621,482	808,045
Net Position			
Net investment in capital assets	2,040,181	2,477,858	2,819,113
Restricted expendable	490,429	485,927	477,978
Restricted nonexpendable	179,880	179,880	179,880
Unrestricted	(932,687)	2,661,143	2,031,193
Total net position	1,777,803	5,804,808	5,508,164
Total liabilities, deferred inflows and net position	$ 13,466,090	12,352,840	12,610,012

In 2015 there was a significant increase in operating cash of $1.1 million due to improved operations and billing and collection practices. Net capital assets decreased by $1.1 million through depreciation and limited additions during the fiscal year. The Hospital's net position changed by over $4 million due to changes in reporting requirements for pensions under GASB Statement 68. Please see Note 11 to the financial statements for a detailed explanation of this change.

In 2014, there was a reduction of patient accounts receivable that was held in the legacy billing system. Improved billing and charging practices further reduced accounts receivable. The Hospital also paid off the line of credit that was borrowed against in 2013 and early 2014. The Hospital added additional hardware required for the Electronic Health Records (EHR) information system; however, there was not an increase to capital assets. The Hospital elected to defer EHR incentive payments as unearned revenue, which are being amortized into revenue over the life of the EHR assets.

Operating Results and Changes in the Hospital's Net Position

In 2015, the Hospital's net position increased by $1,042,410 or 142% compared to the increase of $296,644 or 5% in 2014 as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Position

		2015	(not restated) 2014	(not restated) 2013
Operating revenue				
Net patient service revenue	$	15,531,854	14,691,984	14,703,411
Other operating revenue		1,875,773	2,178,132	183,031
Total operating revenue		17,407,627	16,870,116	14,886,442
Operating expenses				
Salaries and wages and employee benefits		8,356,309	9,312,949	9,123,957
Depreciation		1,218,419	1,205,831	877,572
Other operating expenses		7,667,556	6,825,824	6,537,052
Total operating expenses		17,242,284	17,344,604	16,538,581
Operating income (loss)		165,343	(474,488)	(1,652,139)
Nonoperating revenue (expense), net				
Interest expense		(125,389)	(176,253)	(174,637)
County tax revenue		906,664	809,104	740,062
Investment income		10,305	16,640	15,079
Non-capital grants and contributions		85,487	121,641	113,316
Total nonoperating revenue, net		877,067	771,132	693,820
Change in net position		1,042,410	296,644	(958,319)
Net position beginning of year, as restated		735,393	5,508,164	6,466,483
Net position end of year	$	1,777,803	5,804,808	5,508,164

Operating Income (Loss)

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 an operating income and in 2014 the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Monroe County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating gain in 2015 is attributed to the following:

- Net Patient Revenue increased by $839,870 or 6%.
- Salaries and benefits decreased by $956,640 or 10%.

The operating loss in 2014 is attributed to the following:

- Depreciation expense increased $328,259 over 2014 due to having a full year of depreciation on the EHR capital assets that were implemented in 2014.
- In 2014, the Hospital implemented the 340B drug program and benefited from an increase of approximately $1.2 million in other operating revenues. The Hospital also had an increase of approximately $450,000 in 340B program costs.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income, interest expense and noncapital grants and gifts. Nonoperating revenues increased by $105,935 or 14% in 2015 compared to 2014. The majority of this change was from an increase in property taxes and a decrease in interest expense. Nonoperating revenues increased by $77,312 or 11% in 2014 compared to 2013.

Contributions

- The Hospital received contributions of $85,487 in 2015, a decrease of $36,154 from 2014.
- The Hospital received contributions of $121,641 in 2014, an increase of $8,325 from 2013.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the Hospital had $4.7 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2015, the Hospital acquired capital assets costing $157,410.

At the end of 2014, the Hospital had $5.8 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Hospital acquired capital assets costing $290,179.

Debt

At June 30, 2015 and 2014, the Hospital had $2,696,483 and $3,359,986, respectively, in revenue capital loan notes, bonds and capital lease obligations outstanding. The Hospital issued no new debt in 2015. The Hospital did not borrow against a line of credit in 2015.

Factors Bearing on Monroe County 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 have 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 641.932.2134.

Monroe County Hospital

Statements of Net Position
June 30, 2015 and 2014

		2015	(not restated) 2014
ASSETS			
Current assets:			
Cash and cash equivalents	$	2,514,451	1,398,332
Short-term investments		485,745	482,276
Assets held under bond indenture agreement		36,254	36,198
Receivables -			
Patients, net of estimated uncollectible accounts of $656,000 in 2015 and $689,031 in 2014		2,313,831	2,387,796
Succeeding year property tax		1,256,044	901,933
Other		232,264	102,856
Inventories		348,267	343,267
Estimated third-party payor settlements - Medicare and Medicaid		--	112,000
Total current assets		7,186,856	5,764,658
Assets limited as to use or restricted, net of current portion		709,633	704,307
Capital assets, net of accumulated depreciation		4,736,664	5,837,844
Other assets		85,918	46,031
Total assets		12,719,071	12,352,840
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows		747,019	--
Total assets and deferred outflows of resources	$	13,466,090	12,352,840
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	$	648,496	647,032
Accounts payable		574,678	612,539
Accrued salaries, vacation and benefits payable		910,825	944,546
Accrued interest		8,754	9,479
Estimated third-party payor settlements - Medicare and Medicaid		471,168	--
Total current liabilities		2,613,921	2,213,596
Long-term debt, net of current portion		2,047,987	2,712,954
Net pension liability		3,887,063	--
Total liabilities		8,548,971	4,926,550
DEFERRED INFLOWS OF RESOURCES			
Unavailable property tax revenue		1,244,293	890,014
Pension related deferred inflows		1,625,535	--
EHR deferred revenue		269,488	731,468
Total deferred inflows of resources		3,139,316	1,621,482
COMMITMENTS AND CONTINGENCIES			
NET POSITION			
Net investment in capital assets		2,040,181	2,477,858
Restricted -			
Expendable for debt service		490,429	485,927
Nonexpendable endowment		179,880	179,880
Unrestricted		(932,687)	2,661,143
Total net position		1,777,803	5,804,808
Total liabilities, deferred inflows of resources and net position	$	13,466,090	12,352,840

