

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Accountants' Reports and Financial Statements
June 30, 2012 and 2011



**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
June 30, 2012 and 2011**

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners
Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Charles City, Iowa

We have audited the accompanying balance sheets of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the "Hospital") as of June 30, 2012 and 2011 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of June 30, 2012 and 2011, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2012, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 audits 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 of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

BKD, LLP

Kansas City, Missouri
November 13, 2012

Floyd County Memorial Hospital d/b/a Floyd County Medical Center

Management's Discussion and Analysis Years Ended June 30, 2012 and 2011

Introduction

This management's discussion and analysis of the financial performance of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2012 and 2011. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash increased in 2012 by \$769,051 or 37% and decreased in 2011 by \$228,522 or 10%.
- The Hospital's net assets increased in each of the past two years with an \$867,974 or 5% increase in 2012 and an \$886,099 or 6% increase in 2011.
- The Hospital reported operating income in both 2012 and 2011 of \$843,903 and \$855,947, respectively.
- Net nonoperating revenues and expense decreased by \$6,081 in 2012 compared to 2011.

Using This Annual Report

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

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets 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. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$867,974 or 5% in 2012 over 2011 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2012	2011	2010
Assets			
Patient accounts receivable, net	\$ 2,890,588	\$ 2,658,242	\$ 2,889,202
Other current assets	3,577,465	2,879,453	3,076,152
Capital assets, net	9,984,630	10,631,030	11,283,463
Other noncurrent assets	3,481,121	2,802,322	2,034,280
Total assets	<u>\$ 19,933,804</u>	<u>\$ 18,971,047</u>	<u>\$ 19,283,097</u>
Liabilities			
Long-term debt, including current maturities	\$ -	\$ -	\$ 1,464,890
Other current and noncurrent liabilities	2,083,985	1,989,202	1,722,461
Total liabilities	<u>2,083,985</u>	<u>1,989,202</u>	<u>3,187,351</u>
Net Assets			
Invested in capital assets, net of related debt	9,984,631	10,631,030	9,821,305
Unrestricted	7,865,188	6,350,815	6,274,441
Total net assets	<u>17,849,819</u>	<u>16,981,845</u>	<u>16,095,746</u>
Total liabilities and net assets	<u>\$ 19,933,804</u>	<u>\$ 18,971,047</u>	<u>\$ 19,283,097</u>

In 2012, an excess of revenues over expenses was noted of \$867,974, and is included in the total net assets, which resulted in an increase of 5%. No major changes in services were noted.

In 2012, there was a net decrease of \$646,400 or 6% in capital assets. The only major project in 2012 was the purchase of EHR software for \$130,400.

In 2012, there was no long-term debt.

In 2012, there was an increase in current liabilities of \$94,783, or 5%.

In 2012, total assets increased \$962,757 or 5%.

In 2011, an excess of revenues over expenses was noted of \$886,099, and is included in the total net assets, which resulted in an increase of 6%. No major changes in services were noted.

In 2011, there was a net decrease of \$652,433 or 6% in capital assets. The only major project in 2011 was the replacement of two visitor elevators totaling \$287,656.

In 2011, the long-term debt of \$1,464,890 was paid off.

In 2011, there was an increase in current liabilities of \$76,851, or 4%.

In 2011, total assets decreased \$312,050 or 2%, while total liabilities decreased \$1,198,149 or 38%. This is due to a principal payment on a long-term loan.

Operating Results and Changes in the Hospital's Net Assets

In 2012, the Hospital's net assets increased by \$867,974 or 5% as shown in Table 2. This increase is made up of several different components and represents an operating income decrease of \$12,044 or 1% compared to 2011.

Table 2: Operating Results and Changes in Net Assets

	2012	2011	2010
Operating Revenues			
Net patient service revenue	\$ 22,368,176	\$ 21,292,339	\$ 20,530,632
Other operating revenues	683,445	694,712	535,164
Total operating revenues	<u>23,051,621</u>	<u>21,987,051</u>	<u>21,065,796</u>
Operating Expenses			
Salaries and wages and employee benefits	11,663,198	11,269,711	10,873,333
Medical professional fees	3,995,069	3,581,126	3,526,930
Depreciation	1,148,544	1,285,522	1,483,820
Other operating expenses	5,400,907	4,994,745	4,508,716
Total operating expenses	<u>22,207,718</u>	<u>21,131,104</u>	<u>20,392,799</u>
Operating Income	<u>843,903</u>	<u>855,947</u>	<u>672,997</u>
Nonoperating Revenues (Expenses)			
Investment income	55,258	64,019	58,160
Contributions	4,228	4,831	7,479
Interest expense	-	(18,840)	(127,172)
Income taxes - Aesculapius	(35,415)	(19,858)	(31,038)
Total nonoperating revenues (expenses)	<u>24,071</u>	<u>30,152</u>	<u>(92,571)</u>
Excess of Revenue over Expense before Capital Contributions	867,974	886,099	580,426
Capital Contributions	<u>-</u>	<u>-</u>	<u>122,724</u>
Increase in Net Assets	<u>\$ 867,974</u>	<u>\$ 886,099</u>	<u>\$ 703,150</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors can give the Hospital an amount annually as the County's budget allows. The Hospital received no amounts from the County in 2012 and 2011.

The operating income for 2012 increased as compared to 2011. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$1,075,837 or 5%.
- An increase in salaries and wages and employee benefits of \$393,487 or 3%.
- A decrease in depreciation of \$136,978 or 11%.
- An increase in medical professional fees and other operating expenses of \$820,105 or 10%.
- An increase in total operating expenses of \$1,076,614 or 5%.

