

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Auditor's Report and Financial Statements
June 30, 2013 and 2012



**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
June 30, 2013 and 2012**

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Independent Auditor's Report on Financial Statements and Supplementary Information

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

Report on the Financial Statements

We have audited the accompanying financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the "Hospital"), which comprise the balance sheets as of June 30, 2013 and 2012 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of June 30, 2013 and 2012, and its changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Supplementary Information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013 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 do not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

BKD, LLP

Kansas City, Missouri
December 16, 2013

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

Management's Discussion and Analysis Years Ended June 30, 2013 and 2012

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, 2013 and 2012. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash increased in 2013 by \$474,583 or 17% and increased in 2012 by \$769,051 or 37%.
- The Hospital's net position increased in each of the past two years with a \$663,959 or 4% increase in 2013 and an \$867,974 or 5% increase in 2012.
- The Hospital reported operating income in both 2013 and 2012 of \$664,451 and \$843,903, respectively.
- Net nonoperating revenues and expense decreased by \$24,563 in 2013 compared to 2012.

Using This Annual Report

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

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets 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 position and changes in them. The Hospital's total net position—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 position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash 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 Position

The Hospital's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net position increased by \$663,959 or 4% in 2013 over 2012 as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2013	2012	2011
Assets			
Patient accounts receivable, net	\$ 2,964,121	\$ 2,890,588	\$ 2,658,242
Other current assets	3,865,364	3,577,465	2,879,453
Capital assets, net	9,844,530	9,984,630	10,631,030
Other noncurrent assets	<u>3,694,194</u>	<u>3,481,121</u>	<u>2,802,322</u>
Total assets	<u>\$ 20,368,209</u>	<u>\$ 19,933,804</u>	<u>\$ 18,971,047</u>
Liabilities			
Other current and noncurrent liabilities	<u>\$ 1,854,431</u>	<u>\$ 2,083,985</u>	<u>\$ 1,989,202</u>
Total liabilities	<u>1,854,431</u>	<u>2,083,985</u>	<u>1,989,202</u>
Net Position			
Net investment in capital assets	9,801,233	9,984,631	10,631,030
Unrestricted	<u>8,712,545</u>	<u>7,865,188</u>	<u>6,350,815</u>
Total net position	<u>18,513,778</u>	<u>17,849,819</u>	<u>16,981,845</u>
Total liabilities and net position	<u>\$ 20,368,209</u>	<u>\$ 19,933,804</u>	<u>\$ 18,971,047</u>

In 2013, an excess of revenues over expenses of \$663,959, and is included in the total net position, which resulted in an increase of 4%. No major changes in services were noted.

In 2013, there was a net decrease of \$140,100 or 1% in capital assets. The only major purchases in 2013 were for radiography machines for \$668,326.

In 2013, there was no long-term debt.

In 2013, there was a decrease in current liabilities of \$229,554, or 11%.

In 2013, total assets increased \$434,405 or 2%.

In 2012, an excess of revenues over expenses was noted of \$867,974, and is included in the total net position, 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%.

Operating Results and Changes in the Hospital's Net Position

In 2013, the Hospital's net position increased by \$663,959 or 4% as shown in Table 2. This increase is made up of several different components and represents an operating income decrease of \$179,452 or 21% compared to 2012.

Table 2: Operating Results and Changes in Net Position

	2013	2012	2011
Operating Revenues			
Net patient service revenue	\$ 22,741,667	\$ 22,538,176	\$ 21,292,339
Other operating revenues	488,940	513,445	694,712
Total operating revenues	<u>23,230,607</u>	<u>23,051,621</u>	<u>21,987,051</u>
Operating Expenses			
Salaries and wages and employee benefits	11,829,577	11,663,198	11,269,711
Medical professional fees	4,130,386	3,995,069	3,581,126
Depreciation	1,137,555	1,148,544	1,285,522
Other operating expenses	5,468,638	5,400,907	4,994,745
Total operating expenses	<u>22,566,156</u>	<u>22,207,718</u>	<u>21,131,104</u>
Operating Income	<u>664,451</u>	<u>843,903</u>	<u>855,947</u>
Nonoperating Revenues (Expenses)			
Investment income	9,893	55,258	64,019
Contributions	5,784	4,228	4,831
Interest expense	-	-	(18,840)
Income taxes - Aesculapius	(16,169)	(35,415)	(19,858)
Total nonoperating revenues (expenses)	<u>(492)</u>	<u>24,071</u>	<u>30,152</u>
Increase in Net Position	<u>\$ 663,959</u>	<u>\$ 867,974</u>	<u>\$ 886,099</u>

Operating Income

The first component of the overall change in the Hospital's net position is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 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 2013 and 2012.