See notes to financial statements

Monroe County Hospital

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

	2015	(not restated) 2014
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	$ 16,403,636	15,740,312
Provision for bad debt	(871,782)	(1,048,328)
Net patient service revenue	15,531,854	14,691,984
Other operating revenue	1,875,773	2,178,132
Total operating revenue	17,407,627	16,870,116
OPERATING EXPENSES:		
Salaries	6,821,499	7,224,159
Employee benefits	1,534,810	2,088,790
Contract labor	2,665,821	2,238,537
Professional fees and purchased services	1,482,230	1,664,371
Supplies	2,431,219	2,165,060
Facility costs	354,502	312,800
Repair and maintenance	141,554	55,929
Equipment leases and rentals	165,740	143,003
Insurance	84,000	85,000
Depreciation	1,218,419	1,205,831
Other expense	342,490	161,124
Total operating expenses	17,242,284	17,344,604
OPERATING INCOME (LOSS)	165,343	(474,488)
NONOPERATING REVENUE (EXPENSE), NET:		
Interest expense	(125,389)	(176,253)
County tax revenue	906,664	809,104
Investment income	10,305	16,640
Noncapital grants and contributions	85,487	121,641
Nonoperating revenue	877,067	771,132
INCREASE IN NET POSITION	1,042,410	296,644
NET POSITION, beginning of year, as restated (Note 13)	735,393	5,508,164
NET POSITION, end of year	$ 1,777,803	5,804,808

See notes to financial statements

Monroe County Hospital

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

	2015	(not restated) 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	$ 16,188,987	15,444,679
Cash paid for employee salaries and benefits	(8,693,866)	(9,363,500)
Cash paid to suppliers and contractors	(7,710,417)	(7,317,138)
Other receipts and payments, net	1,244,498	2,859,576
Net cash provided by operating activities	1,029,202	1,623,617
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Unrestricted contributions	85,487	121,641
Property taxes received	906,832	805,501
Net cash provided by noncapital financing activities	992,319	927,142
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from line of credit	--	32,500
Payments on line of credit	--	(130,856)
Purchase of capital assets	(117,239)	(290,178)
Payments on long term debt	(668,791)	(728,664)
Interest paid on long term debt	(120,826)	(175,364)
Net cash used in capital and related financing activities	(906,856)	(1,292,562)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Withdrawals from short term investments	(3,469)	4,887
Deposits to assets limited as to use or restricted, net	(5,382)	(12,495)
Investment income received	10,305	16,640
Net cash provided by investing activities	1,454	9,032
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,116,119	1,267,229
CASH AND CASH EQUIVALENTS, Beginning of year	1,398,332	131,103
CASH AND CASH EQUIVALENTS, End of year	$ 2,514,451	1,398,332

See notes to financial statements

Monroe County Hospital

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

	2015	(not restated) 2014
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ 165,343	(474,488)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,218,419	1,205,831
Gain on disposal of property and equipment	--	(503)
(Increase) decrease in current assets -		
Receivables -		
Patients	73,965	355,695
Other	(129,408)	(48,941)
Inventories	(5,000)	(742)
Estimated third-party payor settlements - Medicare and Medicaid	112,000	397,000
Increase in other assets	(39,887)	(580)
Increase in deferred outflows of resources	(119,004)	--
Increase (decrease) in current liabilities -		
Accounts payable	(37,861)	(490,572)
Accrued salaries, wages and vacation payable	(33,721)	(50,551)
Estimated third-party payor settlements - Medicare and Medicaid	471,168	--
Increase in deferred inflows - EHR deferred revenue	(461,980)	731,468
Increase in pension related deferred inflows	1,625,535	--
Decrease in net pension liability	(1,810,367)	--
Net cash provided by operating activities	$ 1,029,202	1,623,617

See notes to financial statements

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

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

A. *Reporting Entity*

The Hospital is a county public hospital under Chapter 347 of the Code of Iowa and is governed by a seven member Board of Trustees elected for terms of six years. The Hospital is a Critical Access Hospital with 25 acute care beds and primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in Albia, Iowa and the surrounding area.

For financial reporting purposes, the Hospital has included all the funds of the Hospital, specifically all assets, deferred outflows, liabilities, deferred inflows, revenue and expenses over which the Hospital's governing board exercises oversight responsibility. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Hospital.

In accordance with the Governmental Accounting Standards Board criteria, Monroe County Health Care Foundation (Foundation) is included in the accompanying financial statements as a blended component unit. The Foundation is a legally separate not-for-profit corporation, organized under Chapter 504A of the Code of Iowa, but was organized primarily for the benefit of the Hospital.

B. *Industry Environment*

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

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

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

C. *Basis of Presentation*

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

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

Restricted – expendable – This component of net position must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts required by bond indentures, reduced by the outstanding balances of any related borrowings.

Restricted – nonexpendable – This component of net position is required to be maintained in perpetuity as specified by parties external to the Hospital.

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

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

D. Measurement Focus and Basis of Accounting

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

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

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees, donors, or under debt agreements.