The operating income for 2011 increased as compared to 2010. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$761,707 or 4%.
- An increase in salaries and wages and employee benefits of \$396,378 or 4%.
- A decrease in depreciation of \$198,298 or 13%.
- An increase in medical professional fees and other operating expenses of \$54,196 or 2%.
- A decrease in total operating expenses of \$738,305 or 4%.

In 2012 and 2011, as in the past, the Floyd County Memorial Hospital (Medical Center), subsidizes many Community Benefit Programs in Floyd County. The cost for the subsidy is included in the financial reports presented here and include:

- Meals on Wheels
- Charity care for health services at the Floyd County Memorial Hospital
- Physician care through the Floyd County Area Medical Center
- Physician care through the Nashua Area Medical Center
- Community health care education
- Community disaster planning

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Interest expense decreased in 2012 as compared to 2011. The primary cause for the decrease was the payoff of long-term loans, which resulted in a decrease in interest expense.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2012, the Hospital had \$9,984,630 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2012, the Hospital had additions of capital assets of \$502,144.

At June 30, 2011, the Hospital had \$10,631,030 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2011, the Hospital had additions of capital assets of \$641,998.

Debt

In 2011, the Hospital paid off all long-term debt. The Hospital's formal debt issuances are subject to limitations imposed by state law.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administrator or Chief Financial Officer by telephoning 641.228.6830.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Balance Sheets
June 30, 2012 and 2011**

Assets

	2012	2011
Current Assets		
Cash	\$ 2,865,739	\$ 2,096,688
Patient accounts receivable, net of allowance; 2012 - \$1,499,600, 2011 - \$1,460,500	2,890,588	2,658,242
Other receivables	102,325	208,760
Supplies	473,298	436,801
Prepaid expenses	136,103	137,204
Total current assets	6,468,053	5,537,695
Noncurrent Cash and Deposits		
Internally designated for capital and other expenditures	1,859,130	1,170,722
Certificates of deposit	1,500,000	1,500,000
Total noncurrent cash and deposits	3,359,130	2,670,722
Capital Assets, Net of Accumulated Depreciation	9,984,630	10,631,030
Other Assets		
Investments and other	121,991	131,600
Total Assets	\$ 19,933,804	\$ 18,971,047

Liabilities and Net Assets

	<u>2012</u>	<u>2011</u>
Current Liabilities		
Accounts payable	\$ 470,609	\$ 378,443
Accrued expenses		
Vacation pay	508,080	526,940
Payroll and related deductions	454,212	369,819
Health insurance	458,084	431,000
Estimated amounts due to third-party payers	<u>193,000</u>	<u>283,000</u>
Total current liabilities	<u>2,083,985</u>	<u>1,989,202</u>
Net Assets		
Invested in capital assets	9,984,631	10,631,030
Unrestricted	<u>7,865,188</u>	<u>6,350,815</u>
Total net assets	<u>17,849,819</u>	<u>16,981,845</u>
 Total Liabilities and Net Assets	 <u><u>\$ 19,933,804</u></u>	 <u><u>\$ 18,971,047</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center**
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 23,324,275	\$ 22,204,977
Less provision for uncollectible accounts	956,099	912,638
Net patient service revenue	22,368,176	21,292,339
Other revenues	683,445	694,712
Total operating revenues	23,051,621	21,987,051
Operating Expenses		
Salaries and wages	8,275,025	7,940,362
Employee benefits	3,388,173	3,329,349
Medical professional fees	3,995,069	3,581,126
Supplies and expenses	3,123,307	2,822,694
General services	947,206	911,654
Administrative services	1,330,394	1,260,397
Depreciation	1,148,544	1,285,522
Total operating expenses	22,207,718	21,131,104
Operating Income	843,903	855,947
Nonoperating Revenues (Expenses)		
Investment income	55,258	64,019
Contributions	4,228	4,831
Interest expense	-	(18,840)
Income taxes – Aesculapius	(35,415)	(19,858)
Total nonoperating revenues (expenses)	24,071	30,152
Increase in Net Assets	867,974	886,099
Net Assets, Beginning of the Year	16,981,845	16,095,746
Net Assets, End of the Year	\$ 17,849,819	\$ 16,981,845

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 22,045,830	\$ 21,658,299
Payments to suppliers	(9,329,419)	(8,530,245)
Payments to employees	(11,570,581)	(11,140,012)
Other receipts and payments, net	790,981	625,702
	<u>1,936,811</u>	<u>2,613,744</u>
Noncapital Financing Activities		
Unrestricted contributions	4,228	4,831
	<u>4,228</u>	<u>4,831</u>
Capital and Related Financing Activities		
Purchase of capital assets	(502,144)	(641,998)
Principal payments on long-term debt	-	(1,464,890)
Interest paid on long-term debt	-	(18,840)
Proceeds from sale of capital assets	-	13,400
	<u>(502,144)</u>	<u>(2,112,328)</u>
Investing Activities		
Purchase of investments	(20,000)	-
Income on investments	38,564	44,614
	<u>18,564</u>	<u>44,614</u>
Increase in Cash	1,457,459	550,861
Cash, Beginning of Year	<u>3,267,410</u>	<u>2,716,549</u>
Cash, End of Year	<u>\$ 4,724,869</u>	<u>\$ 3,267,410</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows (Continued)
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,865,739	\$ 2,096,688
Noncurrent cash		
Internally designated	<u>1,859,130</u>	<u>1,170,722</u>
Total cash	<u>\$ 4,724,869</u>	<u>\$ 3,267,410</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 843,903	\$ 855,947
Items not requiring (providing) cash		
Depreciation	1,148,544	1,285,522
Amortization	10,888	10,888
Gain on sale of assets	-	(7,227)
Changes in		
Patient and other accounts receivable, net	(125,911)	193,429
Supplies	(36,497)	29,960
Prepaid expenses	1,101	(24,252)
Accounts payable and accrued expenses	184,783	134,477
Estimated amounts due to third-party payers	<u>(90,000)</u>	<u>135,000</u>
Net cash provided by operating activities	<u>\$ 1,936,811</u>	<u>\$ 2,613,744</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

