

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Scobey, Montana

Financial Statements and
Independent Auditor's Report
Years Ended June 30, 2016 and 2015



Independent Auditor's Report

Board of Directors
Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Scobey, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center (the "Hospital"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.



Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information, the Schedules of Net Patient Service Revenue and Operating Expenses appearing on pages 22 through 30 are presented for the purpose of additional analysis and are not a required part of the 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 the audit of the 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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

December 16, 2016
Helena, Montana

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Statements of Financial Position

<i>As of June 30,</i>	2016	2015
<i>ASSETS</i>		
Current assets:		
Cash and cash equivalents	\$ 651,524	\$ 221,133
Investments	32,000	462,527
Patient accounts receivable, net	884,276	545,711
Cost report settlement receivable	-	90,000
Other receivables	-	5,750
Inventory	207,406	196,464
Prepaid expenses and other current assets	50,261	54,793
Total current assets	1,825,467	1,576,378
Assets limited to use:		
Cash and cash equivalents , held in trust for residents	320	20
Total assets limited as to use	320	20
Long-term assets:		
Subscriber's equity in insurance captive	208,018	236,401
Property and equipment, net	1,085,869	1,264,036
Total long-term assets	1,293,887	1,500,437
TOTAL ASSETS	\$ 3,119,674	\$ 3,076,835

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Statements of Financial Position, continued

<i>As of June 30,</i>	2016	2015
<i>LIABILITIES</i>		
Current liabilities:		
Accounts payable	\$ 549,340	\$ 404,079
Cost report settlement payable	433,215	-
Accrued expenses and other liabilities	320,118	339,064
Resident trust fund	320	20
Current portion of long-term debt	-	42,451
Total current liabilities	1,302,993	785,614
<i>NET ASSETS</i>		
Net assets:		
Unrestricted	1,812,681	2,291,221
Temporarily restricted	4,000	-
Total net assets	1,816,681	2,291,221
TOTAL LIABILITIES AND NET ASSETS	\$ 3,119,674	\$ 3,076,835

See accompanying notes to the financial statements.

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Statements of Activities and Changes in Net Assets

<i>Years ended June 30,</i>	2016	2015
Operating revenue:		
Patient service revenue - net of contractual allowances and discounts	\$ 6,669,862	\$ 5,904,831
Provision for bad debts	(225,526)	(56,125)
Net patient service revenue	6,444,336	5,848,706
Other operating revenue	204,963	273,705
Total operating revenue	6,649,299	6,122,411
Expenses:		
Operating expenses	7,461,018	6,947,806
Depreciation and amortization	279,861	281,826
Interest expense	1,129	2,667
Total expenses	7,742,008	7,232,299
Loss from operations	(1,092,709)	(1,109,888)
Contribution Income	339,011	569,624
Hospital district tax revenues	300,206	150,000
Other unrestricted revenue (expense)	(25,048)	15,581
Decrease in unrestricted net assets	(478,540)	(374,683)
Temporarily restricted net assets:		
Donations	4,000	-
Increase in temporarily restricted net assets	4,000	-
Decrease in net assets	(474,540)	(374,683)
Net assets, beginning of year	2,291,221	2,665,904
Net assets, end of year	\$ 1,816,681	\$ 2,291,221

See accompanying notes to the financial statements.

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Statements of Cash Flows

<i>June 30,</i>	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (474,540)	\$ (374,683)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation and amortization	279,861	281,826
Increase in provision for bad debts	31,665	5,441
Increase (decrease) in patient accounts receivable	(370,230)	68,913
(Increase) decrease in cost report settlement receivable	90,000	243,000
(Increase) decrease in other receivables	5,750	(1,885)
(Increase) decrease in inventory	(10,942)	(4,531)
(Increase) decrease in prepaid expenses and other current assets	4,532	(13,390)
(Increase) decrease in subscribers equity	28,383	(13,974)
Increase (decrease) in accounts payable	145,261	268,072
Increase (decrease) in cost report settlement payable	433,215	-
Increase (decrease) in accrued expenses and other liabilities	(18,646)	15,797
Net cash from operating activities	144,309	474,586
Cash flows from investing activities:		
Purchase of investments	-	(149,917)
Sales of investments	430,227	-
Purchase of property and equipment	(101,694)	(326,856)
Net cash from investing activities	328,533	(476,773)
Cash flows from financing activities:		
Repayment of long-term debt	(42,451)	(41,127)
Net cash from financing activities	(42,451)	(41,127)
Change in cash and cash equivalents	430,391	(43,314)
Cash and cash equivalents, beginning of year	221,133	264,447
Cash and cash equivalents, end of year	\$ 651,524	\$ 221,133
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 1,704	\$ 2,110