G. Patient Receivables, Net

Patient receivables consist of uncollateralized patient and third-party obligations reduced by a valuation allowance for doubtful accounts and contractual adjustments from third-party payors, patients and others. The allowances reflect management's estimate of amounts that will not be collected in the future and are based on reviews of patient balances by payor classes. Percentages are applied to each payor class based on contractual agreements and historical collection and recovery information to determine the net realizable value of the patient receivables. Accounts are considered delinquent based on passage of a specified period of time and consideration of payment history. Accounts deemed uncollectible are written off and charged to the allowance in the year they are deemed uncollectible.

The Hospital also maintains a patient financial assistance policy as described in Note 1(S).

H. Property Tax Receivable

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

I. Inventories

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

J. Assets Limited as to Use or Restricted

Assets limited as to use or restricted consist of the following:

Under Indenture or Loan Agreements – These funds are reserve funds held as security for the Series 2007 bonds. These funds are used for the payment of principal and interest on the Series 2007 bonds when insufficient funds are available in the sinking fund. Amounts required to meet current liabilities of the Hospital have been reclassified in the statements of net position at June 30, 2015 and 2014.

By Donor – These funds have been restricted by donors under a perpetual endowment.

K. Capital Assets, Net

Capital asset acquisitions in excess of $5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated life of each depreciable asset and is computed using the straight-line method.

Useful lives are determined using guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Lives range by capital asset classification as follows:

Land improvements	2 to 40 years
Buildings and building improvements	5 to 40 years
Equipment, computers and furniture	3 to 20 years

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

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

L. Deferred Outflows of Resources

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

M. Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. Compensated absences are computed using the regular pay and termination pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

N. Pensions

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

O. Deferred Inflows of Resources

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

Deferred inflows of resources also consist of meaningful use revenue that will be recognized as revenue in the year it is earned.

P. Statement of Revenue, Expenses and Changes in Net Position

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

Q. Net Patient Service Revenue

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

R. *Grants and Contributions*

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

S. *Charity Care*

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in the statements of revenue, expenses and changes in net position.

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

T. *Management*

The Hospital is a provider of healthcare services as a Critical Access Hospital. The Hospital has an agreement for management services with Mercy Health Network, Inc. Administration and support services fees of $513,302 and $462,189 were incurred for the years ended June 30, 2015 and 2014, respectively.

U. *Fair Value of Financial Instruments*

The carrying value of all financial instruments approximates estimated fair value. Cash and cash equivalents, receivables, and current liabilities approximate fair value due to the relatively short period of time between their origination and expected realization. Fair values for investments, including assets limited as to use or restricted, are based on quoted market prices, if available, or estimated using quoted market prices of similar securities. The carrying value of long-term debt approximates fair value since the interest rates closely reflect current market rates.

V. *Income Taxes*

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Monroe, Iowa. As such, the Hospital is exempt from paying income taxes.

W. *Risk Management*

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

X. *Reclassification*

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

Y. Subsequent Events

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

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

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

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

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

Credit risk: The Foundation has invested in equity securities in which the value of these investments is determined based on market and economic conditions that can and will fluctuate from time to time.

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

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

Short-term investments at June 30, 2015 and 2014 consisted of the following:

	2015	2014
Certificates of deposit - Hospital	$ 316,820	315,030
Certificates of deposit - Foundation	168,925	167,246
Total short term investments	$ 485,745	482,276

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

	2015	2014
Under indenture agreements -		
Certificate of deposit - Hospital	$ 462,929	459,208
Cash and cash equivalents - Hospital	36,254	36,198
Accrued interest	2,300	2,300
	501,483	497,706
By Donor -		
Cash and cash equivalents - Foundation	179,880	179,880
Equity securities - Foundation	64,524	62,919
	244,404	242,799
	745,887	740,505
Less amount required for current obligations	(36,254)	(36,198)
	$ 709,633	704,307

(3) Net Patient Service Revenue

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

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

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

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

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

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

		2015	2014
Gross patient service revenue:			
Inpatient services and swing bed	$	4,905,485	4,633,034
Outpatient		19,557,511	17,900,193
Physician clinic		3,437,991	4,072,672
Total gross patient service revenue		27,900,987	26,605,899
Deductions from patient service revenue:			
Medicare		6,197,100	5,766,823
Medicaid		1,840,804	1,065,422
Other payors		3,324,659	3,644,033
Charity care		134,788	389,309
Total deductions from patient service revenue		11,497,351	10,865,587
Net patient service revenue before provision for bad debt	$	16,403,636	15,740,312

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

Revenue from the Medicare and Medicaid programs accounts for approximately 53% of the Hospital's net patient revenue for the year ended June 30, 2015 compared to approximately 49% in 2014. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2015 net patient service revenue decreased approximately $104,000 due to the establishment of allowances as a result of ongoing audits, reviews, and investigations.

(4) Patient Receivables, Net

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

		2015	2014
Patient receivables	$	4,275,831	5,079,387
Less estimated third-party contractual adjustments		(1,306,000)	(2,002,560)
Less allowance for uncollectible accounts		(656,000)	(689,031)
	$	2,313,831	2,387,796

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

	2015	2014
Medicare	31%	21%
Medicaid	10	14
Other third-party payors	41	49
Private pay	18	16
	100%	100%