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

Nature of Operations

The Floyd County Memorial Hospital d/b/a Floyd County Medical Center (Hospital) is a county public hospital under Chapter 37 of the Code of Iowa. The Hospital and Health Care of Floyd County L.C. (HCFC) are collectively referred to here as the Organization. The Organization primarily earns revenues by providing health care services to patients on an inpatient and outpatient basis. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa. HCFC is organized pursuant to the Iowa Limited Liability Company Act Chapter 490A.

Basis of Accounting and Presentation

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

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be financially accountable.

The determination of financial accountability includes consideration of a number of criteria, including (1) the Hospital's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Hospital, and (3) that entity's fiscal dependency on the Hospital.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Health Care of Floyd County L.C. is consolidated into the Hospital's financial statements. HCFC is a legally separate limited liability corporation that is, in substance, a part of the Hospital's operations. It is organized primarily to hold certain assets for the Hospital. HCFC owns shares of a corporation (Aesculapius, Inc.) whose earnings and losses are included in the financial statements.

Data of HCFC is combined with data of the Hospital for financial reporting purposes using the blending method. Transactions between the Hospital and HCFC are eliminated in preparation of the financial statements.

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.

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$99,672 and \$162,957 for 2012 and 2011, respectively.

Supplies

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

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Deposits, Investments and Investment Income

The Hospital's deposits include demand deposits, money market accounts and certificates of deposit. The Hospital also has investments in partnerships holding mobile medical equipment reported on the equity method.

Investment income includes interest income on deposits and return on other investments.

Patient Accounts Receivable

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

Noncurrent Cash and Deposits

Noncurrent cash represents internally designated assets set aside by the Board of Commissioners for future capital improvements and other expenditures over which the Board retains control and may at its discretion subsequently use for other purposes.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Hospital.

Land improvements	15 to 20 years
Buildings, improvements and fixed equipment	20 to 40 years
Major moveable equipment, computers and furniture	3 to 7 years

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

County Assistance

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. Such proceeds when received would be considered unrestricted as to use by the Hospital and would be used to support operations. The Hospital received no County support in 2012 or 2011.

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health benefits. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred, but not yet reported.

Compensated Absences and Benefits

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

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20%, limited to 100% of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the Hospital completed the first-year requirements under the Medicaid program and has recorded revenue of approximately \$194,200, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net assets. In 2012, the Hospital completed the first-year requirements under the Medicare program and has recorded revenue of approximately \$170,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to the 2011 financial statement to conform to the 2012 presentation. These reclassifications had no effect on the change in total net assets.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is designated as a Critical Access Hospital (CAH), and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011

Approximately 60% and 59% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2012 and 2011, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2012 and 2011. The Hospital's deposits in banks at June 30, 2012 and 2011 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Commissioners; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had limited investments in partnerships holding mobile medical equipment at June 30, 2012 and 2011.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Summary of Carrying Value

The carrying value of deposits included in the balance sheets is as follows:

	<u>2012</u>	<u>2011</u>
Deposits	\$ 6,224,869	\$ 4,767,410
Included in the following balance sheet captions		
Cash	\$ 2,865,739	\$ 2,096,688
Noncurrent cash and deposits	3,359,130	2,670,722
	<u>\$ 6,224,869</u>	<u>\$ 4,767,410</u>

Investment Income

Investment income for the years ended June 30, 2012 and 2011 consisted of:

	<u>2012</u>	<u>2011</u>
Interest	\$ 83,281	\$ 74,918
Return on other investments	(28,023)	(10,899)
Total investment income	<u>\$ 55,258</u>	<u>\$ 64,019</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Note 4: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2012 and 2011 was:

2012	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Land and improvements	\$ 447,229	\$ 119,285	\$ 71,026		\$ 495,488
Building and improvements	15,107,006	34,105	7,500		15,133,611
Fixed equipment	2,015,215				2,015,215
Major moveable equipment	5,340,464	205,653	619,336	\$ 130,425	5,057,206
Construction in progress	-	143,101		(130,425)	12,676
	<u>22,909,914</u>	<u>502,144</u>	<u>697,862</u>	<u>-</u>	<u>22,714,196</u>
Less accumulated depreciation					
Land improvements	325,042	19,339	71,026		273,355
Building and improvements	6,626,017	598,702	7,500		7,217,219
Fixed equipment	1,285,108	78,356			1,363,464
Major moveable equipment	4,042,717	452,147	619,336		3,875,528
Total accumulated depreciation	<u>12,278,884</u>	<u>1,148,544</u>	<u>697,862</u>		<u>12,729,566</u>
Capital assets, net	<u>\$ 10,631,030</u>	<u>\$ (646,400)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,984,630</u>
2011	Balance June 30, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Land and improvements	\$ 477,566		\$ 30,337		\$ 447,229
Building and improvements	15,134,627	\$ 5,250	32,871		15,107,006
Fixed equipment	1,705,063		35,539	\$ 345,691	2,015,215
Major moveable equipment	6,089,374	292,099	1,185,389	144,380	5,340,464
Construction in progress	148,158	341,913		(490,071)	-
	<u>23,554,788</u>	<u>639,262</u>	<u>1,284,136</u>	<u>-</u>	<u>22,909,914</u>
Less accumulated depreciation					
Land improvements	340,803	14,576	30,337		325,042
Building and improvements	6,055,213	603,675	32,871		6,626,017
Fixed equipment	1,243,442	77,204	35,538		1,285,108
Major moveable equipment	4,631,867	590,067	1,179,217		4,042,717
Total accumulated depreciation	<u>12,271,325</u>	<u>1,285,522</u>	<u>1,277,963</u>		<u>12,278,884</u>
Capital assets, net	<u>\$ 11,283,463</u>	<u>\$ (646,260)</u>	<u>\$ 6,173</u>	<u>\$ -</u>	<u>\$ 10,631,030</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Note 5: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2012 and 2011 follows:

