

MONTGOMERY COUNTY MEMORIAL HOSPITAL
INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
YEARS ENDED JUNE 30, 2015 AND 2014

MONTGOMERY COUNTY MEMORIAL HOSPITAL

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MONTGOMERY COUNTY MEMORIAL HOSPITAL
Officials
June 30, 2015

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Jim Robinson, Chair	Villisca, Iowa	2016
Kevin Cabbage, Vice-Chair	Stanton, Iowa	2018
Kenneth Rech, Treasurer	Red Oak, Iowa	2020
Roger Ehmke, Secretary	Red Oak, Iowa	2016
Lorin Petersen	Stanton, Iowa	2020
Kathy Carlson	Red Oak, Iowa	2018
Sarah Smith	Red Oak, Iowa	2020
 <u>Chief Executive Officer:</u>		
Allen E. Pohren (Retired September, 2014)	Red Oak, Iowa	
David Abercrombie (Began December, 2014)	Red Oak, Iowa	
 <u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Montgomery County Memorial Hospital
Red Oak, Iowa

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

To the Board of Trustees
Montgomery County Memorial Hospital

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 Montgomery County Memorial Hospital as of June 30, 2015 and 2014 and the changes in its financial position, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

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

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis, the Budgetary Comparison Information, and the Schedules of the Hospital's Proportionate Share of the Net Pension Liability and of the Hospital Contributions (and the related notes) on pages 3 through 3e and on pages 29 through 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the 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 U.S. generally accepted auditing standards, 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 required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Montgomery County Memorial Hospital's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information on pages 1 and 34 through 51 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the 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 is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

To the Board of Trustees
Montgomery County Memorial Hospital

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 14, 2015 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Gmewold, Ben, Kuhn & P.C.

Atlantic, Iowa
December 14, 2015



Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2015, 2014, and 2013. Please read it in conjunction with the Hospital's financial statements, which begin on page 4.

FINANCIAL HIGHLIGHTS

The Hospital's net position decreased in 2015 by \$7,777,144, or 30.8 percent. The Hospital's net position increased in 2014 by \$294,691 or 1.2 percent. See page 3b for explanation of the July 1, 2014 decrease.

The Hospital reported an operating income of \$222,530 in 2015 and an operating loss of \$1,341,801 in 2014. In 2013, the Hospital reported an operating loss of \$853,926.

Non-operating revenues were \$1,872,463 in 2015, \$1,514,172 in 2014, and \$1,406,016 in 2013. The largest component of non-operating revenues is county taxes, which have been approximately \$1.6 million each year (\$1.67 million in 2015).

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 financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

THE STATEMENT OF NET POSITION AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Our analysis of the Hospital finances begins on page 3a. One of the most important questions asked about the 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 using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position, the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources is one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. Other non-financial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors must be considered to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It explains what activities generated cash, how cash was used, and the change in the cash balance during the reporting period.

THE HOSPITAL'S NET POSITION

The Hospital's net position is the difference between its assets, deferred outflows of resources, and liabilities and deferred inflows of resources reported in the Statement of Net Position on page 4. The Hospitals' net position decreased \$7,777,144 or 30.8 percent in 2015 and increased \$294,691 or 1.2 percent in 2014, as you can see in Table 2.

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

	<u>2015</u>	<u>Not Restated</u>	
		<u>2014</u>	<u>2013</u>
Assets:			
Current assets	\$ 9,150,650	\$ 8,322,301	\$ 8,809,727
Capital assets, net	19,111,380	18,962,253	19,985,689
Other noncurrent assets	10,230,239	9,421,667	7,789,028
Deferred outflows of resources	<u>1,652,795</u>	<u>--</u>	<u>--</u>
Total assets and deferred outflows of resources	<u>\$ 40,145,064</u>	<u>\$ 36,706,221</u>	<u>\$ 36,584,444</u>
Liabilities:			
Long-term debt outstanding	\$ 6,179,442	\$ 6,686,386	\$ 7,170,476
Current liabilities	3,957,826	3,153,231	2,916,055
Net pension liability	<u>7,903,260</u>	<u>--</u>	<u>--</u>
Total liabilities	<u>\$ 18,040,528</u>	<u>\$ 9,839,617</u>	<u>\$ 10,086,531</u>
Deferred Inflows of Resources	<u>\$ 4,614,076</u>	<u>\$ 1,599,000</u>	<u>\$ 1,525,000</u>
Net Position:			
Invested in capital assets, net of related debt	\$ 12,424,990	\$ 11,791,703	\$ 12,352,809
Restricted expendable assets	67,872	67,812	71,461
Unrestricted	<u>4,997,598</u>	<u>13,408,089</u>	<u>12,548,643</u>
Total net position	<u>\$ 17,490,460</u>	<u>\$ 25,267,604</u>	<u>\$ 24,972,913</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

The Government Accounting Standards Board (GASB) required a change in the method of accounting for the Hospital's pension costs during the 2014-15 year. The requirement resulted in significant changes to: net position (\$9,937,089 decrease), long-term liabilities (\$11,101,564 increase), and created a deferred outflow of resources (\$1,164,475) as of July 1, 2014. See Notes H and N for an explanation of the change. Although the Hospital's financial statement reporting has changed significantly, the requirement will have no effect on the Hospital's actual operations.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

Table 2 shows the components of the operating and non-operating activities and the resulting effect on changes in net position.

Table 2: Operating Results and Changes in Net Position

	2015	Not Restated	
		2014	2013
Operating Revenues:			
Net patient service revenues	\$ 30,324,311	\$ 27,849,127	\$ 27,129,758
Other operating revenues	667,080	408,587	392,062
Total operating revenues	<u>30,991,391</u>	<u>28,257,714</u>	<u>27,521,820</u>
Operating Expenses:			
Salaries and wages	14,447,692	13,312,117	13,021,138
Employee benefit	4,971,584	4,562,361	4,335,001
Professional fees	1,862,828	1,876,386	1,775,257
Other operating expenses	7,452,061	7,780,772	7,095,704
Depreciation and amortization	2,034,696	2,067,879	2,148,646
Total operating expenses	<u>30,768,861</u>	<u>29,599,515</u>	<u>28,375,746</u>
Operating income (loss)	222,530	(1,341,801)	(853,926)
Non-operating Revenues and Expenses:			
County taxes	1,673,120	1,583,328	1,532,004
Investment income	15,222	16,938	24,676
Noncapital grants and contributions	12,401	15,315	16,589
Other non operating revenues (expenses), net	171,720	(101,409)	(167,253)
Total non-operating revenues, net	<u>1,872,463</u>	<u>1,514,172</u>	<u>1,406,016</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,094,993	172,371	552,090
Capital Grants and Contributions	<u>64,952</u>	<u>122,320</u>	<u>31,000</u>
Increase in Net Position	2,159,945	294,691	583,090
Net Position Beginning of Year, as Restated	<u>15,330,515</u>	<u>24,972,913</u>	<u>24,389,823</u>
Net Position End of Year	<u>\$ 17,490,460</u>	<u>\$ 25,267,604</u>	<u>\$ 24,972,913</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

OPERATING INCOME AND LOSS

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2015, the Hospital had an operating income of \$222,530; in 2014, the operating loss was (\$1,341,801); and in 2013, the Hospital had an operating loss of (\$853,926). The operating income in 2015 represents an increase of \$1,564,331 from the loss in 2014, and the operating loss in 2014 represents an increase of \$487,875 from the loss in 2013.