(5) Capital Assets

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

	June 30, 2014	Additions	Transfers and Disposals	June 30, 2015
Capital assets, not being depreciated:				
Land	$ 47,600	--	--	47,600
Construction in progress	17,500	--	(17,500)	--
Total capital assets, not being depreciated	65,100	--	(17,500)	47,600
Capital assets, being depreciated:				
Land improvements	766,789	550	17,500	784,839
Building and leasehold improvements	6,392,215	--	--	6,392,215
Fixed equipment	4,938,138	40,422	(176)	4,978,384
Major movable equipment	8,186,214	116,438	(29,415)	8,273,237
Total capital assets, being depreciated	20,283,356	157,410	(12,091)	20,428,675
Less accumulated depreciation:				
Land improvements	686,000	11,992	--	697,992
Building and leasehold improvements	3,820,413	165,100	--	3,985,513
Fixed equipment	4,012,815	136,757	--	4,149,572
Major movable equipment	5,991,384	904,570	10,580	6,906,534
Total accumulated depreciation	14,510,612	1,218,419	10,580	15,739,611
Total capital assets, being depreciated, net	5,772,744	(1,061,009)	(22,671)	4,689,064
Total capital assets, net	$ 5,837,844	(1,061,009)	(40,171)	4,736,664

		June 30, 2013	Additions	Transfers and Disposals	June 30, 2014
Capital assets, not being depreciated:					
Land	$	47,600	--	--	47,600
Construction in progress		17,500	--	--	17,500
Total capital assets, not being depreciated		65,100	--	--	65,100
Capital assets, being depreciated:					
Land improvements		766,789	--	--	766,789
Building and leasehold improvements		6,392,215	--	--	6,392,215
Fixed equipment		4,938,138	--	--	4,938,138
Major movable equipment		7,889,853	290,179	6,182	8,186,214
Total capital assets, being depreciated		19,986,995	290,179	6,182	20,283,356
Less accumulated depreciation:					
Land improvements		673,419	12,581	--	686,000
Building and leasehold improvements		3,651,217	169,196	--	3,820,413
Fixed equipment		3,875,221	137,594	--	4,012,815
Major movable equipment		5,099,245	886,460	5,679	5,991,384
Total accumulated depreciation		13,299,102	1,205,831	5,679	14,510,612
Total capital assets, being depreciated, net		6,687,893	(915,652)	503	5,772,744
Total capital assets, net	$	6,752,993	(915,652)	503	5,837,844

Depreciation expense for the years ending June 30, 2015 and 2014 amounted to $1,218,419 and $1,205,831, respectively

(6) Long-Term Debt

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

		June 30, 2014	Borrowings	Payments	June 30, 2015	Due Within One Year
Hospital revenue refunding bonds, Series 2007 (A)	$	2,535,000	--	(315,000)	2,220,000	330,000
Capital lease obligations (B)		91,711	--	(57,243)	34,468	34,468
Note payable to bank (C)		750,649	--	(296,549)	454,100	284,028
Less unamortized bond discount		(17,374)	--	5,289	(12,085)	--
	$	3,359,986	--	(663,503)	2,696,483	648,496

		June 30, 2013	Borrowings	Payments	June 30, 2014	Due Within One Year
Hospital revenue refunding bonds, Series 2007 (A)	$	2,835,000	--	(300,000)	2,535,000	315,000
Capital lease obligations (B)		254,525	--	(162,814)	91,711	57,243
Note payable to bank (C)		1,016,499	--	(265,850)	750,649	274,789
Less unamortized bond discount		(22,663)	--	5,289	(17,374)	--
	$	4,083,361	--	(723,375)	3,359,986	647,032

(A) Hospital Revenue Refunding Bonds, Series 2007, originally aggregating $4,410,000, were issued by the Hospital to refund the remaining 2001 and 1993 Series Notes. The bonds are payable in annual principal and semiannual interest installments, including interest of 4.30% to 4.85%, on June 1 and December 1 each year until 2021. Series 2007 Bonds maturing on or after June 1, 2016 are subject to redemption by the Hospital, prior to the stated maturity, at any time on or after June 1, 2015, in whole or in part at a redemption price equal to 100% of principal plus accrued interest. Bonds are collateralized by net revenues of the Hospital.

The Series 2007 Revenue Bonds provide that a Debt Service Reserve Fund be maintained in the amount of the final reserve requirement of $435,785.

The Series 2007 indenture agreement also requires certain funds be established for semiannual interest and annual principal payments to be funded monthly. These funds and the Debt Service Reserve Fund are included in noncurrent cash and deposits except for amounts required to meet current obligations in the coming year. The indenture agreements also require the Hospital to comply with certain restrictive covenants, including minimum insurance coverage and restrictions on occurrence of additional debt.

(B) At rates of imputed interest of 3.5% to 5.0%, maturing through 2016 and collateralized by leased equipment. Equipment under capital leases is as follows:

	2015	2014
Equipment	$ 162,072	513,347
Less accumulated depreciation	87,789	250,481
	$ 74,283	262,866

(C) Due January 29, 2017; principal and interest payable monthly in the amount of $24,565; interest rate is 2.99%. The note is for the electronic health records project and secured by the related assets for the project.

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

Year Ending June 30,	Total	Principal	Interest
2016	$ 764,778	648,496	116,282
2017	606,818	515,072	91,746
2018	433,820	360,000	73,820
2019	431,900	375,000	56,900
2020	434,080	395,000	39,080
2021	435,128	415,000	20,128
	$ 3,106,524	2,708,568	397,956

(7) Restricted Net Position

At June 30, 2015 and 2014, restricted expendable net assets of $490,429 and $485,927, respectively, were available for debt service reserve and sinking funds related to indenture agreements.

The Hospital was named as a recipient of future investment income from a perpetual endowment fund created under the last will and testament of Denzil F. and Alice E. Patton. The will stipulated that the corpus is to be held for fifty years under the administration of a trustee and the net investment income is to be distributed each year to the Hospital. After the time restriction is met, the principal balance may be used for the operations of the Hospital. The time restriction expires January 2051. Assets of this trust are included in the accompanying financial statements as externally restricted by donors. Trust income received is reported as other income.