See accompanying notes to the financial statements.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies

Nature of Operations

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center (the Hospital) is a Montana not-for-profit corporation, operating a critical access hospital (CAH), long-term care facility and rural healthcare clinic in Scobey, Montana. The facility operates with a physician and one physician's assistant providing medical care to the residents of Daniels County and the surrounding area.

Financial Statement Presentation

The Hospital follows accounting standards set by the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Cash Equivalents

The Hospital considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted.

Patient Accounts Receivables and Credit Policy

Patient accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from Montana residents, most of whom are insured under third-party payor agreements. The Hospital bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on patient accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Hospital does not have a policy to charge interest on past due accounts.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Accounts Receivables and Credit Policy (Continued)

Patient accounts receivable are recorded in the accompanying statements of financial position net of contractual adjustments and allowances for doubtful accounts, which reflect management's best estimate of the amounts that won't be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to patient accounts receivable. In addition, management provides for probable uncollectible amounts, primarily for uninsured patients and amounts patients are personally responsible for, through a reduction of gross revenue and a credit to a valuation allowance.

In evaluating the collectability of patient accounts receivable, the Hospital analyzes past results and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. Specifically, for receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely. For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Investments

Investments in certificates of deposits with readily determinable fair values are measured at fair value in the statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

Inventories

Supplies inventories are shown at average cost.

Assets Limited as to Use

Assets limited as to use primarily consists of assets held in trust for residents of the long-term care facility.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Major expenditures for property and equipment (cost of \$5,000 or greater) and expenditures that substantially increase useful lives are capitalized. Maintenance, repairs, and minor renewals are expensed as incurred. When assets are retired or otherwise disposed of, cost and related accumulated depreciation are removed from the accounts and resulting gains or losses are included in income (expense).

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are included in the change in unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Accrued Personal Leave

The Hospital provides a personal leave benefit to its employees based on the number of hours worked and the length of employment. Personal leave may be used for vacations, holidays and illness. The Hospital accrues a liability for earned but unused personal leave as of fiscal year-end. The accrual is calculated using end of year compensation rates.

Net Assets

Unrestricted net assets are neither temporarily nor permanently restricted by donor-imposed stipulations. Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Hospital in perpetuity. The Hospital has no permanently restricted net assets at June 30, 2016 and 2015.

Daniels Memorial Hospital Association

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Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage primarily on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of discounted rates established under the Hospital's uninsured patient policy. The provision for contractual adjustments (that is, the difference between established rates and expected third-party payor payments) and the discounts (that is, the difference between established rates and the amount billable) are recognized on the accrual basis. These amounts are deducted from gross patient service revenue to determine patient service revenue (net of contractual allowances and discounts). Based on the historical experience of the Hospital, a significant portion of uninsured patients will be unwilling or unable to pay for services provided. Thus, the Hospital's records a provision for bad debts related to uninsured patients in the period the services are provided. The provision for bad debts is based on historical loss experience and is deducted from patient service revenue (net of contractual allowances and discounts) to determine net patient service revenue less provision for bad debts. The Hospital also accrues retroactive adjustments under reimbursement agreements with third-party payors on an estimated basis in the period the related services are provided. Estimates are adjusted in future periods as final settlements are determined.

Charity Care

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

Contributions and Unconditional Promises to Give

Contributions are considered available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions.

Unemployment Insurance

The hospital exercises its option to pay all valid unemployment claims assessed against it by reimbursing the unemployment insurance division on the basis of specific claims presented. The resulting liability is not accrued by management due to the difficulty of estimation. Payments are expensed as made.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 1: Summary of Significant Accounting Policies (Continued)

Estimated Malpractice Costs

The provision for estimated malpractice includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. There were no known outstanding claims for the years ended June 30, 2016 and 2015.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital is also exempt from state income taxes on related income.