The primary components of these operating income and operating losses are:

Net patient service revenue increased \$2,475,184 or 8.9 percent from 2014 to 2015. Components of this include \$4,278,446 in increased patient charges (9.6%), \$2,002,607 in increased contractual adjustments (13%), and increased \$200,496 provision for bad debts and charity care. Accounts written off were lower from 2015 to 2014. The aging of accounts receivable shows a trend of newer accounts on the Hospital's books. It should also be noted that part of the increase in patient charges and related contractual adjustments are due to the hospital assuming management of Red Oak Internal Medicine for the years 2011-2015. In addition, Surgical Services were provided. Contractual adjustments include Medicare and Medicaid EHR incentive payments.

In 2015, contractual adjustments are 35.5 percent of patient service revenue, compared to 34.4 percent of patient service revenue in 2014, 34.2 percent in 2013, 34.5 percent in 2012, and 34.2 percent in 2011. Contractual adjustments have improved since 2004, 38.0 percent, because of the Hospital's designation as a Critical Access Hospital (CAH) effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a CAH, the Hospital is reimbursed defined costs for services provided to Medicare and Medicaid patients. Medicare patients represent about 57 percent of the Hospital's patient service revenue in 2015 (57 percent in 2014). Medicaid represents about 11.3 percent of the Hospital's patient service revenues in 2015 (8.4 percent in 2014).

Numerous factors affect the contractual adjustments, including changes in volume and patient mix, and the cost of labor, benefits, purchased services and supplies needed to provide patient services. The Hospital is reimbursed by Medicare and Medicaid at tentative rates until final settlement with the fiscal intermediaries. At the date of this report, two years of Medicare and two years of Medicaid cost reports have yet to be finalized.

In addition, the Hospital has payment contracts with commercial insurance carriers and preferred provider organizations that include discounts from established charges and prospectively determined rates as a basis of reimbursement. Many of the non-Medicare contractals are continuing to increase. In particular, the Hospital's Wellmark business is at a discount of approximately 21%. With new payment systems in place we expect Wellmark's contractual allowances to remain consistent in 2016.

Salaries and wages costs increased \$1,135,575 or 8.5 percent from 2014 to 2015. Employee benefits increased \$409,648 or 9.0 percent in 2015. The Hospital purchased an indemnity employee health insurance plan in calendar 2008 after 12 years of administering a self-insured plan.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis - Continued

Total operating expenses increased \$1,169,346 or 4.0 percent from 2014 to 2015. Included in this is a decrease in depreciation and amortization expense of \$33,183 or 1.6 percent. Depreciation includes the completion of the hospital's addition in August, 2010. Investments in new technology and replacement of aging capital assets in the past three years are resulting in decreased depreciation and equipment maintenance costs.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as net patient service revenues of the Hospital.

NONOPERATING REVENUES AND EXPENSES

Non operating revenues consist primarily of property taxes levied by the Hospital and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

GRANTS, CONTRIBUTIONS, AND ENDOWMENTS

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.17 to the financial statements.

THE HOSPITAL'S CASH FLOWS

Changes in the Hospital's cash flows are consistent with changes in operating losses and non operating revenues and expenses, discussed earlier.

BUDGETARY HIGHLIGHTS

The official county budget of the Hospital for the year ended June 30, 2015 was prepared on a modified accrual basis. Hospital revenues and expenditures were less than budgeted amounts during 2015 by \$2,498,671 and \$2,087,639, respectively. The budgeted amounts were higher due to higher anticipated bad debts, salaries and benefits expenditures and lower actual patient volume.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

At the end of 2015, the Hospital had \$17,659,696 invested in capital assets, net of accumulated depreciation (\$18,371,232 in 2014), as detailed in Note E to the financial statements. In 2015, the Hospital purchased new property and equipment costing \$1,358,054 (\$789,773 in 2014; \$868,449 in 2013).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Management's Discussion and Analysis – Continued

Debt:

At year-end, the Hospital had \$6,686,390 in Series 2009 note long-term debt outstanding as detailed in Note F (\$7,170,550 at June 30, 2014).

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. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller's Office at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Net Position
June 30,

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	2015	Not Restated 2014
Current Assets:		
Cash	\$ 1,328,290	\$ 1,121,704
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,933,000 in 2015, \$1,417,000 in 2014)	5,007,875	4,495,134
Other receivables	227,897	61,977
Inventory	568,552	530,715
Prepaid expense	334,239	343,783
Estimated third party payor settlements	--	86,000
Succeeding year property tax receivable	1,600,000	1,599,000
Internally designated assets	83,797	83,988
Total current assets	9,150,650	8,322,301
Designated and Restricted Assets:		
Internally designated assets	9,697,249	8,780,505
Restricted assets	67,872	67,812
	9,765,121	8,848,317
Less amounts required to meet current liabilities	83,797	83,988
	9,681,324	8,764,329
Capital Assets:		
Depreciable capital assets, net	17,659,696	18,371,232
Non-depreciable capital assets	1,451,684	591,021
	19,111,380	18,962,253
Other Assets:		
Notes receivable	22,500	38,750
Other	526,415	618,588
	548,915	657,338
Total assets	38,492,269	36,706,221
Deferred Outflows of Resources - Pension	1,652,795	--
Total assets and deferred outflows of resources	\$ 40,145,064	\$ 36,706,221

The accompanying notes are an integral part of these statements.

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	2015	Not Restated 2014
Current Liabilities:		
Current maturities of long-term debt	\$ 506,948	\$ 484,164
Accounts payable	697,879	956,318
Accrued salaries and wages	603,371	531,407
Accrued other employee compensation	855,493	829,990
Accrued interest payable	24,570	26,349
Accrued fees	14,862	14,005
Payroll taxes withheld and accrued	312,637	271,742
Other current liabilities	42,066	39,256
Estimated third-party payor settlements	900,000	--
Total current liabilities	3,957,826	3,153,231
Long-Term Liabilities:		
Notes payable, less current maturities	6,179,442	6,686,386
Net pension liability	7,903,260	--
Total long-term liabilities	14,082,702	6,686,386
Total liabilities	18,040,528	9,839,617
Deferred Inflows of Resources	4,614,076	1,599,000
Net Position:		
Invested in capital assets, net of related debt	12,424,990	11,791,703
Restricted - expendable	67,872	67,812
Unrestricted	4,997,598	13,408,089
Total net position	17,490,460	25,267,604
Total liabilities, deferred inflows of resources, and net position	\$ 40,145,064	\$ 36,706,221

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Statements of Revenues, Expenses and Changes in Net Position
 Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Revenue:		
Net patient service revenue	\$ 30,324,311	\$ 27,849,127
Other revenue	<u>667,080</u>	<u>408,587</u>
Total revenue	30,991,391	28,257,714
Expenses:		
Nursing service	8,248,150	7,389,227
Other professional service	13,332,240	12,641,938
General service	2,973,429	2,971,156
Fiscal and administrative service	4,180,346	4,529,315
Provision for depreciation	<u>2,034,696</u>	<u>2,067,879</u>
Total expenses	<u>30,768,861</u>	<u>29,599,515</u>
Operating Income (Loss)	222,530	(1,341,801)
Non-Operating Revenue (Expenses):		
County taxes	1,673,120	1,583,328
Investment income	15,222	16,938
Gain on sale of property	214,673	--
Noncapital grants and contributions	12,401	15,315
Rental income, net	278,589	242,044
Interest expense	<u>(321,542)</u>	<u>(343,453)</u>
Non-operating revenue, net	<u>1,872,463</u>	<u>1,514,172</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,094,993	172,371
Capital Grants and Contributions	<u>64,952</u>	<u>122,320</u>
Increase in Net Position	2,159,945	294,691
Net Position - Beginning of Year, as Restated (Note N)	<u>15,330,515</u>	<u>24,972,913</u>
Net Position - End of Year	<u>\$ 17,490,460</u>	<u>\$ 25,267,604</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows
Year ended June 30,