(8) Operating Leases

Noncancellable operating leases for equipment expire in various years through 2018. Future minimum lease payments at June 30, 2015 were:

2016	$	118,668
2017		118,668
2018		118,668
Future minimum lease payments	$	356,004

Rent expense for the material operating leases was $165,740 and $143,003 for the years ended June 30, 2015 and 2014, respectively.

(9) Other Operating Revenue

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

			(not restated)
		2015	**2014**
340B pharmacy revenue	$	948,143	1,257,927
EHR incentive payments		551,543	611,580
Other		279,997	213,867
Cafeteria		68,852	68,059
Rent		27,238	26,699
	$	1,875,773	2,178,132

The Health Information Technology for Economic and Clinical Health Act contains specific financial incentives designed to accelerate the adoption of electronic health record (EHR) systems among health care providers. During 2013, Health Services qualified for the financial incentives payments by attesting it met specific criteria set by the Centers for Medicare and Medicaid Services (CMS). Management's attestation is subject to audit by the federal government or its designee. The EHR incentive payment will be earned and received through various payments through 2016. The incentive amount is computed using several elements, one of which includes using the value of un-depreciated assets required to implement the EHR system. In addition, the Iowa Department of Health and Human Services (DHHS) provides EHR incentive payments that will be earned and received through various payments through 2016. The amounts recognized are based on management's best estimates and are subject to change, which would be recognized in the period in which the change occurs.

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

		2015	2014
Medicaid Electronic health record incentive payments	$	65,300	130,000
Deferred Medicare reimbursement	$	269,488	731,468

340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future. During 2015 and 2014 the Hospital recognized $948,143 and $1,257,927, respectively, of other operating revenue related to the 340B Program.

(10) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of $1,000,000 for injuries per occurrence and $3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides $5,000,000 per occurrence and $5,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

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

(11) Pension Plan

Plan Description

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

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

Pension Benefits

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

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

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

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

Disability and Death Benefits

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

Contributions

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

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

The Hospital's contributions to IPERS for the year ended June 30, 2015 and 2014 were $595,351 and $628,015, respectively.

<u>Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

At June 30, 2015, the Hospital reported a liability of $3,887,063 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was .099888 percent, which was a decrease of .002381 from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of $291,514. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

		Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$	43,313	8,852
Changes of assumptions		175,881	211
Net difference between projected and actual earnings on pension plan investments		--	1,616,472
Changes in proportion and differences between Hospital contributions and proportionate share of contributions		(67,526)	--
Hospital contributions subsequent to the measurement date		595,351	--
Total	$	747,019	1,625,535

$595,351 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	$	(370,798)
2017		(370,798)
2018		(370,798)
2019		(370,798)
2020		9,325
	$	(1,473,867)

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions

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

Rate of Inflation (effective June 30, 2014)	3.00 percent
Salary increases (effective June 30, 2014)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group
Investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

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

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

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

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

Discount Rate

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

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

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

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Hospital's proportionate share of the net pension liability	$ 7,641,573	3,887,063	718,396

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 $77,496 for legally required employer contributions and $29,361 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

(12) Commitments and Contingencies

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

(13) Change in Accounting Principle

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

	Net Position
Net position, June 30, 2014, as previously reported	$ 5,804,808
Net pension liability at June 30, 2014	(5,697,430)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	628,015
Net position, July 1, 2014, as restated	$ 735,393

Monroe County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Position – Budget and Actual (Cash Basis)
June 30, 2015

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Monroe County Hospital preparing a budget on the cash basis of accounting.

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

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

	Actual Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Amount raised by taxation	$ 906,664	168	906,832	872,295	34,537
Add: Other revenues / receipts	17,503,419	17,007	17,520,426	16,364,219	1,156,207
Less: Expenses / disbursements	17,367,673	(56,534)	17,311,139	17,496,863	185,724
Net	1,042,410	73,541	1,116,119	(260,349)	1,376,468
Balance beginning of year	735,393	662,939	1,398,332	486,730	
Balance end of year	$ 1,777,803	736,480	2,514,451	226,381	

See accompanying independent auditor's report

Monroe County Hospital

Schedule of the Hospital's Proportionate Share of the Net Pension Liability
June 30, 2015

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

		2015
Hospital's proportion of net pension liability		0.099888%
Hospital's proportionate share of the net pension liability	$	3,887
Hospital's covered-employee payroll	$	6,797
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll		57.18%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

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

See accompanying independent auditor's report

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

Monroe County Hospital

Schedule of Hospital Contributions
June 30, 2015

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

		2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Statutorily required contribution	$	602	607	694	512	452	412	318	283	260	240
Contributions in relation to the statutorily required contribution		(602)	(607)	(694)	(512)	(452)	(412)	(318)	(283)	(260)	(240)
Contribution deficiency (excess)	$	--	--	--	--	--	--	--	--	--	--
Hospital's covered-employee payroll	$	6,741	6,797	7,995	6,337	6,513	6,205	5,008	4,670	4,538	4,174
Contributions as a percentage of covered-employee payroll		8.93%	8.93%	8.68%	8.08%	6.94%	6.64%	6.35%	6.06%	5.73%	5.75%