Federal and state income taxes are paid on nonexempt unrelated business income in accordance with the Code.

Current accounting guidelines require an organization to determine whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements.

The Hospital recorded no assets or liabilities related to uncertain tax positions. Federal returns for tax years 2013 and beyond remain subject to examination by the Internal Revenue Service.

Subsequent Events

Subsequent events have been evaluated through December 16, 2016, which is the date the financial statements were available to be issued. Subsequent to June 30, 2016 the Hospital Board voted to de-license the nursing home beds and will provide those long-term services through the use of CAH licensed beds. This change brings the CAH approved beds to 25.

Note 2: Cash and Cash Equivalents

The Company maintains depository relationships with area financial institutions that are Federal Depository Insurance Corporation (FDIC) insured institutions. Depository accounts at these institutions are insured by the FDIC up to \$250,000. At June 30, 2016, the Company did not exceed the insured limits. In addition, other investments held by financial institutions are uninsured.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 3: Patient Accounts Receivable

Patient accounts receivable consisted of the following at June 30, 2016 and 2015:

	2016	2015
Patient Accounts	\$ 1,115,719	\$ 745,489
Less:		
Allowance for doubtful accounts	231,443	199,778
Patient accounts - Net	\$ 884,276	\$ 545,711

Write-offs as a percentage of gross revenue increased 2.3% in 2016 compared to 2015, and gross revenue decreased approximately 15% in 2016 compared to 2015. These factors increased the amount of past due accounts and contributed to the allowance for doubtful accounts increasing. However, as a percentage, the allowance for doubtful accounts decreased from 27% of patient accounts receivable at June 30, 2015, to 21% of patient accounts receivable at June 30, 2016. The Hospital has not changed its charity care or uninsured discount policies during 2016 or 2015.

The hospital grants credit without collateral to patients, most of whom are insured or covered under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30 was as follows:

	2016	2015
Medicare	\$ 351,435	\$ 202,493
Medicaid	93,800	86,545
Commercial insurance and other third-party payors	363,048	214,417
Self pay patients	307,436	242,034
Total	\$ 1,115,719	\$ 745,489

The Hospital's percentage of receivables by payor is as follows for the years ended June 30:

	2016	2015
Medicare	31 %	27 %
Medicaid	8 %	12 %
Commercial insurance and other third-party payors	33 %	29 %
Self pay patients	28 %	32 %
Total	100 %	100 %

Daniels Memorial Hospital Association

dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 4: Reimbursement Arrangements With Third-Party Payors

Agreements are maintained with third-party payors that provide for reimbursement at amounts which vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

Medicare - The Hospital is designated as a critical access hospital (CAH). Under this designation, inpatient and outpatient services provided to Medicare program beneficiaries are paid based on a cost-reimbursement methodology, with the exception of certain lab and therapy services, which remain on a fee schedule.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

Physician and Professional Services - Certain physician and professional services rendered to Medicare and Medicaid beneficiaries qualify for reimbursement as Medicare-approved rural health clinic services. The Hospital's primary care clinic is designated as a rural health clinic and paid on a cost-per-visit basis. The Hospital is reimbursed for cost at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. All other physician and professional services rendered to Medicare and Medicaid beneficiaries are paid based on prospectively determined fee schedules.

Other payors - The Hospital has entered into payment agreements with commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, fee schedules, and prospectively determines daily rates.

Accounting for Contractual Arrangements

The Hospital is reimbursed for certain cost-reimbursable items at an interim rate, and final settlements are determined after audit of the Hospital's related annual cost reports by the respective Medicare and Medicaid fiscal intermediaries. Estimated provisions to approximate the final expected settlements after review by the intermediaries are included in the accompanying financial statements. The Hospital's cost reports have been audited by the Medicare and Medicaid fiscal intermediaries through June 30, 2015 and 2014, respectively.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 4: Reimbursement Arrangements With Third-Party Payors (Continued)

Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and billing regulations. Government activity with respect to investigations and allegations concerning possible violations of such regulations by health care providers has increased. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of fines and penalties, as well as repayments for patient services previously billed. Management believes the Hospital is in compliance with applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

The Centers for Medicare and Medicaid Services (CMS) uses recovery audit contractors (RACs) as part of its efforts to ensure accurate payments. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once the RAC identifies a claim it believes is inaccurate, it makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. Certain states have also hired Medicaid Integrity Contractors (MICs) to perform audits similar to RACs. The Hospital will have the ability to appeal adjustments before final settlement of the claim is made. As of June 30, 2016, the Hospital has not been notified by the RAC or MIC of any potential significant reimbursement adjustments.