	2012			Amounts Due	
	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Within One Year
Note payable to bank (A)	\$ -	\$ -	\$ -	\$ -	\$ -
Capital lease obligation (B)	-	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

	2011			Amounts Due	
	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Within One Year
Note payable to bank (A)	\$ 1,425,000	\$ -	\$ 1,425,000	\$ -	\$ -
Capital lease obligation (B)	39,890	-	39,890	-	-
	<u>\$ 1,464,890</u>	<u>\$ -</u>	<u>\$ 1,464,890</u>	<u>\$ -</u>	<u>\$ -</u>

- (A) Note payable to bank was due August 2014 with principal payable semi-annually in the amount of \$75,000 and interest at 5.39% payable monthly. A final balloon payment, including principal and interest of \$828,929 was due August 2014. The note was unsecured. Note was paid off in October 2010.
- (B) The Hospital was obligated under a lease for equipment that is accounted for as a capital lease, which expired in 2011.

Note 6: Operating Leases

Noncancellable operating lease for equipment expires in 2016.

Future minimum lease payments at June 30, 2012, were:

2013	\$ 287,160
2014	216,534
2015	216,534
2016	200,870
2017	<u>19,044</u>
Future minimum lease payments	<u>\$ 940,142</u>

Rental expense for all operating leases totaled \$236,987 and \$221,234 for 2012 and 2011, respectively.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Note 7: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 5.38% and 4.50% of their annual covered salary and the Hospital is required to contribute 8.07% and 6.95% of annual covered payroll for 2012 and 2011, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2012, 2011 and 2010 were \$679,338, \$551,553 and \$503,204, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.07% of annual covered salary for 2012.

Note 8: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2012 and 2011 consisted of:

	2012	2011
Medicare	\$ 1,018,999	\$ 859,104
Medicaid	108,163	116,142
Third-party payers	808,400	895,458
Patients	2,268,455	2,081,621
Clinics	186,171	166,417
Total	<u>4,390,188</u>	<u>4,118,742</u>
Less allowance for uncollectible accounts	<u>1,499,600</u>	<u>1,460,500</u>
Patient accounts receivable, net	<u><u>\$ 2,890,588</u></u>	<u><u>\$ 2,658,242</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011**

Note 9: Employee Health Insurance Claims

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2012 and 2011 is summarized as follows:

	2012	2011
Balance, beginning of year	\$ 431,000	\$ 403,000
Current year claims and changes in estimates	(2,038,072)	(2,075,281)
Claim payments	2,065,156	2,103,281
Balance, end of year	\$ 458,084	\$ 431,000

Note 10: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2012:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Other revenues/receipts	\$ 23,028,315	\$ (215,911)	\$ 22,812,404	\$ 24,490,000
Expenses/disbursements	22,160,341	(795,787)	21,364,554	25,400,000
	867,974	579,876	1,447,850	(910,000)
Balance, beginning of year	16,981,845	(12,082,835)	4,899,010	4,899,010
Balance, end of year	\$ 17,849,819	\$ (11,502,959)	\$ 6,346,860	\$ 3,989,010

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2012 and 2011

Note 11: Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No amounts were recorded at June 30, 2012 and 2011.

Note 12: Risks and Uncertainties

Current Economic Conditions

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital.

Supplementary Information

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet
June 30, 2012**

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 2,787,474	\$ 78,265		\$ 2,865,739
Patient accounts receivable, net of allowance of \$1,499,600	2,890,588	-		2,890,588
Other receivables	102,325	-		102,325
Supplies	473,298	-		473,298
Prepaid expenses	136,103	-		136,103
	<u>6,389,788</u>	<u>78,265</u>		<u>6,468,053</u>
Noncurrent Cash and Deposits				
Internally designated for capital and other expenditures	1,859,130	-		1,859,130
Certificates of deposit	1,500,000	-		1,500,000
	<u>3,359,130</u>	<u>-</u>		<u>3,359,130</u>
Capital Assets, Net of Accumulated Depreciation				
	<u>9,459,762</u>	<u>524,868</u>		<u>9,984,630</u>
Other Assets				
Investments and other	725,124	-	\$ (603,133)	121,991
Total Assets	<u><u>\$ 19,933,804</u></u>	<u><u>\$ 603,133</u></u>	<u><u>\$ (603,133)</u></u>	<u><u>\$ 19,933,804</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet (Continued)
June 30, 2012**