See accompanying independent auditor's report

Notes to Required Supplementary Information – Pension Liability

Changes of benefit terms

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

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

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

Changes of assumptions

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

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

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

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

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

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

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

Monroe County Hospital Exhibit 1

Combining Statement of Net Position
June 30, 2015

ASSETS		Monroe County Hospital	Monroe County Health Care Foundation	Eliminations	Total
Current assets:					
Cash and cash equivalents	$	2,482,028	32,423	--	2,514,451
Short-term investments		316,820	168,925	--	485,745
Assets held under bond indenture agreement		36,254	--	--	36,254
Receivables -					
Patients, net of estimated uncollectible accounts of $656,000 in 2015		2,313,831	--	--	2,313,831
Succeeding year property tax		1,256,044	--	--	1,256,044
Other		232,099	165	--	232,264
Inventories		347,719	548	--	348,267
Total current assets		6,984,795	202,061	--	7,186,856
Assets limited as to use or restricted, net of current portion		645,109	244,404	(179,880)	709,633
Capital assets, net of accumulated depreciation		4,736,664	--	--	4,736,664
Other assets		67,878	18,040	--	85,918
Total assets		12,434,446	464,505	(179,880)	12,719,071
DEFERRED OUTFLOWS OF RESOURCES					
Pension related deferred outflows		747,019	--	--	747,019
Total assets and deferred outflows of resources	$	13,181,465	464,505	(179,880)	13,466,090
LIABILITIES					
Current liabilities:					
Current portion of long-term debt	$	648,496	--	--	648,496
Accounts payable		574,678	--	--	574,678
Accrued salaries, vacation and benefits payable		910,825	--	--	910,825
Accrued interest		8,754	--	--	8,754
Estimated third-party payor settlements - Medicare and Medicaid		471,168	--	--	471,168
Total current liabilities		2,613,921	--	--	2,613,921
Long-term debt, net of current portion		2,047,987	--	--	2,047,987
Net pension liability		3,887,063	--	--	3,887,063
Total liabilities		8,548,971	--	--	8,548,971
DEFERRED INFLOWS OF RESOURCES					
Unavailable property tax revenue		1,244,293	--	--	1,244,293
Pension related deferred inflows		1,625,535	--	--	1,625,535
EHR deferred revenue		269,488	--	--	269,488
Total deferred inflows of resources		3,139,316	--	--	3,139,316
COMMITMENTS AND CONTINGENCIES					
NET POSITION					
Net investment in capital assets		2,040,181	--	--	2,040,181
Restricted -					
Expendable for debt service		490,429	--	--	490,429
Nonexpendable endowment		179,880	179,880	(179,880)	179,880
Unrestricted		(1,217,312)	284,625	--	(932,687)
Total net position		1,493,178	464,505	(179,880)	1,777,803
Total liabilities, deferred inflows of resources and net position	$	13,181,465	464,505	(179,880)	13,466,090

See accompanying independent auditor's report

Combining Statement of Revenue, Expenses, and Changes in Net Position
For the Year Ended June 30, 2015

	Monroe County Hospital	Monroe County Health Care Foundation	Eliminations	Total
OPERATING REVENUE:				
Net patient service revenue before provision for bad debt	$ 16,403,636	--	--	16,403,636
Provision for bad debt	(871,782)	--	--	(871,782)
Net patient service revenue	15,531,854	--	--	15,531,854
Other operating revenue	1,866,377	9,396	--	1,875,773
Total operating revenue	17,398,231	9,396	--	17,407,627
OPERATING EXPENSES:				
Salaries	6,821,499	--	--	6,821,499
Employee benefits	1,534,810	--	--	1,534,810
Contract labor	2,665,821	--	--	2,665,821
Professional fees and purchased services	1,482,230	--	--	1,482,230
Supplies	2,431,219	--	--	2,431,219
Facility costs	354,502	--	--	354,502
Repair and maintenance	141,554	--	--	141,554
Equipment leases and rentals	165,740	--	--	165,740
Insurance	84,000	--	--	84,000
Depreciation	1,218,419	--	--	1,218,419
Other expense	297,529	63,011	(18,050)	342,490
Total operating expenses	17,197,323	63,011	(18,050)	17,242,284
OPERATING INCOME (LOSS)	200,908	(53,615)	18,050	165,343
NONOPERATING REVENUE (EXPENSE), NET:				
Interest expense	(125,389)	--	--	(125,389)
County tax revenue	906,664	--	--	906,664
Investment income	6,571	3,734	--	10,305
Noncapital grants and contributions	30,892	54,595	--	85,487
Total nonoperating revenue, net	818,738	58,329	--	877,067
EXCESS REVENUE OVER (UNDER) EXPENSES BEFORE CONTRIBUTIONS FOR PROPERTY AND EQUIPMENT	1,019,646	4,714	18,050	1,042,410
CONTRIBUTIONS FOR PROPERTY AND EQUIPMENT	18,050	--	(18,050)	--
INCREASE IN NET POSITION	1,037,696	4,714	--	1,042,410
NET POSITION, beginning of year, as restated (Note 13)	455,482	459,791	(179,880)	735,393
NET POSITION, end of year	$ 1,493,178	464,505	(179,880)	1,777,803