Note 5: Investments

Investments at June 30, 2016 and 2015, for the years then ended consisted of the following:

<i>Years Ended June 30,</i>	2016	2015
Certificates of Deposit held at local financial institutions	\$ 32,000	\$ 462,527

Investment income included in other unrestricted revenue for the years ended June 30, 2016 and 2015 consisted of interest income of \$635 and \$1,587, respectively.

Daniels Memorial Hospital Association
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Notes to Financial Statements

Note 6: Inventories

Inventories consist of the following:

<i>Years Ended June 30,</i>	2016	2015
Inventory stores	\$ 35,238	\$ 32,756
Inventory issued to departments	172,168	163,708
Total	\$ 207,406	\$ 196,464

Note 7: Property and Equipment

Property and equipment consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land and land improvements	\$ 44,832	\$ 39,837
Buildings	3,622,462	3,622,462
Equipment	2,149,778	1,965,812
Total property and equipment	5,817,072	5,628,111
Construction in progress	-	87,266
Less - accumulated depreciation	(4,731,203)	(4,451,341)
Property and equipment - net	\$ 1,085,869	\$ 1,264,036
Depreciation Expense	\$ 279,861	\$ 281,826

The amount of construction in progress relates to routine capital projects for renovating and updating the Hospital's facilities.

**Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center
Notes to Financial Statements**

Note 8: Accrued Expenses

Accrued expenses as of June 30, 2016 and 2015, are comprised of the following:

	2016	2015
Accrued salary and benefits	\$ 249,478	\$ 250,903
Accrued payroll taxes	66,615	87,586
Accrued interest	-	575
Pension obligation	4,025	-
Total	\$ 320,118	\$ 339,064

Note 9: Long-Term Debt

Long-term debt consisted of the following at June 30, 2015:

	2015
Bank loan	\$ 42,415
Less current portion	(42,415)
Total	\$ -

The carrying value of long-term debt approximates its fair value.

The hospital has a term loan with a local financial institution. The note payable bears a variable interest rate equal to the prime rate.

At June 30, 2015 this rate was 3.25%. Payments are made annually and the payment amount is \$43,855. The final payment was made February 14, 2016. This note was unsecured.

Note 10: Line of Credit

On February 16, 2016, The Hospital opened a short-term revolving line of credit, held at Independence Bank in Scobey. The credit limit is \$300,000 for the year ended June 30, 2016. Interest is charged daily at the rate of .5% above the prime rate which is adjusted on the first day of each quarter. The Daniels Memorial Hospital Foundation has guaranteed the line of credit. There was no outstanding balance at June 30, 2016. The line of credit matures February 1, 2017.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 11: Patient Service Revenue

Patient service revenue, net of contractual allowances and discounts (but before the provision for doubtful accounts), consisted of the following for the years ended June 30:

	2016	2015
Gross patient services revenue:		
Hospital inpatient	\$ 3,057,780	\$ 2,387,078
Hospital outpatient	3,110,732	2,252,576
Physician clinics	945,019	907,391
Total gross patient service revenue	7,113,531	5,547,045
Less - Contractual allowances and discounts	(170,454)	357,786
Net patient service revenue	\$ 6,943,077	\$ 5,904,831

Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources and was as follows for the years ended June 30:

	2016	2015
Medicare	\$ 2,989,586	\$ 2,110,078
Medicaid	1,062,819	918,847
Commercial insurance and other third-party payors	1,779,489	1,844,568
Self pay patients	1,111,183	1,031,338
Total	\$ 6,943,077	\$ 5,904,831

The Hospital's percentage of net patient service revenue by payor is as follows for the years ended June 30:

	2016	2015
Medicare	43 %	36 %
Medicaid	15 %	16 %
Commercial insurance and other	26 %	31 %
Self pay patients	16 %	17 %
Total	100 %	100 %

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 12: Charity Care

The Hospital provides health care services and other financial support through various programs that are designed, among other matters, to enhance the health of the community, including the health of low-income patients. The Hospital gives discounts from established charges to self-pay patients without regard for ability to pay and considers these discounts a part of their community benefit.