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Accounts payable	\$ 470,609			\$ 470,609
Accrued expenses				
Vacation pay	508,080			508,080
Payroll and related deductions	454,212			454,212
Health insurance	458,084			458,084
Estimated amounts due to third-party payers	<u>193,000</u>			<u>193,000</u>
Total current liabilities	<u>2,083,985</u>			<u>2,083,985</u>
Net Assets				
Invested in capital assets	9,459,763	\$ 524,868		9,984,631
Unrestricted	<u>8,390,056</u>	<u>78,265</u>	<u>\$ (603,133)</u>	<u>7,865,188</u>
Total net assets	<u>17,849,819</u>	<u>603,133</u>	<u>(603,133)</u>	<u>17,849,819</u>
Total Liabilities and Net Assets	<u><u>\$ 19,933,804</u></u>	<u><u>\$ 603,133</u></u>	<u><u>\$ (603,133)</u></u>	<u><u>\$ 19,933,804</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet
June 30, 2011**

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 2,037,222	\$ 59,466		\$ 2,096,688
Patient accounts receivable, net of allowance of \$1,460,500	2,658,242	-		2,658,242
Other receivables	208,760	-		208,760
Supplies	436,801	-		436,801
Prepaid expenses	137,204	-		137,204
	<u>5,478,229</u>	<u>59,466</u>		<u>5,537,695</u>
Noncurrent Cash and Deposits				
Internally designated for capital and other expenditures	1,170,722	-		1,170,722
Certificates of deposit	1,500,000	-		1,500,000
	<u>2,670,722</u>	<u>-</u>		<u>2,670,722</u>
Capital Assets, Net of Accumulated Depreciation				
	<u>10,112,525</u>	<u>518,505</u>		<u>10,631,030</u>
Other Assets				
Investments and other	709,571	-	\$ (577,971)	131,600
	<u>709,571</u>	<u>-</u>	<u>\$ (577,971)</u>	<u>131,600</u>
Total Assets	<u>\$ 18,971,047</u>	<u>\$ 577,971</u>	<u>\$ (577,971)</u>	<u>\$ 18,971,047</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet (Continued)
June 30, 2011**

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Accounts payable	\$ 378,443			\$ 378,443
Accrued expenses				
Vacation pay	526,940			526,940
Payroll and related deductions	369,819			369,819
Health insurance	431,000			431,000
Estimated amounts due to third-party payers	<u>283,000</u>			<u>283,000</u>
Total current liabilities	<u>1,989,202</u>			<u>1,989,202</u>
Net Assets				
Invested in capital assets	10,112,525	\$ 518,505		10,631,030
Unrestricted	<u>6,869,320</u>	<u>59,466</u>	<u>\$ (577,971)</u>	<u>6,350,815</u>
Total net assets	<u>16,981,845</u>	<u>577,971</u>	<u>(577,971)</u>	<u>16,981,845</u>
Total Liabilities and Net Assets	<u><u>\$ 18,971,047</u></u>	<u><u>\$ 577,971</u></u>	<u><u>\$ (577,971)</u></u>	<u><u>\$ 18,971,047</u></u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2012

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 23,324,275			\$ 23,324,275
Less provision for uncollectible accounts	956,099			956,099
Net patient service revenue	22,368,176			22,368,176
Other revenues	525,491	\$ 231,850	\$ (73,896)	683,445
Total operating revenues	22,893,667	231,850	(73,896)	23,051,621
Operating Expenses				
Salaries and wages	8,275,025			8,275,025
Employee benefits	3,388,173			3,388,173
Medical professional fees	3,995,069			3,995,069
Supplies and expenses	3,123,307			3,123,307
General services	953,227	67,875	(73,896)	947,206
Administrative services	1,304,738	25,656		1,330,394
Depreciation	1,120,802	27,742		1,148,544
Total operating expenses	22,160,341	121,273	(73,896)	22,207,718
Operating Income	733,326	110,577	-	843,903
Nonoperating Revenues (Expenses)				
Investment income	130,420		(75,162)	55,258
Contributions	4,228			4,228
Income taxes – Aesculapius		(35,415)		(35,415)
Total nonoperating revenues (expenses)	134,648	(35,415)	(75,162)	24,071
Increase in Net Assets	867,974	75,162	(75,162)	867,974
Net Assets, Beginning of the Year	16,981,845	577,971	(577,971)	16,981,845
Dividends Paid		(50,000)	50,000	-
Net Assets, End of the Year	\$ 17,849,819	\$ 603,133	\$ (603,133)	\$ 17,849,819

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2011**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 22,204,977			\$ 22,204,977
Less provision for uncollectible accounts	912,638			912,638
Net patient service revenue	21,292,339			21,292,339
Other revenues	554,052	\$ 214,556	\$ (73,896)	694,712
Total operating revenues	21,846,391	214,556	(73,896)	21,987,051
Operating Expenses				
Salaries and wages	7,940,362			7,940,362
Employee benefits	3,329,349			3,329,349
Medical professional fees	3,581,126			3,581,126
Supplies and expenses	2,822,694			2,822,694
General services	912,573	72,977	(73,896)	911,654
Administrative services	1,235,144	25,253		1,260,397
Depreciation	1,260,955	24,567		1,285,522
Total operating expenses	21,082,203	122,797	(73,896)	21,131,104
Operating Income	764,188	91,759	-	855,947
Nonoperating Revenues (Expenses)				
Investment income	135,920		(71,901)	64,019
Contributions	4,831			4,831
Interest expense	(18,840)			(18,840)
Income taxes – Aesculapius		(19,858)		(19,858)
Total nonoperating revenues (expenses)	121,911	(19,858)	(71,901)	30,152
Increase in Net Assets	886,099	71,901	(71,901)	886,099
Net Assets, Beginning of the Year	16,095,746	596,070	(596,070)	16,095,746
Dividends Paid		(90,000)	90,000	-
Net Assets, End of the Year	\$ 16,981,845	\$ 577,971	\$ (577,971)	\$ 16,981,845