	2015	Not Restated 2014
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 30,631,650	\$ 29,044,031
Cash paid to suppliers	(15,164,842)	(14,196,856)
Cash paid to employees	(14,350,225)	(13,294,548)
Other revenue received	667,080	408,587
Net cash provided by operating activities	1,783,663	1,961,214
Cash flows from non-capital financing activities:		
County tax received	1,673,120	1,583,328
Noncapital grants and contributions	12,401	15,315
Net cash provided by non-capital financing activities	1,685,521	1,598,643
Cash flows from capital and related financing activities:		
Construction in progress expenditures	(860,663)	(299,705)
Purchase of property and equipment	(1,358,054)	(789,773)
Principal paid on long-term debt	(484,160)	(462,330)
Proceeds from disposal of assets	214,673	--
Interest paid	(323,321)	(345,152)
Capital grants and contributions	64,952	122,320
Net cash used in capital and related financing activities	(2,746,573)	(1,774,640)
Cash flows from investing activities:		
Investment income received	15,222	16,938
Increase in designated and restricted assets	(6,708)	(6,130)
Increase in notes receivable, net	--	(15,000)
Office building rental income	305,779	291,693
(Increase) decrease in other assets	79,778	(123,627)
Net cash provided by investing activities	394,071	163,874
Net increase in cash and cash equivalents	1,116,682	1,949,091
Cash and cash equivalents at beginning of year	8,090,404	6,141,313
Cash and cash equivalents at end of year	\$ 9,207,086	\$ 8,090,404

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Statements of Cash Flows - Continued
Year ended June 30,

	2015	Not Restated 2014
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash in current assets	\$ 1,328,290	\$ 1,121,704
Cash and cash equivalents in internally designated assets	7,878,796	6,968,700
	\$ 9,207,086	\$ 8,090,404
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating income (loss)	\$ 222,530	\$(1,341,801)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities		
Provision for depreciation	2,034,696	2,067,879
Amortization	28,645	21,396
Changes in assets and liabilities		
Accounts receivable	(678,661)	327,904
Inventory	(37,837)	(149,815)
Prepaid expense	9,544	(43,850)
Estimated third-party payor settlements	986,000	867,000
Deferred outflows of resources	(488,320)	--
Accounts payable, trade	(250,735)	195,278
Accrued salaries and wages	71,964	17,358
Accrued other employee compensation	25,503	211
Accrued fees	857	(7,214)
Payroll taxes withheld and accrued	40,895	16,047
Other current liabilities	2,810	(9,179)
Net pension liability	(3,198,304)	--
Deferred inflows of resources	3,014,076	--
Total adjustments	1,561,133	3,303,015
Net cash provided by operating activities	\$ 1,783,663	\$ 1,961,214

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, home health, hospice and physician clinic services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital.

The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation and its financial statements should be discretely presented. However, the Foundation has limited assets and activity other than collecting contributions to be disbursed to the Hospital. Therefore, discretely presenting the component unit would not have a material effect on these financial statements.

The following is a summary of the Foundation's financial information as of and for the year ended June 30:

	2015	2014
Assets	\$ 415,044	\$ 152,114
Net Position	\$ 415,044	\$ 152,114
Net Revenues	\$ 262,930	\$(64,255)

2. Basis of Presentation

The Statement of Net Position displays the Hospital's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position in a balance sheet format. Net position is reported in three categories:

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

Restricted net position:

- a. *Nonexpendable* - Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.
- b. *Expendable* - Expendable net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

3. 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 accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

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

5. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.

6. Accounts Receivable

Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual patient balances.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

7. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

8. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

9. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of two years and cost in excess of \$5,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

10. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalized interest cost of \$ - 0 - in 2015 (\$ - 0 - in 2014).

11. 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.

12. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued other employee compensation.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

13. 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.

14. Statement of Revenues, Expenses and Changes in Net Position

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

15. 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 per discharge, reimbursed costs, discounted charges, and per diem payments. 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.

16. Property Tax Levy

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 that year. The succeeding year property tax receivable has been recorded as a current asset and the related property tax revenue has been recorded as a deferred inflow of resources. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

17. Grants and Contributions

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

18. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

19. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

20. 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. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services and most outpatient services related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2013. The Hospital's Medicaid cost reports have been audited and finalized by the fiscal intermediaries through June 30, 2012. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule. Effective March 1, 2016, Medicaid will be revising its reimbursement methodology for services provided, shifting from cost based reimbursement to a managed care methodology.

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE C - ENDOWMENTS AND RESTRICTED ASSETS

Restricted expendable assets are available for the following purposes:

	2015	2014
Long-term debt	\$ 67,872	\$ 67,812

The Hospital has no restricted nonexpendable assets or endowments at June 30, 2015 or 2014.

Following is a summary of the use of temporarily restricted assets during the year ended June 30:

	2015	2014
Payment of long-term debt	\$ --	\$ 3,649
Purchase of property and equipment	64,952	122,320
	\$ 64,952	\$ 125,969

NOTE D - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2015 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 ensure there will be no loss of public funds. Investments are stated as indicated in Note A.

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; common stocks; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. The designated purposes are identified in the following schedule.

	2015	2014
Capital acquisitions and related property taxes	\$ 15,925	\$ 16,176
Operations	9,681,324	8,764,329
	\$ 9,697,249	\$ 8,780,505

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE D - DEPOSITS AND INVESTMENTS - Continued

The composition of designated and restricted assets is as follows:

	2015	2014
Internally Designated Assets:		
Cash and cash equivalents	\$ 7,810,924	\$ 6,900,888
Certificates of deposit	1,884,883	1,878,292
Interest receivable	1,442	1,325
	\$ 9,697,249	\$ 8,780,505
Restricted Assets:		
Cash and cash equivalents	\$ 67,872	\$ 67,812

Interest Rate Risk. The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - CAPITAL ASSETS