Patients who meet certain criteria for charity care, generally based on federal poverty guidelines, are provided care based on qualifying criteria as defined in the Hospital's charity care policy and from applications completed by patients and their families.

The Hospital maintains records to identify and monitor the level of charity care it provides. The estimated cost of providing charity care to patients under the Hospital's charity care policy was approximately \$23,890 and \$28,399 for the years ended June 30, 2016 and 2015, respectively.

Note 13: Temporarily Restricted Net Assets

The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Temporarily restricted net assets as of June 30, 2016 consist of funds donated by the community with the purpose of the Hospital purchasing a croup tent.

Note 14: Retirement Plan

The hospital has adopted a 401(k) Salary Deferral Plan (the Plan) covering all eligible employees. Eligible employees must be 18 years of age, have a minimum of 12 months of service with the hospital, and have 1,000 hours of service during the plan year. The Plan allows employees to elect to have a portion of their compensation paid into the Plan. The hospital has elected to make discretionary matching contributions to the plan each year. For 2016 and 2015 the matching rate was 50% of the amount contributed by each employee. The contributions are funded monthly. For 2016 and 2015, the hospital matching amount for all participants was \$44,921 and \$45,075, respectively.

Daniels Memorial Hospital Association

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Notes to Financial Statements

Note 15: Professional Liability Insurance

The hospital is a member of a 21 member reciprocal captive insurance company licensed in the State of Montana. Medical malpractice liability coverage under a retrospectively rated policy is purchased from this captive insurance company. The per-claim coverage under the policy was \$1,000,000 with an aggregate maximum annual coverage of \$3,000,000. Premiums are based on the member group's experience and costs of the captive insurance company. No liability has been accrued for future claims for acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage obtained in any given year. The facilities subscriber's equity as of December 31, 2015 is \$208,018 and as of December 31, 2014 is \$236,401 in this program.

Note 16: Contingencies

The Hospital has threatened claims pending arising in the normal course of business. While it is impossible to estimate the ultimate liability, if any, with respect to these matters, management believes the Hospital maintains adequate insurance coverage and there will be no material adverse effect on the financial position of the Hospital.

Note 17: Commitments

Loan Guarantor: The hospital is the guarantor of loans from Independence Bank to hospital patients who use the proceeds of the loans to pay off hospital accounts receivable balances. At June 30, 2016 and 2015 the outstanding balance of such loans was \$194,639 and \$192,492, respectively.

Self-Insured Workers' Compensation Plan: The hospital is a member of the Montana Health Network's self-insurance workers compensation plan. The rates charged to individual facilities are based upon the manual premiums, and were established to cover anticipated losses. The hospital payroll represents less than 1% of total payroll of the plan. If the rates do not cover the members' losses the hospital is jointly and severally liable for these losses.

Self-Insured Health Insurance Plan: The hospital elected to self-insure all employees for health care costs under the Montana Health Network Health Insurance Trust. The plan calls for a \$1,500 deductible per person with a \$750 co-payment amount. The insurance trust has a specific stop-loss reinsurance of \$75,000 per incident and an aggregate stop-loss reinsurance of 120% of expected losses for all participants. The Trust attempts to establish premiums equal to the expected maximum liability for the hospital's participation in the Trust. If the Trust does not cover member losses, the hospital is liable jointly and severally for these losses.

If the hospital terminates participation in the Trust, the hospital could also be liable for claims incurred during participation but not yet paid at termination. Such claims have not been estimated.

Daniels Memorial Hospital Association dba Daniels Memorial Health Care Center

Notes to Financial Statements

Note 17: Commitments (Continued)

Contractual Commitments: The hospital has entered into an agreement with Cerner of Kansas City, through Billings Clinic, for management of electronic medical records. The monthly CIS support payments are \$5,962 as of June 30, 2016 due to Billings Clinic.

The hospital has entered into agreements with Billings Clinic for management and information systems services. The management agreement provides for a monthly payment of \$2,500. Additional services as well as travel and the CEO salary and benefits are paid at mutually agreed upon rates as they occur monthly. The information system services agreement provides for monthly payments which are \$5,453. At June 30, 2016 and June 30, 2015 the outstanding balances due for these services was \$164,081 and \$27,712, respectively.