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Patient Service Revenues – Hospital
Years Ended June 30, 2012 and 2011**

	2012			2011		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 3,831,755	\$ 3,831,755		\$ 3,418,225	\$ 3,418,225	
Nursery	194,755	194,755		182,581	182,581	
	<u>4,026,510</u>	<u>4,026,510</u>		<u>3,600,806</u>	<u>3,600,806</u>	
Other Nursing Services						
Operating room	3,211,577	988,487	\$ 2,223,090	2,947,647	944,968	\$ 2,002,679
Recovery room	292,379	48,097	244,282	275,635	40,612	235,023
Delivery room	231,996	138,950	93,046	203,119	124,920	78,199
Emergency room	4,406,449	31,818	4,374,631	4,059,477	(3,209)	4,062,686
	<u>8,142,401</u>	<u>1,207,352</u>	<u>6,935,049</u>	<u>7,485,878</u>	<u>1,107,291</u>	<u>6,378,587</u>
Other Professional Services						
Central service and supply	399,425	154,819	244,606	382,060	161,583	220,477
Laboratory	6,312,294	747,583	5,564,711	5,903,987	688,548	5,215,439
Blood	329,782	115,143	214,639	283,837	113,260	170,577
Radiology	1,976,631	86,079	1,890,552	1,889,980	67,571	1,822,409
Electrocardiology	798,004	49,929	748,075	801,430	49,349	752,081
Ultrasound	328,544	10,775	317,769	340,917	15,015	325,902
Nuclear medicine	171,165	7,190	163,975	168,452	6,848	161,604
CT Scan	2,897,664	260,428	2,637,236	2,727,740	169,925	2,557,815
MRI	974,736	48,349	926,387	956,030	44,135	911,895
Pharmacy	2,074,587	727,913	1,346,674	1,654,025	677,419	976,606
Intravenous therapy	444,928	283,044	161,884	526,358	335,084	191,274
Respiratory therapy	1,264,466	604,156	660,310	1,100,044	484,261	615,783
Physical therapy	1,944,552	747,755	1,196,797	1,777,068	729,640	1,047,428
Occupational therapy	436,150	216,918	219,232	339,222	200,953	138,269
Speech pathology	368,536	33,980	334,556	367,373	41,191	326,182
Anesthesia	375,832	58,428	317,404	334,303	50,519	283,784
Medical clinic	130,809		130,809	145,256		145,256
Rural health clinic	1,096,800		1,096,800	1,116,968		1,116,968
Clinic Surgeon	250,173		250,173	-		-
CRNA services	416,281		416,281	404,443		404,443
	<u>22,991,359</u>	<u>4,152,489</u>	<u>18,838,870</u>	<u>21,219,493</u>	<u>3,835,301</u>	<u>17,384,192</u>
Patient Service Revenue	35,160,270	\$ 9,386,351	\$ 25,773,919	32,306,177	\$ 8,543,398	\$ 23,762,779
Contractual Allowance	(11,835,995)			(10,101,200)		
Net Patient Service Revenue before Provision for Uncollectible Accounts	23,324,275			22,204,977		
Provision for Uncollectible Accounts	(956,099)			(912,638)		
Net Patient Service Revenue	<u>\$ 22,368,176</u>			<u>\$ 21,292,339</u>		

See Independent Accountants' Report

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Other Operating Revenues – Hospital
Years Ended June 30, 2012 and 2011**

	<u>2012</u>	<u>2011</u>
Cafeteria	\$ 151,105	\$ 154,585
Specialty clinics	111,704	118,742
Office rental	18,214	18,649
Registration fees	5,908	5,834
Medical records transcripts	16,544	16,933
Electronic Health Records	170,000	194,200
Other	<u>52,016</u>	<u>45,109</u>
	<u>\$ 525,491</u>	<u>\$ 554,052</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2012 and 2011**

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 520,454	\$ 365,634	\$ 154,820	\$ 548,377	\$ 381,966	\$ 166,411
Routine care	2,919,550	2,037,338	882,212	2,809,047	1,945,314	863,733
Nursery	116,233	82,404	33,829	109,065	76,752	32,313
Operating room	1,125,053	376,731	748,322	1,124,871	351,883	772,988
Delivery room	89,250	64,283	24,967	52,886	38,066	14,820
Emergency room	2,055,119	742,838	1,312,281	1,869,801	686,026	1,183,775
	<u>6,825,659</u>	<u>3,669,228</u>	<u>3,156,431</u>	<u>6,514,047</u>	<u>3,480,007</u>	<u>3,034,040</u>
Other Professional Services						
Central service and supply	277,089	78,542	198,547	295,582	81,438	214,144
Laboratory	1,515,226	557,881	957,345	1,449,471	536,070	913,401
Radiology	965,812	434,912	530,900	955,882	447,752	508,130
Electrocardiology	145,387	64,415	80,972	141,465	62,955	78,510
Nuclear medicine	76,015		76,015	68,900		68,900
Pharmacy	1,385,589	120,904	1,264,685	1,109,623	123,956	985,667
Respiratory therapy	323,809		323,809	302,765		302,765
Physical therapy	818,840		818,840	760,346		760,346
Occupational therapy	103,090		103,090	86,266		86,266
Speech pathology	227,390	176,327	51,063	219,190	173,779	45,411
CT Scan	350,633		350,633	359,628		359,628
Medical clinic	175,957	67,807	108,150	185,211	67,040	118,171
Rural health clinic	1,180,640	420,991	759,649	1,142,785	422,518	720,267
Sleep studies	42,185		42,185	43,615		43,615
Clinic Surgeon	161,078		161,078	454		454
CRNA services	417,172		417,172	411,126		411,126
	<u>8,165,912</u>	<u>1,921,779</u>	<u>6,244,133</u>	<u>7,532,309</u>	<u>1,915,508</u>	<u>5,616,801</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2012 and 2011**