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

<u>Cost</u>	<u>Balance 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2015</u>
Land Improvements	\$ 2,024,771	\$ 23,735	\$ --	\$ 2,048,506
Buildings	17,236,248	264,759	151,800	17,349,207
Building Service Equipment	11,215,232	--	--	11,215,232
Fixed Equipment	1,342,759	111,977	--	1,454,736
Major Movable Equipment	<u>13,460,059</u>	<u>957,583</u>	<u>--</u>	<u>14,417,642</u>
	45,279,069	1,358,054	151,800	46,485,323
 <u>Depreciation</u>				
Land Improvements	1,404,252	104,340	--	1,508,592
Buildings	7,536,618	695,888	151,800	8,080,706
Building Service Equipment	6,209,068	401,322	--	6,610,390
Fixed Equipment	684,327	17,450	--	701,777
Major Movable Equipment	<u>11,073,572</u>	<u>850,590</u>	<u>--</u>	<u>11,924,162</u>
Total Depreciation	<u>26,907,837</u>	<u>2,069,590</u>	<u>151,800</u>	<u>28,825,627</u>
Depreciable Capital Assets, Net	<u>\$ 18,371,232</u>	<u>\$ (711,536)</u>	<u>\$ --</u>	<u>\$ 17,659,696</u>
Construction in Progress	\$ 487,681	\$ 860,663	\$ --	\$ 1,348,344
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 591,021</u>	<u>\$ 860,663</u>	<u>\$ --</u>	<u>\$ 1,451,684</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE E - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2013</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2014</u>
Land Improvements	\$ 2,024,771	\$ --	\$ --	\$ 2,024,771
Buildings	17,139,355	96,893	--	17,236,248
Building Service Equipment	11,199,812	15,420	--	11,215,232
Fixed Equipment	1,233,496	109,263	--	1,342,759
Major Movable Equipment	<u>12,891,862</u>	<u>568,197</u>	<u>--</u>	<u>13,460,059</u>
	44,489,296	789,773	--	45,279,069
 <u>Depreciation</u>				
Land Improvements	1,292,908	111,344	--	1,404,252
Buildings	6,833,944	702,674	--	7,536,618
Building Service Equipment	5,787,604	421,464	--	6,209,068
Fixed Equipment	673,943	10,384	--	684,327
Major Movable Equipment	<u>10,206,524</u>	<u>867,048</u>	<u>--</u>	<u>11,073,572</u>
Total Depreciation	<u>24,794,923</u>	<u>2,112,914</u>	<u>--</u>	<u>26,907,837</u>
Depreciable Capital Assets, Net	<u>\$ 19,694,373</u>	<u>\$(1,323,141)</u>	<u>\$ --</u>	<u>\$ 18,371,232</u>
Construction in Progress	\$ 187,976	\$ 299,705	\$ --	\$ 487,681
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 291,316</u>	<u>\$ 299,705</u>	<u>\$ --</u>	<u>\$ 591,021</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,461,602, of which a portion is rented to local healthcare related organizations. The depreciation expense on all property and equipment totaled \$2,069,590 for the year ended June 30, 2015 (\$2,112,914 in 2014), of which \$34,894 (\$45,035 in 2014) is related to the rental space and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES

A schedule of changes in the Hospital's long-term liabilities for the years ended June 30, 2015 and 2014 follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2015</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	\$ 7,170,550	\$ --	\$ 484,160	\$ 6,686,390	\$ 506,948
Net pension liability	<u> --</u>	<u>7,903,260</u>	<u> --</u>	<u>7,903,260</u>	<u> --</u>
Total Long-Term Liabilities	<u>\$ 7,170,550</u>	<u>\$ 7,903,260</u>	<u>\$ 484,160</u>	<u>\$ 14,589,650</u>	<u>\$ 506,948</u>
	<u>Balance 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2014</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 2009 note	<u>\$ 7,632,880</u>	<u>\$ --</u>	<u>\$ 462,330</u>	<u>\$ 7,170,550</u>	<u>\$ 484,164</u>
Total Long-Term Liabilities	<u>\$ 7,632,880</u>	<u>\$ --</u>	<u>\$ 462,330</u>	<u>\$ 7,170,550</u>	<u>\$ 484,164</u>

The Series 2009 Revenue and Refunding Capital Loan Note was issued in September, 2009 in a principal amount up to \$8,700,000. The note was issued to refund the Series 2003 notes and pay for a renovation and expansion project. The note carries an interest rate of 4.625% per annum through December 1, 2015. On December 1, 2015 the rate adjusted to 4.125%. On December 1, 2020, the rate will be adjusted to 1.375% over the five year Federal Home Loan Bank of Des Moines fixed advance rate in effect on those dates. Such rate increase, however, will be limited to a 1.75% increase over the preceding effective interest rate. Commencing December 1, 2010, the note matures in 60 equal quarterly installments (as adjusted for changes in the interest rate) of principal and interest.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE F - LONG-TERM LIABILITIES - Continued

The note is collateralized by future revenues of the Hospital. Under the terms of the note indenture, the Hospital is required to satisfy certain measures of financial performance as long as the note is outstanding. The note indenture also places limits on the incurrence of additional borrowings. The Hospital is also required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

The annual debt service on the notes and capital lease obligation is expected to require less than 18% of cash flow available for debt service. For the current year, debt service and cash flow for debt were approximately \$807,500 and \$4,551,100, respectively.

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

Year Ending June 30,	Long-Term Debt		
	Principal	Interest	Total
2016	\$ 506,948	\$ 300,534	\$ 807,482
2017	530,804	276,678	807,482
2018	555,783	251,699	807,482
2019	581,937	225,545	807,482
2020	609,322	198,160	807,482
2021-2025	3,504,673	532,736	4,037,409
2026	396,923	6,896	403,819
	<u>\$ 6,686,390</u>	<u>\$ 1,792,248</u>	<u>\$ 8,478,638</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE G - DEFERRED INFLOWS OF RESOURCES

The deferred inflows of resources include deferred succeeding year property tax and pension plan earnings. The deferred succeeding year property tax represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Pension earnings represent the net difference between projected and realized earnings on pension plan investments:

	2015	2014
Deferred succeeding year property tax	\$ 1,600,000	\$ 1,599,000
Pension earnings	3,014,076	--
	\$ 4,614,076	\$ 1,599,000

NOTE H - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). 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 by 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.)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - PENSION PLAN - Continued

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% 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% 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% of pay and the Hospital contributed 8.93% for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2015 were \$1,255,360.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - PENSION PLAN - Continued

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the Hospital reported a liability of \$7,903,260 for its proportionate share of the net pension liability. The Hospital net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Hospital's proportion was 0.195283%, which was a decrease of 0.000788% from its proportion measured as of June 30, 2013. For the year ended June 30, 2015, the Hospital recognized pension expense of \$589,026. At June 30, 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 85,893	\$ --
Changes of assumptions	348,789	--
Net difference between projected and actual earnings on pension plan investments	--	3,014,076
Changes in proportion and differences between Hospital contributions and proportionate share of contributions	(37,247)	--
Hospital contributions subsequent to the measurement date	<u>1,255,360</u>	<u>--</u>
	<u>\$ 1,652,795</u>	<u>\$ 3,014,076</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - PENSION PLAN - Continued

The \$1,255,360, 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	\$(660,660)
2017	(660,660)
2018	(660,660)
2019	(660,660)
2020	25,999
	<u>\$(2,616,641)</u>

There were no non-employer contribution 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%
Salary increases (effective June 30, 2014)	4.00%, average, including inflation
Investment rate of return (effective June 30, 1996)	7.50% 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.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - PENSION PLAN - Continued

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

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

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

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

	<u>1% Decrease (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase (8.5%)</u>
Hospital's proportionate share of the net pension liability	\$ 14,932,989	\$ 7,903,260	\$ 1,969,442

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE H - PENSION PLAN - Continued

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 \$162,355 for legally required employer contributions and \$64,923 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

NOTE I - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2015, was approximately \$3,178,200, (\$3,336,400 at June 30, 2014). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE J - RELATED ORGANIZATIONS

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2015</u>	<u>2014</u>
Services purchased from HPSI	\$ 83,341	\$ 92,033
Services and supplies provided to HPSI	\$ 28,208	\$ 38,580
Amount due to HPSI	\$ 12,878	\$ 1,747
Member share of net position	\$ 491,230	\$ 465,322

The member share of net position is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI are on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation, therefore the Foundation is considered to be a component unit of the Hospital (see Note A.1). During the year ended June 30, 2015, contributions received from this organization were \$44,952 (\$96,320 for 2014).

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE K - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: As required by state law, the Hospital offers health insurance to former employees who have retired after age 55, but have not reached Medicare eligibility. The self-insured plan is a part of the plan offered to all Hospital employees, and the retirees must pay the full cost of the health insurance premium equal to that charged for current employees. There are approximately 217 active employees and 1 retiree currently covered by the plan.

Funding Policy: The Hospital does not set aside funds to pay for any OPEB liability. Any Hospital costs of an implicit health insurance premium rate subsidy are charged to expense in the year paid.