Note 18: Related Parties

The hospital depends on contributions from Daniels Memorial Hospital Foundation (the foundation) and Daniels County Hospital District (the district) to meet its financial obligations.

The foundation was established to provide greater financial security to the hospital and to solicit and collect funds, which would provide greater health services and health care to the community. A board of directors separate from the hospital governs the foundation. The foundation has guaranteed the payment of lease and loan payments for the hospital. Total contributions from the foundation were \$215,737 and \$111,848 for the years ended June 30, 2016 and 2015, respectively

The district was created by the voters of Daniels County for the purpose of levying and collecting taxes to be used to supply hospital facilities and services to the residents of the district. The district is governed by a board of three trustees elected by the registered electors residing in the district. The taxes currently collected are being used to provide direct funds to the hospital. The district also has indirectly supported the hospital's nursing home operations by submitting amounts to the Montana Department of Public Health and Human Services. The district remitted to the state \$171,763 and \$206,756 for fiscal years June 30, 2016 and 2015, respectively. In turn the hospital received \$234,606 and \$291,155 in intergovernmental transfers reported as Medicaid adjustments, respectively for each year.

Note 19: Functional Expenses

The Hospital provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows:

<i>Years Ended June 30, 2016 and 2015</i>	2016	2015
Fiscal and administrative	\$ 1,426,580	\$ 1,328,222
General services	939,517	903,137
Professional care services	5,094,921	4,716,447
Total	\$ 7,461,018	\$ 6,947,806

Supplementary Information

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Net Patient Service Revenue

(See independent auditors report)

For the years ended June 30,	Inpatient		Outpatient		Total	
	2016	2015	2016	2015	2016	2015
Acute care	\$ 287,904	\$ 225,886	\$ 160,499	\$ 37,504	\$ 448,403	\$ 263,390
Swing bed	1,004,744	414,900	-	-	1,004,744	414,900
Long-term / extended care	1,313,988	1,466,205	-	-	1,313,988	1,466,205
Observation	-	-	44,433	47,756	44,433	47,756
Emergency services	11,991	68	322,223	144,740	334,214	144,808
Central services	15,669	13,651	53,623	56,899	69,292	70,550
Laboratory services	103,041	68,778	674,715	631,837	777,756	700,615
Electrodiagnosis services	10,106	6,371	76,964	67,530	87,070	73,901
Radiology services	104,798	67,427	899,408	586,541	1,004,206	653,968
Pharmacy services	78,223	80,299	326,575	217,900	404,798	298,199
Rehabilitation services	127,316	43,493	552,266	462,209	679,582	505,702
Home health care	-	-	26	(340)	26	(340)
Clinic services	87,622	72	857,397	907,319	945,019	907,391
	\$ 3,145,402	\$ 2,387,150	\$ 3,968,129	\$ 3,159,895	7,113,531	5,547,045
			Adjustments to revenue:			
				Medicare	(251,121)	407,368
				Medicaid	152,135	256,938
				Commercial insurances	(345,332)	(221,772)
				Administrative	649	(84,748)
				Total adjustments	(443,669)	357,786
			Net patient service revenue		\$ 6,669,862	\$ 5,904,831

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
Fiscal and administrative services:		
Administrative services:		
Salaries, taxes and benefits	\$ 141,162	\$ 121,460
Advertising and community relations	25,923	21,043
Rent	6,383	7,414
Telephone	29,658	27,111
Office expense	9,024	7,879
Postage and delivery	5,497	6,185
Insurance	117,479	121,142
Professional fees	450,564	152,985
Dues and subscriptions	2,334	1,060
Utilities	3,236	5,749
Travel and training	21,839	31,558
Taxes and licenses	10,624	23,059
Miscellaneous	(191)	560
Repairs and maintenance	2,573	4,952
Contractual services	208,308	401,592
Supplies and minor equipment	15,148	27,088
Board expenses	79	318
Total administrative services	1,049,640	961,155
Fiscal services:		
Salaries, taxes and benefits	232,347	215,666
Advertising and community relations	2,173	3,075
Telephone	600	-
Office expense	7,228	8,707
Postage and delivery	5	-
Professional fees	604	6,276
Dues and subscriptions	1,311	2,354
Utilities	34	14
Travel and training	3,155	6,263
Taxes and licenses	-	562
Miscellaneous	4,440	268
Contractual services	20,425	12,577
Medical contractual services	7,190	3,312
Supplies and minor equipment	4,250	1,782
Total fiscal services	283,762	260,856