	2012			2011		
	Total	Salaries	Other	Total	Salaries	Other
General Services						
Dietary	\$ 885,693	\$ 453,238	\$ 432,455	\$ 881,510	\$ 457,595	\$ 423,915
Operation of plant	770,742	207,067	563,675	759,209	201,495	557,714
Housekeeping	566,390	365,436	200,954	512,628	323,455	189,173
Laundry	103,834	14,828	89,006	94,059	14,497	79,562
	<u>2,326,659</u>	<u>1,040,569</u>	<u>1,286,090</u>	<u>2,247,406</u>	<u>997,042</u>	<u>1,250,364</u>
Administrative Services						
Medical records	471,479	286,799	184,680	436,114	274,222	161,892
Administration	2,913,958	1,194,780	1,719,178	2,772,770	1,119,778	1,652,992
Purchasing	151,451	88,304	63,147	143,023	84,340	58,683
Personnel	102,718	73,566	29,152	96,156	69,465	26,691
Insurance	81,703		81,703	79,423		79,423
	<u>3,721,309</u>	<u>1,643,449</u>	<u>2,077,860</u>	<u>3,527,486</u>	<u>1,547,805</u>	<u>1,979,681</u>
Depreciation	<u>1,120,802</u>		<u>1,120,802</u>	<u>1,260,955</u>		<u>1,260,955</u>
	<u>\$ 22,160,341</u>	<u>\$ 8,275,025</u>	<u>\$ 13,885,316</u>	<u>\$ 21,082,203</u>	<u>\$ 7,940,362</u>	<u>\$ 13,141,841</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Patient Receivables and Allowance for
Uncollectible Accounts – Hospital
Years Ended June 30, 2012 and 2011**

Schedules of Patient Receivables

	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Days Since Discharge				
0-30	\$ 2,717,770	\$ 2,492,092	52.98%	50.49%
31-60	440,139	507,896	8.58%	10.29%
61-90	225,843	230,483	4.40%	4.67%
91-120	175,770	167,825	3.43%	3.40%
121-150	163,115	182,908	3.18%	3.71%
151 and over	1,407,380	1,354,121	27.43%	27.44%
	<u>5,130,017</u>	<u>4,935,325</u>	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>248,871</u>	<u>211,417</u>		
	<u>5,378,888</u>	<u>5,146,742</u>		
Less				
Contractual allowances	988,700	1,028,000		
Allowance for uncollectible accounts	<u>1,499,600</u>	<u>1,460,500</u>		
	<u>2,488,300</u>	<u>2,488,500</u>		
	<u>\$ 2,890,588</u>	<u>\$ 2,658,242</u>		

Allowance for Uncollectible Accounts

	<u>2012</u>	<u>2011</u>
Balance, beginning of year	\$ 1,460,500	\$ 1,393,000
Provision for year	956,099	912,638
Recoveries of accounts previously written off	<u>166,941</u>	<u>130,442</u>
	2,583,540	2,436,080
Less accounts written off	<u>1,083,940</u>	<u>975,580</u>
Balance, end of year	<u>\$ 1,499,600</u>	<u>\$ 1,460,500</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Noncurrent Cash Transactions – Hospital
Years Ended June 30, 2012 and 2011**

	Total
Balance, July 1, 2010	\$ 391,339
Deposits	1,416,126
Withdrawals	(636,743)
Balance, June 30, 2011	1,170,722
Deposits	1,176,444
Withdrawals	(488,036)
Balance, June 30, 2012	\$ 1,859,130

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Supplies and Prepaid Expense – Hospital
Years Ended June 30, 2012 and 2011**

	2012	2011
Supplies		
Storeroom	\$ 141,486	\$ 140,528
Pharmacy	160,158	143,356
Surgery	161,395	144,583
Dietary	10,259	8,334
	\$ 473,298	\$ 436,801
 Prepaid Expenses		
Insurance	\$ 35,584	\$ 30,802
Maintenance contracts	74,921	82,758
Memberships and dues	17,949	16,507
Workers' compensation insurance	7,649	7,137
	\$ 136,103	\$ 137,204

Other Supplementary Information

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of Officials – Hospital
Year Ended June 30, 2012**

Name	Title	Term Expires
Board of Commissioners		
Mike Marth	Chairman	2014
James Moon	Secretary	2012
Joe Nettleton	Treasurer	2013
Myrna Jakoubek	Member	2014
Sue Paulus	Member	2012
Hospital Officials		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Financial and Statistical Data – Hospital
Years Ended June 30, 2012 and 2011**

	2012	2011
Patient Days (Exclusive of Swing-bed)		
Medicare	1,629	1,319
Medicaid	194	207
Private and other	516	525
	2,339	2,051
Medicare and Medicaid Percent	77.9%	74.4%
Percent of Occupancy (Exclusive of Swing-bed)	26%	22%
Discharges (Exclusive of Swing-bed)		
Medicare	480	453
Medicaid	75	81
Private and other	203	206
	758	740
Average Length of Stay in Days	3.1	2.8

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

Board of Commissioners
Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the Hospital) as of and for the year ended June 30, 2012 and have issued our report thereon dated November 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Hospital is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to the Hospital's management in a separate letter dated November 13, 2012.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2012 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2012. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2012.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures during the year ended June 30, 2012 did not exceed amounts budgeted.