Net OPEB Obligation: Management had an actuarial valuation performed dated November 16, 2015. The actuarial report noted the unfunded actuarial accrued liability to be \$223,139. The annual required contribution for the year end June 30, 2015 is \$27,348. The actuarial accrued liability is assuming a 20% participation rate; however, the Hospital's current participation rate is less than one percent. Because of the high assumed participation rate, management considers the actuarial accrued liability to be overstated. Management considers the liability to be immaterial and has not recorded this liability in its statements of net position.

NOTE L - COMMITMENTS AND CONTINGENCIES

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

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

Construction in Progress

As of June 30, 2015, the Hospital incurred costs of \$1,348,344 for the purchase of equipment, various computer hardware and software applications, and renovation of the advanced care unit that have not been placed in service. The total estimated cost of this health information technology project and renovation is approximately \$1,546,000. The projects are being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE L- COMMITMENTS AND CONTINGENCIES - Continued

Subsequent Event

The Hospital has evaluated all subsequent events through December 14, 2015, the date the financial statements were available to be issued.

NOTE M - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

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 at June 30, 2015 and 2014, was as follows:

	<u>2015</u>	<u>2014</u>
Receivable from:		
Patients	\$ 915,384	\$ 704,156
Medicare	2,953,194	2,628,307
Medicaid	544,374	562,042
Blue Cross	1,305,243	1,313,424
Other commercial insurance carriers	1,135,702	521,907
Others	<u>86,978</u>	<u>182,298</u>
	6,940,875	5,912,134
Less allowances for doubtful accounts and contractual adjustments	<u>1,933,000</u>	<u>1,417,000</u>
	<u>\$ 5,007,875</u>	<u>\$ 4,495,134</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Financial Statements
June 30, 2015 and 2014

NOTE N - ACCOUNTING CHANGE/RESTATEMENT

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	\$ 25,267,604
Net pension liability at June 30, 2014	(11,101,564)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	1,164,475
Net position July 1, 2014, as restated	\$ 15,330,515

* * *

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Budgetary Comparison Schedule
 Year ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for depreciation, interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements			
	Unrestricted Fund	Restricted Fund	Total	
Amount raised by taxation	\$ 1,673,120	\$ --	\$ 1,673,120	
Other revenues	31,190,674	65,012	31,255,686	
Transfers in (out)	64,952	(64,952)	--	
	32,928,746	60	32,928,806	
Expenses	30,768,861	--	30,768,861	
Net	2,159,885	60	2,159,945	
Balance beginning of year	15,262,703	67,812	15,330,515	
Balance end of year	\$ 17,422,588	\$ 67,872	\$ 17,490,460	
	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,673,120	\$ --	\$ 1,673,120	\$ 1,598,946
Other revenues	31,255,686	356,436	31,612,122	34,184,967
	32,928,806	356,436	33,285,242	35,783,913
Expenses	30,768,861	989,723	31,758,584	33,846,223
Net	2,159,945	(633,287)	1,526,658	1,937,690
Balance beginning of year	15,330,515	(3,334,556)	11,995,959	11,995,959
Balance end of year	\$ 17,490,460	\$(3,967,843)	\$ 13,522,617	\$ 13,933,649

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of the Hospital's Proportionate Share of the Net IPERS Pension Liability
June 30, 2015

	<u>Required Information</u>
Hospital's proportion of the net pension liability	0.195283%
Hospital's proportionate share of the net pension liability	\$ 7,903,000
Hospital's covered-employee payroll	\$ 13,047,000
Hospital's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.57%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

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. The amounts presented are from the previous IPERS June 30 fiscal year. Amounts reported are rounded.

See accompanying independent auditor's report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Hospital IPERS Pension Contributions
Year Ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 1,255,000	\$ 1,165,000	\$ 1,102,000	\$ 997,000
Contributions in relation to the statutorily required contribution	<u>(1,255,000)</u>	<u>(1,165,000)</u>	<u>(1,102,000)</u>	<u>(997,000)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
Hospital's covered-employee payroll	\$ 14,058,000	\$ 13,047,000	\$ 12,710,000	\$ 12,358,000
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%

Note - Amounts reported are rounded.

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 848,000	\$ 786,000	\$ 744,000	\$ 621,000	\$ 556,000	\$ 548,000
<u>(848,000)</u>	<u>(786,000)</u>	<u>(744,000)</u>	<u>(621,000)</u>	<u>(556,000)</u>	<u>(548,000)</u>
<u>\$ --</u>					
\$ 12,206,000	\$ 11,820,000	\$ 11,713,000	\$ 10,262,000	\$ 9,672,000	\$ 9,535,000
6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

Changes of benefit terms:

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

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

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

Changes of assumptions:

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

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

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

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

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Notes to Required Supplementary Information - Pension Liability
Year Ended June 30, 2015

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

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

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

* * *

SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Receivables
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2015</u>		<u>Not Restated 2014</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 2,010,850	29.0%	\$ 1,797,607	30.4%
31 - 90	2,164,981	31.2	1,767,045	29.9
91 - 180	503,572	7.3	414,989	7.0
181 - 360	399,193	5.8	178,415	3.0
361 and over	112,033	1.6	97,277	1.7
	<u>5,190,629</u>	<u>74.9</u>	<u>4,255,333</u>	<u>72.0</u>
In hospital and unbilled	<u>1,750,246</u>	<u>25.1</u>	<u>1,656,801</u>	<u>28.0</u>
	<u>6,940,875</u>	<u>100.0%</u>	<u>5,912,134</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	530,000		320,000	
Allowance for contractual adjustments	<u>1,403,000</u>		<u>1,097,000</u>	
	<u>\$ 5,007,875</u>		<u>\$ 4,495,134</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>Not Restated 2014</u>
Balance, beginning	\$ 320,000	\$ 365,000
Provision for bad debts	1,070,322	1,182,961
Recoveries of accounts previously written off	<u>258,319</u>	<u>264,335</u>
	<u>1,648,641</u>	<u>1,812,296</u>
Accounts written off	<u>1,118,641</u>	<u>1,492,296</u>
Balance, ending	<u>\$ 530,000</u>	<u>\$ 320,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Inventory/Prepaid Expense
June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
<u>Inventory</u>		
General stores	\$ 95,217	\$ 115,585
Pharmacy	266,498	204,198
Dietary	16,691	17,453
Operating room	<u>190,146</u>	<u>193,479</u>
	<u>\$ 568,552</u>	<u>\$ 530,715</u>
 <u>Prepaid Expense</u>		
Dues	\$ 15,690	\$ 15,491
Insurance	236,515	267,960
Service contracts	<u>82,034</u>	<u>60,332</u>
	<u>\$ 334,239</u>	<u>\$ 343,783</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Patient Service Revenue
Year ended June 30,

	2015	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,200,621	\$ 116,703
Coronary care	1,580,647	145,039
Nursery	93,300	--
	<u>2,874,568</u>	<u>261,742</u>
Other Nursing Services:		
Operating room	333,563	3,061,807
Recovery room	9,585	149,445
Labor and delivery rooms	67,507	27,577
Medical supplies	527,380	1,362,055
Intravenous therapy	1,998,834	598,286
Emergency service	--	2,255,185
Wound/ostomy care	5,850	125,127
Outpatient clinics	846	549,570
Mobile health clinic	--	146,982
	<u>2,943,565</u>	<u>8,276,034</u>
Other Professional Services:		
Emergency room physicians	663	1,955,288
Laboratory	678,373	3,020,847
Electrocardiology	112,075	466,256
Electroencephalography	9,975	32,300
Radiology	136,522	1,816,309
Ultrasound	95,805	967,319
CT scan	275,541	3,497,700
Mammography	300	511,204
MRI	75,955	1,178,040
Nuclear medicine	31,595	358,332
Pharmacy	1,820,306	1,761,376
Anesthesiology	113,543	642,533
Inhalation therapy	912,933	320,643
Physical therapy	123,035	1,144,098
Speech therapy	6,439	46,445
Occupational therapy	16,437	174,911
Cardiopulmonary rehabilitation	--	172,492
Oncology	8,955	1,445,656
Sleep study	--	296,220
Home health	--	426,984
Hospice	--	658,493
Business health	--	171,675
Women's Health Clinic	--	551,331
Villisca Medical Clinic	--	353,594
Surgical services	405	1,296,451
Internal Medicine Clinic	--	3,221,827
	<u>4,418,857</u>	<u>26,488,324</u>
	<u>\$ 10,236,990</u>	<u>\$ 35,026,100</u>

See Independent Auditor's Report.