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
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Fiscal and administrative services, continued

Medical records:		
Salaries, taxes and benefits	72,697	78,887
Office expense	4,190	3,227
Postage and delivery	5	-
Travel and training	495	-
Taxes and licenses	300	-
Contractual services	14,588	23,509
Supplies and minor equipment	903	588
Total medical records	93,178	106,211

Total fiscal and administrative services	1,426,580	1,328,222
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General services:

Dietary:		
Salaries, taxes and benefits	267,620	254,338
Advertising and community relations	55	93
Rent	80	75
Office expense	1,360	1,547
Postage and delivery	239	352
Professional fees	-	4,977
Utilities	415	1,317
Travel and training	1,198	1,158
Taxes and licenses	115	115
Miscellaneous	452	42
Repairs and maintenance	3,718	3,892
Contractual services	8,390	1,795
Supplies and minor equipment	152,352	155,306
Total dietary	435,994	425,007

Plant operation and maintenance:		
Salaries, taxes and benefits	138,027	132,130
Advertising and community relations	-	40
Office expense	176	99
Postage and delivery	1,999	468
Insurance	872	3,354
Utilities	81,574	90,687
Travel and training	2,498	1,016
Miscellaneous	520	-

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
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General services, continued

Plant operation and maintenance, continued		
Taxes and licenses	500	622
Repairs and maintenance	89,014	22,196
Contractual services	1,049	1,150
Supplies and minor equipment	10,448	11,441
Housing	3,909	3,618
Total plant operation and maintenance	330,586	266,821

Housekeeping:		
Salaries, taxes and benefits	105,607	167,529
Advertising and community relations	-	283
Office expense	27	42
Travel and training	475	-
Repairs and maintenance	9,695	10,014
Contractual services	531	-
Supplies and minor equipment	746	1,143
Total housekeeping	117,081	179,011

Laundry and linen:		
Salaries, taxes and benefits	34,073	7,908
Office expense	56	20
Postage and delivery	531	89
Repairs and maintenance	174	210
Contractual services	17,037	18,687
Supplies and minor equipment	3,985	5,384
Total laundry and linen	55,856	32,298

Total general services	939,517	903,137
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Professional care services:

Acute care:		
Salaries, taxes and benefits	380,880	410,032
Advertising and community relations	55	598
Rent	26,868	20,583
Office expense	2,806	956
Postage and delivery	103	209
Dues and subscriptions	567	224
Travel and training	6,057	7,089

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
Professional care services, continued		
Acute care, continued		
Taxes and licenses	13,596	10,922
Repairs and maintenance	961	3,705
Contractual services	212,278	116,016
Medical contractual services	11,108	3,891
Supplies and minor equipment	2,456	6,566
Medical supplies and pharmaceuticals	8,926	4,285
Total acute care	666,661	585,076
Swing Bed:		
Salaries, taxes and benefits	152,553	57,113
Total swing bed	152,553	57,113
Long-term/extended care:		
Salaries, taxes and benefits	1,063,034	1,171,205
Advertising and community relations	146	2,798
Office expense	324	893
Postage and delivery	599	511
Dues and subscriptions	80	173
Travel and training	483	1,636
Miscellaneous	1,330	20
Taxes and licenses	63,180	70,794
Repairs and maintenance	1,127	11,976
Contractual services	109,152	97,662
Medical contractual services	21	-
Supplies and minor equipment	24,745	19,855
Medical supplies and pharmaceuticals	13,854	13,924
Total long-term/extended care	1,278,075	1,391,447
Emergency services:		
Salaries, taxes and benefits	49,177	35,963
Rent	3,600	3,475
Telephone	-	1,084
Office expense	194	399
Postage and delivery	94	204
Dues and subscriptions	38	355
Travel and training	-	1,272
Miscellaneous	90	36

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
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Professional care services, continued

Emergency services, continued

Taxes and licenses	181	-
Repairs and maintenance	741	1,918
Medical contractual services	64,083	103,005
Supplies and minor equipment	1,715	13,253
Medical supplies and pharmaceuticals	8,835	3,590
Total emergency services	128,748	164,554