The operating income for 2013 decreased as compared to 2012. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$203,491 or 1%.
- An increase in salaries and wages and employee benefits of \$166,379 or 1%.
- A decrease in depreciation of \$10,989 or 1%.
- An increase in medical professional fees and other operating expenses of \$203,048 or 2%.
- An increase in total operating expenses of \$358,438 or 2%.

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

- An increase in net patient service revenues of \$1,245,837 or 6%.
- 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%.

In 2013 and 2012, as in the past, the Floyd County Memorial Hospital (Hospital), 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 income tax expense. Investment income and income tax expense decreased in 2013 as compared to 2012.

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, 2013, the Hospital had \$9,844,530 in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2013, the Hospital had additions of capital assets of \$997,457.

At June 30, 2012, the Hospital had \$9,984,630 in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2012, the Hospital had additions of capital assets of \$502,144.

Debt

The Hospital had no long-term debt in 2013 or 2012. The Hospital's formal debt issuances are subject to limitations imposed by state law.

Summary

The Medical Center's Board of Commissioners and Administrative Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our 200 employees provide to every patient they serve. We would also like to thank each member of the Hospital's medical staff for their dedication and support provided.

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, 2013 and 2012**

Assets

	2013	2012
Current Assets		
Cash	\$ 3,340,322	\$ 2,865,739
Patient accounts receivable, net of allowance; 2013 - \$1,511,000, 2012 - \$1,499,600	2,964,121	2,890,588
Other receivables	65,813	102,325
Supplies	415,200	473,298
Prepaid expenses	44,029	136,103
Total current assets	6,829,485	6,468,053
Noncurrent Cash and Deposits		
Internally designated for capital and other expenditures	2,152,118	1,859,130
Certificates of deposit	1,500,000	1,500,000
Total noncurrent cash and deposits	3,652,118	3,359,130
Capital Assets, Net of Accumulated Depreciation	9,844,530	9,984,630
Other Assets		
Investments and other	42,076	121,991
Total Assets	\$ 20,368,209	\$ 19,933,804

Liabilities and Net Position

	<u>2013</u>	<u>2012</u>
Current Liabilities		
Accounts payable	\$ 392,208	\$ 470,609
Accrued expenses		
Vacation pay	505,470	508,080
Payroll and related deductions	425,753	454,212
Health insurance	352,000	458,084
Estimated amounts due to third-party payers	<u>179,000</u>	<u>193,000</u>
Total current liabilities	<u>1,854,431</u>	<u>2,083,985</u>
Net Position		
Net investment in capital assets	9,801,233	9,984,631
Unrestricted	<u>8,712,545</u>	<u>7,865,188</u>
Total net position	<u>18,513,778</u>	<u>17,849,819</u>
 Total Liabilities and Net Position	 <u><u>\$ 20,368,209</u></u>	 <u><u>\$ 19,933,804</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 24,095,405	\$ 23,494,275
Less provision for uncollectible accounts	<u>1,353,738</u>	<u>956,099</u>
Net patient service revenue	22,741,667	22,538,176
Other revenues	<u>488,940</u>	<u>513,445</u>
Total operating revenues	<u>23,230,607</u>	<u>23,051,621</u>
Operating Expenses		
Salaries and wages	8,341,503	8,275,025
Employee benefits	3,488,074	3,388,173
Medical professional fees	4,130,386	3,995,069
Supplies and expenses	3,078,627	3,123,307
General services	1,032,376	947,206
Administrative services	1,357,635	1,330,394
Depreciation	<u>1,137,555</u>	<u>1,148,544</u>
Total operating expenses	<u>22,566,156</u>	<u>22,207,718</u>
Operating Income	<u>664,451</u>	<u>843,903</u>
Nonoperating Revenues (Expenses)		
Investment income	9,893	55,258
Contributions	5,784	4,228
Income taxes – Aesculapius	<u>(16,169)</u>	<u>(35,415)</u>
Total nonoperating revenues (expenses)	<u>(492)</u>	<u>24,071</u>
Increase in Net Position	663,959	867,974
Net Position, Beginning of the Year	<u>17,849,819</u>	<u>16,981,845</u>
Net Position, End of the Year	<u>\$ 18,513,778</u>	<u>\$ 17,849,819</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows
Years Ended June 30, 2013 and 2012**