2015		Not Restated 2014
Swing Bed	Total	Total
\$ 1,137,169	\$ 2,454,493	\$ 2,469,728
--	1,725,686	1,616,828
--	93,300	90,096
<u>1,137,169</u>	<u>4,273,479</u>	<u>4,176,652</u>
14,875	3,410,245	3,314,765
615	159,645	165,675
--	95,084	104,452
187,897	2,077,332	1,839,903
467,094	3,064,214	3,116,020
--	2,255,185	2,042,058
5,700	136,677	44,982
1,510	551,926	441,404
--	146,982	--
<u>677,691</u>	<u>11,897,290</u>	<u>11,069,259</u>
--	1,955,951	1,440,930
186,786	3,886,006	3,668,209
15,630	593,961	526,977
2,850	45,125	42,300
36,817	1,989,648	1,961,113
8,429	1,071,553	1,073,803
38,745	3,811,986	3,425,370
--	511,504	518,786
5,565	1,259,560	1,288,170
7,018	396,945	400,596
840,340	4,422,022	4,010,655
4,483	760,559	838,507
461,759	1,695,335	1,568,165
252,850	1,519,983	1,402,105
11,139	64,023	72,320
61,443	252,791	311,088
--	172,492	48,618
12,145	1,466,756	1,101,587
--	296,220	256,470
--	426,984	460,060
--	658,493	536,913
--	171,675	145,883
--	551,331	537,467
--	353,594	250,240
--	1,296,856	1,286,301
--	3,221,827	2,326,959
<u>1,945,999</u>	<u>32,853,180</u>	<u>29,499,592</u>
\$ <u>3,760,859</u>	\$ <u>49,023,949</u>	\$ <u>44,745,503</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Revenue and Related Adjustments
Year ended June 30,

	2015	Not Restated 2014
Net Patient Service Revenue:		
Patient service revenue	\$ 49,023,949	\$ 44,745,503
Contractual adjustments	(17,415,279)	(15,412,672)
Discounts and allowances	(173,685)	(172,534)
Charity care	(40,352)	(128,209)
Provision for bad debts	(1,070,322)	(1,182,961)
	\$ 30,324,311	\$ 27,849,127
Other Operating Revenue:		
Meals sold	\$ 105,363	\$ 100,916
Prisoner meals	40,906	43,456
Meals on wheels	29,333	33,080
Lifeline	67,267	69,546
Medical record transcripts	719	1,028
Retail pharmacy - 340B program, net	238,557	--
Case management	21,320	24,428
Wellness	29,934	29,799
Contracted services	27,679	36,354
Miscellaneous	106,002	69,980
	\$ 667,080	\$ 408,587

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Administrative:		
Salaries and wages	\$ 155,644	\$ 168,882
Employee benefits	61,012	45,433
Supplies and other expense	<u>13,797</u>	<u>9,078</u>
	230,453	223,393
Quality Assurance:		
Salaries and wages	72,949	70,619
Employee benefits	31,469	30,004
Supplies and other expense	<u>11,436</u>	<u>7,700</u>
	115,854	108,323
Inservice:		
Salaries and wages	70,457	65,679
Employee benefits	35,403	33,288
Supplies and other expense	<u>37,264</u>	<u>38,144</u>
	143,124	137,111
Medical and Surgical:		
Salaries and wages	1,719,012	1,577,388
Employee benefits	620,023	619,720
Supplies and other expense	<u>110,602</u>	<u>81,117</u>
	2,449,637	2,278,225
Coronary Care:		
Salaries and wages	1,015,560	1,012,347
Employee benefits	407,825	377,075
Supplies and other expense	<u>55,192</u>	<u>35,565</u>
	1,478,577	1,424,987
Obstetric:		
Salaries and wages	23,597	24,159
Employee benefits	3,912	4,006
Supplies and other expense	<u>46,443</u>	<u>41,569</u>
	73,952	69,734

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Nursery:		
Salaries and wages	\$ 27,919	\$ 28,164
Employee benefits	4,629	4,670
Supplies and other expense	159	22
	32,707	32,856
Operating Room:		
Salaries and wages	518,722	452,069
Employee benefits	179,739	183,813
Supplies and other expense	704,404	745,902
	1,402,865	1,381,784
Labor and Delivery:		
Salaries and wages	13,484	13,297
Employee benefits	2,236	2,205
Supplies and other expense	427	117
	16,147	15,619
Central Services and Supply:		
Salaries and wages	168,260	188,702
Employee benefits	72,196	91,131
Supplies sold to patients	297,268	76,187
Supplies and other expense	20,911	8,471
	558,635	364,491
Intravenous Therapy:		
Solutions	42,733	40,220
Emergency Services:		
Salaries and wages	596,200	569,080
Employee benefits	122,347	124,396
Supplies and other expense	49,800	52,777
	768,347	746,253
Outpatient Clinics:		
Salaries and wages	402,713	375,655
Employee benefits	151,679	136,641
Supplies and other expense	92,263	53,935
	646,655	566,231

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Nursing Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Wellness:		
Salaries and wages	\$ 38,115	\$ --
Employee benefits	16,377	--
Supplies and other expense	5,828	--
	60,320	--
Mobile Health Clinics:		
Salaries and wages	150,516	--
Employee benefits	34,802	--
Supplies and other expense	42,826	--
	228,144	--
	\$ 8,248,150	\$ 7,389,227
<u>SUMMARY</u>		
Salaries and wages	\$ 4,973,148	\$ 4,546,041
Employee benefits	1,743,649	1,652,382
Other expense	1,531,353	1,190,804
	\$ 8,248,150	\$ 7,389,227

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Emergency Room Physicians: Professional fees	\$ 999,604	\$ 1,031,818
Laboratory:		
Salaries and wages	524,250	519,492
Employee benefits	147,160	141,039
Purchased services	223,656	191,393
Supplies and other expense	<u>440,673</u>	<u>468,670</u>
	1,335,739	1,320,594
Blood Bank:		
Cost of blood	97,090	169,527
Electrocardiology:		
Salaries and wages	22,008	17,666
Employee benefits	3,631	2,896
Purchased services	62,831	43,284
Supplies and other expense	<u>14</u>	<u>--</u>
	88,484	63,846
Electroencephalography:		
Salaries and wages	719	1,066
Employee benefits	<u>119</u>	<u>175</u>
	838	1,241
Radiology:		
Salaries and wages	491,281	502,063
Employee benefits	178,515	176,774
Supplies and other expense	<u>266,168</u>	<u>426,148</u>
	935,964	1,104,985
Ultrasound:		
Salaries and wages	99,622	101,586
Employee benefits	30,131	17,548
Supplies and other expense	<u>38,413</u>	<u>66,824</u>
	168,166	185,958