Central services:

Salaries, taxes and benefits	79,017	84,703
Advertising and community relations	-	30
Rent	-	3,247
Office expense	2,339	2,589
Postage and delivery	471	1,203
Travel and training	69	9
Taxes and licenses	235	16
Miscellaneous	81	34
Repairs and maintenance	-	2,506
Supplies and minor equipment	677	3,079
Medical supplies and pharmaceuticals	1,306	58,103
Total central services	84,195	155,519

Professional care services, continued

Laboratory services:

Salaries, taxes and benefits	173,056	194,892
Office expense	1,252	809
Postage and delivery	5,122	3,063
Professional fees	-	6,865
Travel and training	1,920	826
Miscellaneous	3,350	-
Taxes and licenses	619	280
Repairs and maintenance	17,438	19,049
Contractual services	92,060	-
Medical contractual services	54,469	72,796
Supplies and minor equipment	4,759	861
Medical supplies and pharmaceuticals	103,845	50,365
Recruiting and retention	-	153
Total laboratory services	457,890	349,959

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
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Professional care services, continued

Electrodiagnosis services:

Salaries, taxes and benefits	1,513	1,357
Rent	9,954	9,125
Professional fees	1,295	-
Taxes and licenses	181	-
Medical supplies and pharmaceuticals	-	45
Total electrodiagnosis services	12,943	10,527

Radiology services:

Salaries, taxes and benefits	150,422	130,548
Advertising and community relations	244	-
Rent	5,348	-
Office expense	1,849	283
Postage and delivery	127	164
Professional fees	52,545	-
Travel and training	-	2,495
Taxes and licenses	21	-
Repairs and maintenance	68,179	74,861
Contractual services	585	804
Medical contractual services	10,483	57,323
Supplies and minor equipment	4,816	3,008
Medical supplies and pharmaceuticals	189	418
Recruiting and retention	-	1,714
Total radiology services	294,808	271,618

Professional care services, continued

Pharmacy:

Telephone	-	1,084
Office expense	62	703
Postage and delivery	152	109
Dues and subscriptions	76	-
Taxes and licenses	1,138	200
Repairs and maintenance	13,183	10,739
Contractual services	122,671	122,120
Supplies and minor equipment	870	-
Medical supplies and pharmaceuticals	214,509	178,183
Total pharmacy	352,661	313,138

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
Professional care services, continued		
Rehabilitation services:		
Salaries, taxes and benefits	360,311	329,252
Advertising and community relations	125	-
Telephone	-	268
Office expense	613	474
Postage and delivery	278	271
Dues and subscriptions	36	-
Travel and training	2,155	805
Taxes and licenses	-	445
Repairs and maintenance	167	227
Contractual services	30,864	19,070
Supplies and minor equipment	4,775	1,671
Medical supplies and pharmaceuticals	1,290	1,183
Total rehabilitation services	400,614	353,666
Home health care:		
Salaries, taxes and benefits	52,612	48,798
Advertising and community relations	189	409
Telephone	-	252
Office expense	412	546
Postage and delivery	20	15
Dues and subscriptions	38	-
Travel and training	8,453	84
Contractual services	3,228	2,928
Supplies and minor equipment	2,743	860
Medical supplies and pharmaceuticals	76,581	43,927
Total home health care	144,276	97,819

Daniels Memorial Hospital Association
dba Daniels Memorial Health Care Center

Schedules of Operating Expenses

(See independent auditors report)

For the years ended June 30,	2016	2015
Professional care services, continued		
Clinic services:		
Salaries, taxes and benefits	719,355	791,670
Advertising and community relations	395	427
Telephone	1,875	2,376
Office expense	1,484	4,224
Postage and delivery	58	33
Professional fees	357,768	137,697
Dues and subscriptions	1,722	1,091
Travel and training	12,977	12,157
Taxes and licenses	2,531	1,820
Repairs and maintenance	741	5,682
Contractual services	-	853
Supplies and minor equipment	13,884	5,281
Medical supplies and pharmaceuticals	8,707	2,607
Recruiting and retention	-	93
Total clinic services	1,121,497	966,011
Total professional care services	5,094,921	4,716,447
Total operating expenses	\$ 7,461,018	\$ 6,947,806