See accompanying independent auditor's report

Monroe County Hospital

Exhibit 3

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

	2015			2014 (not restated)		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
DAILY PATIENT SERVICES:						
Acute nursing care	$ 1,302,967	--	1,302,967	1,318,418	--	1,318,418
Skilled care	236,561	--	236,561	280,154	--	280,154
Extended care	64,480	--	64,480	48,935	--	48,935
	1,604,008	--	1,604,008	1,647,507	--	1,647,507
NURSING SERVICES:						
Emergency room	59,461	2,907,449	2,966,910	27,285	2,655,550	2,682,835
Operating room	1,383,678	1,524,751	2,908,429	939,576	1,222,866	2,162,442
Recovery room	14,042	149,708	163,750	45,654	333,756	379,410
	1,457,181	4,581,908	6,039,089	1,012,515	4,212,172	5,224,687
OTHER PROFESSIONAL SERVICES:						
Laboratory	363,061	4,123,093	4,486,154	383,622	3,889,131	4,272,753
Physician clinic	--	3,437,991	3,437,991	--	4,072,672	4,072,672
CT scan and MRI	167,519	3,119,289	3,286,808	228,325	3,254,840	3,483,165
Pharmacy	540,333	1,530,772	2,071,105	578,938	1,262,189	1,841,127
Ambulance	20,906	1,619,702	1,640,608	20,307	1,299,564	1,319,871
Radiology	56,512	1,078,648	1,135,160	52,692	1,105,268	1,157,960
Physical therapy	113,057	985,233	1,098,290	111,617	927,343	1,038,960
Anesthesiology	145,073	724,496	869,569	80,533	339,353	419,886
Outpatient clinic	5,312	848,810	854,122	3,565	248,016	251,581
Respiratory therapy	343,637	142,448	486,085	421,435	192,164	613,599
Occupational therapy	69,999	206,394	276,393	72,619	114,944	187,563
Electrocardiology	14,241	173,190	187,431	12,652	105,806	118,458
Cardiac rehab	--	160,384	160,384	--	201,204	201,204
Speech therapy	4,646	128,777	133,423	6,707	95,310	102,017
Hospice	--	128,875	128,875	--	645,567	645,567
Central services and supplies	--	5,492	5,492	--	7,322	7,322
	1,844,296	18,413,594	20,257,890	1,973,012	17,760,693	19,733,705
GROSS PATIENT SERVICE REVENUE	$ 4,905,485	22,995,502	27,900,987	4,633,034	21,972,865	26,605,899
DEDUCTIONS FROM GROSS PATIENT SERVICE REVENUE:						
Contractual allowances and other deductions, primarily Medicare and Medicaid			(11,362,563)			(10,476,278)
Charity care services and other discounts, based on charges forgone			(134,788)			(389,309)
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT			16,403,636			15,740,312
Provision for bad debt			(871,782)			(1,048,328)
NET PATIENT SERVICE REVENUE			$ 15,531,854			$ 14,691,984

See accompanying independent auditor's report

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

		2015	(not restated) 2014
340B pharmacy revenue	$	948,143	1,257,927
EHR incentive payments		551,543	611,580
Other		270,601	228,773
Cafeteria		68,852	68,059
Rent		27,238	26,699
	$	1,866,377	2,193,038

See accompanying independent auditor's report

Monroe County Hospital

Exhibit 5

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

		2015			2014 (not restated)		
		Salaries and Wages	Other	Total	Salaries and Wages	Other	Total
NURSING SERVICES:							
Emergency room	$	805,564	849,491	1,655,055	590,134	796,064	1,386,198
Operating and recovery rooms		275,029	577,359	852,388	341,224	439,504	780,728
Medical and surgical		857,206	85,087	942,293	944,975	84,669	1,029,644
Nursing administration		128,041	5,719	133,760	81,437	27,957	109,394
		2,065,840	1,517,656	3,583,496	1,957,770	1,348,194	3,305,964
OTHER PROFESSIONAL SERVICES:							
Physician clinic		1,871,519	421,747	2,293,266	2,343,140	475,323	2,818,463
Pharmacy		73,932	1,417,149	1,491,081	74,462	1,098,206	1,172,668
Laboratory		254,532	283,691	538,223	231,213	308,166	539,379
Physical therapy		13,037	492,623	505,660	--	471,042	471,042
Radiology		267,481	58,159	325,640	271,804	54,574	326,378
Anesthesiology		--	315,693	315,693	--	136,788	136,788
Outpatient clinic		270,578	101,916	372,494	33,466	12,905	46,371
CT scan		--	199,402	199,402	--	138,092	138,092
Ambulance		120,002	61,858	181,860	271,316	43,841	315,157
Medical records		148,908	13,102	162,010	158,116	26,662	184,778
Occupational therapy		--	136,543	136,543	--	95,081	95,081
Respiratory therapy		58,996	41,516	100,512	65,754	51,471	117,225
Ultrasound		61,923	35,934	97,857	60,768	34,969	95,737
Hospice		52,879	32,696	85,575	209,967	97,645	307,612
Speech therapy		--	86,436	86,436	--	67,576	67,576
MRI		--	63,069	63,069	--	74,517	74,517
Cardiac rehab		54,431	4,677	59,108	38,181	8,539	46,720
Nuclear scanning		--	38,079	38,079	--	28,646	28,646
Mammography		--	6,204	6,204	--	7,080	7,080
		3,248,218	3,810,494	7,058,712	3,758,187	3,231,123	6,989,310
GENERAL SERVICES:							
Operation of plant		163,803	416,801	580,604	158,422	445,251	603,673
Dietary		240,314	175,267	415,581	257,094	169,918	427,012
Environmental services		134,469	33,263	167,732	157,058	32,781	189,839
Housekeeping		--	68,242	68,242	--	68,115	68,115
		538,586	693,573	1,232,159	572,574	716,065	1,288,639
ADMINISTRATIVE SERVICES		968,855	1,516,872	2,485,727	935,628	1,428,861	2,364,489
NONDEPARTMENTAL:							
Employee benefits		--	1,534,810	1,534,810	--	2,088,790	2,088,790
Depreciation		--	1,218,419	1,218,419	--	1,205,831	1,205,831
Insurance		--	84,000	84,000	--	85,000	85,000
		--	2,837,229	2,837,229	--	3,379,621	3,379,621
TOTAL EXPENSES	$	6,821,499	10,375,824	17,197,323	7,224,159	10,103,864	17,328,023

See accompanying independent auditor's report

Patient Receivables and Allowance for Uncollectible Accounts - Hospital
For the Years Ended June 30, 2015 and 2014