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
CT Scan:		
Supplies and other expense	\$ 160,605	\$ 165,024
Mammography:		
Purchased services	72,581	72,289
Supplies and other expense	17,398	25,733
	89,979	98,022
MRI:		
Purchased services	125,838	129,665
Supplies and other expense	5,785	5,791
	131,623	135,456
Nuclear Medicine:		
Purchased services	46,465	60,893
Supplies and other expense	4,682	1,110
	51,147	62,003
Pharmacy:		
Salaries and wages	359,309	329,195
Employee benefits	85,505	82,028
Purchased services	33,684	88,068
Drugs	676,233	538,766
Supplies and other expense	34,432	15,570
	1,189,163	1,053,627
Anesthesiology:		
Salaries and wages	399,851	411,682
Employee benefits	86,675	88,860
Professional fees	2,085	240
Supplies and other expense	43,236	68,550
	531,847	569,332
Inhalation Therapy:		
Salaries and wages	339,668	324,523
Employee benefits	101,626	100,206
Professional fees	962	494
Supplies and other expense	41,137	45,300
	483,393	470,523

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Physical Therapy:		
Professional fees	\$ 553,214	\$ 528,073
Supplies and other expense	<u>21,606</u>	<u>21,131</u>
	574,820	549,204
Speech Therapy:		
Professional fees	52,300	35,535
Supplies and other expense	<u>24</u>	<u>685</u>
	52,324	36,220
Occupational Therapy:		
Professional fees	90,633	125,155
Cardiopulmonary Rehabilitation:		
Salaries and wages	115,111	77,376
Employee benefits	33,987	29,154
Supplies and other expense	<u>4,016</u>	<u>7,200</u>
	153,114	113,730
Oncology:		
Salaries and wages	191,731	187,843
Employee benefits	44,591	44,863
Supplies and other expense	<u>628,525</u>	<u>620,915</u>
	864,847	853,621
Sleep Study:		
Salaries and wages	64,103	60,406
Employee benefits	25,243	17,311
Professional fees	--	180
Supplies and other expense	<u>13,421</u>	<u>12,569</u>
	102,767	90,466
Home Health:		
Salaries and wages	239,176	259,053
Employee benefits	134,616	118,310
Professional fees	56,835	79,208
Purchased services	12,320	18,821
Supplies and other expense	<u>25,275</u>	<u>25,031</u>
	468,222	500,423

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Hospice:		
Salaries and wages	\$ 148,641	\$ 124,452
Employee benefits	30,031	25,569
Purchased services	116,102	66,389
Supplies and other expense	67,233	59,009
	362,007	275,419
Business Health:		
Salaries and wages	55,373	41,543
Employee benefits	13,394	11,917
Supplies and other expense	28,042	23,150
	96,809	76,610
Women's Health Clinic:		
Salaries and wages	350,164	364,039
Employee benefits	108,412	94,167
Supplies and other expense	60,820	35,107
	519,396	493,313
Villisca Medical Clinic:		
Salaries and wages	187,936	171,498
Employee benefits	56,845	61,857
Supplies and other expense	78,851	73,080
	323,632	306,435
Surgical Services:		
Salaries and wages	413,777	404,218
Employee benefits	61,625	59,974
Supplies and other expense	36,814	41,633
	512,216	505,825
Internal Medicine Clinic:		
Salaries and wages	1,437,793	983,261
Employee benefits	399,016	283,263
Purchased services	61,127	27,041
Supplies and other expense	143,026	109,154
	2,040,962	1,402,719
Social Services:		
Salaries and wages	117,594	112,883
Employee benefits	29,363	30,552
Supplies and other expense	2,247	2,478
	149,204	145,913

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Other Professional Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Lifeline:		
Supplies and other expense	\$ 52,043	\$ 52,142
Health Information Management:		
Salaries and wages	344,861	327,311
Employee benefits	118,822	111,837
Supplies and other expense	40,953	68,405
	504,636	507,553
Case Management:		
Salaries and wages	--	10,164
Employee benefits	--	302
Supplies and other expense	2,194	5,469
	2,194	15,935
Diabetes Program:		
Salaries and wages	75,003	76,029
Employee benefits	27,275	26,581
Supplies and other expense	4,815	2,359
	107,093	104,969
Wound/Ostomy Care:		
Purchased services	85,779	49,921
Supplies and other expense	5,900	4,409
	91,679	54,330
	\$ 13,332,240	\$ 12,641,938

SUMMARY

Salaries and wages	\$ 5,977,971	\$ 5,407,349
Employee benefits	1,716,582	1,525,183
Professional fees	1,755,633	1,800,703
Other expense	3,882,054	3,908,703
	\$ 13,332,240	\$ 12,641,938

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 General Service Expenses
 Year ended June 30,

	2015	Not Restated 2014
Dietary:		
Salaries and wages	\$ 508,165	\$ 507,263
Employee benefits	217,485	207,269
Food	238,847	228,233
Supplies and other expense	53,845	65,582
	1,018,342	1,008,347
Housekeeping:		
Salaries and wages	470,282	442,447
Employee benefits	220,996	212,382
Purchased services	20,033	20,521
Supplies and other expense	102,689	104,923
	814,000	780,273
Laundry and Linen:		
Purchased services	109,495	105,652
Supplies and other expense	2,439	2,354
	111,934	108,006
Plant Engineering:		
Salaries and wages	217,936	219,024
Employee benefits	61,962	61,263
Utilities	387,309	471,816
Purchased services	37,286	44,427
Supplies and other expense	324,660	278,000
	1,029,153	1,074,530
	\$ 2,973,429	\$ 2,971,156

SUMMARY

Salaries and wages	\$ 1,196,383	\$ 1,168,734
Employee benefits	500,443	480,914
Other expense	1,276,603	1,321,508
	\$ 2,973,429	\$ 2,971,156

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Administrative:		
Salaries and wages	\$ 245,854	\$ 281,083
Employee benefits	255,588	239,135
Professional fees	107,195	75,683
Dues and subscriptions	63,889	52,743
Purchased services	64,603	77,316
Collection fees	68,479	57,043
Telephone	31,017	30,100
Supplies and other expense	155,180	153,062
Pension expense adjustment	<u>(672,548)</u>	<u>--</u>
	319,257	966,165
Accounting:		
Salaries and wages	253,621	223,539
Employee benefits	78,276	69,944
Supplies and other expense	<u>10,159</u>	<u>7,785</u>
	342,056	301,268
Admissions/Business Office:		
Salaries and wages	251,000	228,297
Employee benefits	110,329	88,299
Supplies and other expense	<u>27,013</u>	<u>24,196</u>
	388,342	340,792
Patient Accounting:		
Salaries and wages	314,115	303,531
Employee benefits	125,796	115,885
Supplies and other expense	<u>70,483</u>	<u>53,034</u>
	510,394	472,450
Fiscal Services:		
Salaries and wages	151,168	146,488
Employee benefits	83,333	71,354
Purchased services	6,588	17,512
Supplies and other expense	<u>6,512</u>	<u>6,688</u>
	247,601	242,042
Information Systems:		
Salaries and wages	763,740	724,386
Employee benefits	239,883	222,598
Purchased services and maintenance	466,141	493,866
Supplies and other expense	<u>64,642</u>	<u>85,801</u>
	1,534,406	1,526,651

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Fiscal and Administrative Service Expenses - Continued
Year ended June 30,