Questionable Expenditures

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

Travel Expense

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

Business Transactions

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

Commission Minutes

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

Deposits and Investments

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

Unclaimed Property

The Hospital is required to evaluate the need to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital evaluated unclaimed property and was not required to file the unclaimed property report for the year ended June 30, 2011. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

Publication of Bills Allowed and Salaries

Chapter 347.13(14) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category ..." The Hospital has sought counsel in this matter and it was determined that the Hospital is not required to publish such items.

This report is intended solely for the information and use of the governing body, management, the State of Iowa and others within the Hospital and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
November 13, 2012

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2012**

Reference Number	Finding
None	

Board of Commissioners and Management
Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Charles City, Iowa

In planning and performing our audit of the financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the Hospital) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency 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 of the Hospital's financial statements on a timely basis. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases Cycle

- The Data Processing Clerks have the ability to issue and sign checks and have certain recording responsibilities.

Payroll Cycle

- The Personnel Manager and Personnel Assistant have the ability to issue and sign checks and also have recording responsibilities.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Medicare Reimbursement and Operations

The *Budget Control Act of 2011* included an automatic sequestration process to reduce government spending including up to a 2% cut to Medicare payments. These cuts are scheduled to begin effective January 2, 2013. Based on the Hospital's 2012 cost report, the 2% sequestration could result in approximately \$230,000 of lost reimbursement annually.

New GASB Standards

The Governmental Accounting Standards Board has issued several new standards within the past few years. While most of the new standards will have minimal impact on the Hospital, we have noted below the standards we believe will have the most impact on the Hospital.

Governmental Accounting Standards Board Statement No. 65, Reporting Items Previously Recognized as Assets and Liabilities

GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in the financial statements (i.e., assets, deferred outflows of resources, liabilities, deferred inflows of resources, etc.). Concepts Statement No. 4 also indicated that recognition of deferred outflows of resources and deferred inflows of resources should be limited to those instances specifically identified in subsequent authoritative pronouncements. Only two such pronouncements have been issued, GASB 53, *Accounting and Financial Reporting for Derivative Instruments* and GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This standard amends the classification of certain items currently reported as assets and liabilities. One potential impact for the Hospital is that all future debt issuance costs will be expensed as incurred instead of amortized over the life of any new debt.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012, or the Hospital's 2014 fiscal year.

Governmental Accounting Standards Board No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*

GASB No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to governmental employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes guidance for accounting for participating employers in single-employer and multiple-employer defined-benefit pension plans, cost-sharing plans, defined-contribution plans and plans with insured benefits. More specifically, it would require the Hospital to recognize pension expense based on an actuarial valuation, as opposed to current guidance of recognizing pension expense based on contributions actually made, or contractually required to be made. The note disclosure and required supplementary information requirements for employers whose employees are provided with defined benefit pensions through qualified trusts also are addressed.

We recommend the Hospital begin reviewing these changes in order to evaluate the potential impact on the financial statements.

The effective date for this standard is generally for periods beginning after June 15, 2014.

Conversion to ICD-10

Beginning on October 1, 2014, the Centers for Medicare and Medicaid Services (CMS) is converting coding data sets utilized to report medical diagnoses and inpatient procedures to the 10th edition (International Classification of Diseases – ICD). Claims made with ICD-9 codes for services provided after this date cannot be paid. The conversion will improve the information reported regarding a patient's medical condition, hospital inpatient procedures, update medical terms and be more consistent with current medical practices. However, to accomplish these changes, the amount of codes has increased from approximately 13,500 to 70,000, thereby making the coding system more complex in nature.

The impact from this conversion will be significant given the change in complexity. The greatest cost to the providers will be related to the loss of productivity through error rates and reworking of claims filed, in addition to the loss of cash flows through the initial increase in the length of time necessary to process claims. CMS estimates that it may take up to six months for error rates and accounts receivable to decrease back to pre-conversion levels.

Providers should begin developing an implementation strategy that includes an assessment of the impact on your hospital. Check with your billing services, clearinghouse or practice management software vendor about their compliance plans. Training of personnel and physicians will be necessary to prevent significant delays in processing of claims or loss of reimbursement.

Electronic Health Records Meaningful Use Audits

The American Recovery and Reinvestment Act of 2009 includes significant potential funding for hospitals starting in 2011 once they demonstrate they are meaningful users of certified electronic health record (EHR) technology. Beginning in 2012, the Centers for Medicare and Medicaid Services (CMS) has contracted an accounting firm to begin conducting meaningful use audits of certified Electronic Health Record (EHR) technology as required in the Health Information Technology for Economic and Clinical Health Act (HITECH Act). The HITECH Act provides for the right to audit and inspect any books and records of any organization receiving an incentive payment. The Hospital should evaluate documentation in the event that the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

Standard Accounting Policies and Procedures

There is little written documentation of accounting or data processing procedures. Internal control is strengthened by identifying and documenting accounting procedures and responsibilities of accounting personnel. This will also be important for the compliance program. We recommend that consideration be given to developing written documentation of controls and procedures to strengthen the Hospital's ability to continue to operate efficiently in the event of unexpected employee turnover.

Current Economic Environment

The current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. As a result, hospitals are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, the allowance for accounts receivable, etc. that could negatively impact the Hospital's ability to maintain sufficient liquidity.

Now, more than ever, we recommend that management and the Board of Commissioners vigilantly monitor and aggressively manage all of these matters.

* * * * *

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

BKD, LLP

Kansas City, Missouri
November 13, 2012