ANALYSIS OF AGING:

Days Since Discharge	2015 Amount	2015 Percent of Total	2014 Amount	2014 Percent of Total
0 - 30	$ 2,352,802	55 %	2,512,574	49 %
31 - 60	597,026	14	762,015	15
61 - 90	340,912	8	598,303	12
91 - 120	250,693	6	249,842	5
121 and over	734,398	17	956,653	19
	4,275,831	100 %	5,079,387	100 %
Less:				
Allowance for uncollectible accounts	(656,000)		(689,031)	
Allowance for contractual adjustments	(1,306,000)		(2,002,560)	
	$ 2,313,831		2,387,796	

ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS:	2015	2014
Balance, beginning of year	$ 689,031	604,768
Provision of uncollectible accounts	871,782	1,048,328
Recoveries of accounts previously written off	(102,860)	(6,264)
Accounts written off	(801,953)	(957,801)
Balance, end of year	$ 656,000	689,031

See accompanying independent auditor's report

Inventory - Hospital
June 30, 2015 and 2014

		2015	2014
INVENTORY:			
General store	$	168,825	175,834
Pharmacy		178,894	164,471
	$	347,719	340,305

See accompanying independent auditor's report

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

	2015	2014
Patient days:		
Adult and pediatric –		
Medicare	612	565
All other	352	317
Swing bed	398	484
Extended	416	387
Total	1,778	1,753
Patient discharges:		
Adult and pediatric –		
Medicare	171	170
All other	107	89
Swing bed	65	59
Extended	7	10
Total	350	328
Average length of stay (based on discharge days):		
Adult and pediatric –		
Medicare	3.58 days	3.32 days
All other	3.29 days	3.56 days
Swing bed	6.12 days	8.20 days
Extended	59.43 days	38.70 days
Observation equivalent days	76	106
Surgical procedures	595	564
Emergency room visits	3,866	3,155
Number of employees - full-time equivalents	127.41	137.16

See accompanying independent auditor's report

SEIM JOHNSON

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

To the Board of Trustees
Monroe County Hospital
Albia, Iowa:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Monroe County Hospital (Hospital) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated November 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

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

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

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. We consider the deficiency described in the accompanying schedule of findings and responses as Item II-B-15 to be a significant deficiency.

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.* However, we noted certain immaterial instances of noncompliance or other matters which are described in Part III of the accompanying schedule of findings and responses.

Seim Johnson, LLP › 18081 Burt Street, Suite 200 › Omaha, NE 68022-4722 › Tel: 402.330.2660 › Fax: 402.330.5108 › SeimJohnson.com

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

Hospital's Response to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Seim Johnson, LLP

Omaha, Nebraska,
November 25, 2015.

Part I: Summary of the Independent Auditor's Results

(a) An unmodified opinion was issued on the financial statements.

(b) A material weakness and a significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.

(c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

II-A-15 **Material Weakness**

Criteria: The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements in the financial statements on a timely basis.

Condition: We identified misstatements in the financial statements during the audit resulting from the existence of unreconciled accounts that were not detected and corrected by the Hospital's internal control over financial reporting.

Effect: Several audit entries were required to properly reflect the net position and the activities of the Hospital in the financial statements.

Cause: The financial reporting process and controls used by management were not operating effectively throughout the fiscal year. Management did not properly reconcile accounts in several transaction cycles that resulted in misstatements in the financial statements.

Recommendation: Tremendous detail and attention are needed in the financial reporting process to accurately state the financial position and activities of the Hospital on a timely and accurate basis. Monthly account reconciliations are needed to accurately report account balances and produce accurate financial statements.

Management should incorporate procedures and controls over financial reporting process to ensure all accounts are reconciled on a timely basis to allow for accurate financial reporting.

Views of Responsible Officials and Planned Corrective Action: The Hospital recently converted to a new accounting system and experienced turnover in its chief financial officer and chief executive officer positions. This resulted in disruptions in the processes and controls over the financial reporting process. Management is in the process of reviewing the procedures and controls over the financial reporting process to determine where changes and improvements in processes and controls need to occur.

Conclusion: Response accepted.

II-B-15	**Significant Deficiency**
Criteria:	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
Condition:	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
Effect:	An audit entry was required to adjust the estimated amounts for third party settlements and related contractual adjustments.
Cause:	The process used by management to estimate third-party payor settlements and related contractual adjustments was not as extensive or detailed enough to properly compute the estimates.
Recommendation:	Tremendous detail is needed to accurately estimate third-party settlements and related contractual adjustments. The Hospital should review their estimation process in this area and determine if procedures can be added to improve or enhance the estimation process.
Views of Responsible Officials and Planned Corrective Action:	The Hospital concurs with the recommendation and will review and improve its estimation processes and procedures. Management intends to implement a new estimation template to assist with the process.
Conclusion:	Response accepted.

Part III: Other Findings Related to Required Statutory Reporting

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

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

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

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

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

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

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

III-H-15 Financial Condition: The Hospital has a deficit unrestricted net position of $932,687 at June 30, 2015.

Recommendation: The Hospital should investigate alternatives to eliminate this deficit to return this fund to a sound financial position.

Response: The deficit was the result of recognizing the Hospital's proportionate share of IPERS' net pension liability. The Hospital realizes this liability is not due and payable immediately. Rather the pension liability will be paid down over a period of time and the Hospital's future employer share of IPERS contributions.

Conclusion: Response accepted.

Audit Staff
For the Year Ended June 30, 2015

This audit was performed by:

Darren R. Osten, FHFMA, CPA, Partner

Marcus P. Goldenstein, In-Charge

Cody J. Powers, Staff Auditor