	2015	Not Restated 2014
Human Resources:		
Salaries and wages	\$ 111,231	\$ 90,311
Employee benefits	62,175	46,992
Purchased services	7,559	3,537
Supplies and other expense	85,227	29,223
	266,192	170,063
Public Relations:		
Salaries and wages	96,009	84,481
Employee benefits	23,048	18,112
Supplies and other expense	174,043	152,969
	293,100	255,562
DRG/Utilization Review:		
Salaries and wages	113,452	107,877
Employee benefits	32,057	31,563
Supplies and other expense	2,285	1,264
	147,794	140,704
Insurance:		
Liability and property insurance	131,204	113,618
	\$ 4,180,346	\$ 4,529,315

SUMMARY

Salaries and wages	\$ 2,300,190	\$ 2,189,993
Employee benefits	1,010,485	903,882
Professional fees	107,195	75,683
Other expense	762,476	1,359,757
	\$ 4,180,346	\$ 4,529,315

SUMMARY OF EXPENSES

Salaries and wages	\$ 14,447,692	\$ 13,312,117
Employee benefits	4,972,009	4,562,361
Professional fees	1,862,828	1,876,386
Other expense	7,451,636	7,780,772
	\$ 28,734,165	\$ 27,531,636

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
 Comparative Statistics
 Year ended June 30,

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Admissions	795	717	767	798	825
Discharges	794	722	759	797	825
Average Length of Stay	3.73	3.51	3.77	3.70	3.54
Acute Patient Days	2,959	2,533	2,861	2,947	2,919
Average Occupied Beds	8.1	6.9	7.8	8.1	8.0
Swing Bed Days	1,973	2,288	2,141	2,755	2,716
Combined Average Occupied Beds	13.5	13.2	13.7	15.6	15.4
Beds Available	25	25	25	25	25
Nursery Days	119	116	123	150	126
Outpatient Occasions of Service	42,338	38,707	37,890	39,031	40,682

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Net Position
June 30,

	2015	Not Restated 2014
Current Assets:		
Cash	\$ 1,328,290	\$ 1,121,704
Receivables, net	5,235,772	4,557,111
Inventory	568,552	530,715
Prepaid expense	334,239	343,783
Estimated third-party payor settlements	--	86,000
Succeeding year property tax receivable	1,600,000	1,599,000
Internally designated assets	83,797	83,988
Total current assets	9,150,650	8,322,301
Other Assets:		
Internally designated and restricted assets	9,681,324	8,764,329
Capital assets, net	19,111,380	18,962,253
Other non-current assets	548,915	657,338
Total other assets	29,341,619	28,383,920
Deferred Outflows of Resources - Pension	1,652,795	--
Total assets and deferred outflows of resources	\$ 40,145,064	\$ 36,706,221
Current Liabilities:		
Current maturities of long-term debt	\$ 506,948	\$ 484,164
Accounts payable	697,879	956,318
Estimated third-party payor settlements	900,000	--
Accrued expenses	1,852,999	1,712,749
Total current liabilities	3,957,826	3,153,231
Long-Term Liabilities:		
Long-term debt, net	6,179,442	6,686,386
Net pension liability	7,903,260	--
Total liabilities	18,040,528	9,839,617
Deferred Inflows of Resources	4,614,076	1,599,000
Net Position	17,490,460	25,267,604
Total liabilities, deferred inflows of resources and net position	\$ 40,145,064	\$ 36,706,221

See Independent Auditor's Report.

	Not Restated		
	2013	2012	2011
\$	677,678	\$ 1,657,621	\$ 1,890,890
	4,885,015	4,706,719	3,597,681
	380,900	396,487	413,594
	299,933	168,973	430,890
	953,000	--	938,000
	1,525,000	1,469,000	1,395,000
	88,201	92,406	91,989
	<u>8,809,727</u>	<u>8,491,206</u>	<u>8,758,044</u>
	7,248,921	6,403,545	5,484,053
	19,985,689	21,455,529	21,924,713
	540,107	518,817	482,575
	<u>27,774,717</u>	<u>28,377,891</u>	<u>27,891,341</u>
	--	--	--
\$	<u>36,584,444</u>	<u>36,869,097</u>	<u>36,649,385</u>
\$	462,404	\$ 434,609	\$ 430,524
	756,426	1,167,688	1,670,469
	--	207,000	--
	<u>1,697,225</u>	<u>1,568,097</u>	<u>1,416,584</u>
	2,916,055	3,377,394	3,517,577
	7,170,476	7,632,880	8,174,106
	--	--	--
	<u>10,086,531</u>	<u>11,010,274</u>	<u>11,691,683</u>
	1,525,000	1,469,000	1,395,000
	<u>24,972,913</u>	<u>24,389,823</u>	<u>23,562,702</u>
\$	<u>36,584,444</u>	<u>36,869,097</u>	<u>36,649,385</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Comparative Statements of Revenues and Expenses
Year ended June 30,

	<u>2015</u>	<u>Not Restated 2014</u>
Patient Service Revenue	\$ 49,023,949	\$ 44,745,503
Adjustments to Patient Service Revenue	<u>(18,699,638)</u>	<u>(16,896,376)</u>
Net Patient Service Revenue	30,324,311	27,849,127
Other Revenue	<u>667,080</u>	<u>408,587</u>
Total Revenue	30,991,391	28,257,714
Expenses	<u>30,768,861</u>	<u>29,599,515</u>
Operating Income (Loss)	222,530	(1,341,801)
Non-Operating Revenue, Net	<u>1,872,463</u>	<u>1,514,172</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions	2,094,993	172,371
Capital Grants and Contributions	<u>64,952</u>	<u>122,320</u>
Increase (Decrease) in Net Position	<u>\$ 2,159,945</u>	<u>\$ 294,691</u>

See Independent Auditor's Report.

	Not Restated	
<u>2013</u>	<u>2012</u>	<u>2011</u>
\$ 43,209,451	\$ 42,392,117	\$ 40,741,153
<u>(16,079,693)</u>	<u>(15,890,946)</u>	<u>(15,346,995)</u>
27,129,758	26,501,171	25,394,158
<u>392,062</u>	<u>389,145</u>	<u>335,312</u>
27,521,820	26,890,316	25,729,470
<u>28,375,746</u>	<u>27,493,396</u>	<u>27,552,077</u>
(853,926)	(603,080)	(1,822,607)
<u>1,406,016</u>	<u>1,337,085</u>	<u>1,255,677</u>
552,090	734,005	(566,930)
<u>31,000</u>	<u>93,116</u>	<u>45,000</u>
<u>\$ 583,090</u>	<u>\$ 827,121</u>	<u>\$ (521,930)</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

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
Montgomery County Memorial Hospital
Red Oak, 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 Montgomery County Memorial Hospital, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Montgomery County Memorial Hospital's basic financial statements and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

To the Board of Trustees
Montgomery County Memorial Hospital

Compliance and Other Matters

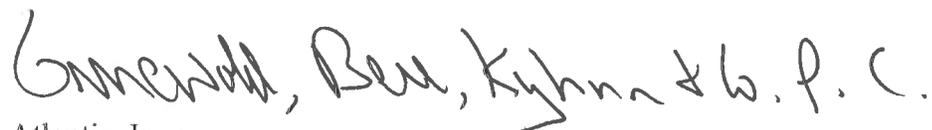
As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Responses to Findings

Montgomery County Memorial Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Montgomery County Memorial 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.



Atlantic, Iowa
December 14, 2015

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2015

PART I - FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Significant Deficiencies:

15-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital. This deficiency is common among most small rural Hospitals.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

MONTGOMERY COUNTY MEMORIAL HOSPITAL
Schedule of Findings and Responses
Year ended June 30, 2015

PART II - OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

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

15-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

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

15-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

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

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

* * *