	2013	2012
Operating Activities		
Receipts from and on behalf of patients	\$ 22,654,134	\$ 22,045,830
Payments to suppliers	(9,651,736)	(9,329,419)
Payments to employees	(11,966,730)	(11,570,581)
Other receipts and payments, net	615,726	790,981
Net cash provided by operating activities	1,651,394	1,936,811
Noncapital Financing Activities		
Unrestricted contributions	5,784	4,228
Net cash provided by noncapital financing activities	5,784	4,228
Capital and Related Financing Activities		
Purchase of capital assets	(954,158)	(502,144)
Proceeds from sale of capital assets	1,800	-
Net cash used in capital and related financing activities	(952,358)	(502,144)
Investing Activities		
Purchase of investments	-	(20,000)
Income on investments	62,751	38,564
Net cash provided by investing activities	62,751	18,564
Increase in Cash	767,571	1,457,459
Cash, Beginning of Year	4,724,869	3,267,410
Cash, End of Year	\$ 5,492,440	\$ 4,724,869

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows (Continued)
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 3,340,322	\$ 2,865,739
Noncurrent cash		
Internally designated	<u>2,152,118</u>	<u>1,859,130</u>
Total cash	<u>\$ 5,492,440</u>	<u>\$ 4,724,869</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 664,451	\$ 843,903
Items not requiring (providing) cash		
Depreciation	1,137,555	1,148,544
Amortization	10,888	10,888
Gain on sale of assets	(1,800)	-
Changes in		
Patient and other accounts receivable, net	(37,021)	(125,911)
Supplies	58,098	(36,497)
Prepaid expenses	92,074	1,101
Accounts payable and accrued expenses	(258,851)	184,783
Estimated amounts due to third-party payers	<u>(14,000)</u>	<u>(90,000)</u>
Net cash provided by operating activities	<u>\$ 1,651,394</u>	<u>\$ 1,936,811</u>
Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	<u>\$ 43,297</u>	<u>\$ -</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Reporting Entity

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 and governed by the Hospital board. 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.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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.

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.

Supplies

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

Capital Assets

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

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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 Position

Net position of the Hospital is classified in two components. Net investment in capital assets consist of capital assets net of accumulated depreciation. Unrestricted net position is remaining net position that do not meet the definition of net investment in capital assets.

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 \$172,765 and \$99,672 for 2013 and 2012, respectively.

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.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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. It is reasonably possible that this estimate could change materially in the near term.

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 2013 or 2012.

Income Taxes

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

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals (CAHs) are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare share factor, which includes a 20% incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Hospital is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

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The Hospital has recognized the incentive payments received for qualified EHR technology expenditures during 2013 and 2012, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete. Management believes the incentive payments reflect a change in how “allowable costs” are determined in paying CAHs for providing services to Medicare beneficiaries. The Hospital recorded revenue of \$248,790 and \$170,000, which is included in net patient service revenue in the statement of revenues, expenses and changes in net position for the years ended June 30, 2013 and 2012, respectively.

Subsequent Events

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

Reclassifications

Certain reclassifications have been made to the 2012 financial statement to conform to the 2013 presentation. These reclassifications had no effect on the change in total net position.

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is 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. Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2021.

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.

Approximately 60% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2013 and 2012. 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.

**Floyd County Memorial Hospital
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Notes to Financial Statements
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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: 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, 2013 and 2012 consisted of:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 1,049,475	\$ 1,018,999
Medicaid	104,466	108,163
Third-party payers	894,612	808,400
Patients	2,265,256	2,268,455
Clinics	161,312	186,171
Total	<u>4,475,121</u>	<u>4,390,188</u>
Less allowance for uncollectible accounts	<u>1,511,000</u>	<u>1,499,600</u>
Patient accounts receivable, net	<u>\$ 2,964,121</u>	<u>\$ 2,890,588</u>

Note 4: 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, 2013 and 2012. The Hospital's deposits in banks at June 30, 2013 and 2012 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.

**Floyd County Memorial Hospital
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Notes to Financial Statements
June 30, 2013 and 2012**

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, 2013 and 2012.

Summary of Carrying Value

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

	2013	2012
Deposits	\$ 6,992,440	\$ 6,224,869
Included in the following balance sheet captions		
Cash	\$ 3,340,322	\$ 2,865,739
Noncurrent cash and deposits	3,652,118	3,359,130
	\$ 6,992,440	\$ 6,224,869

Investment Income

Investment income for the years ended June 30, 2013 and 2012 consisted of:

	2013	2012
Interest and dividends	\$ 66,314	\$ 83,281
Return on other investments	(56,421)	(28,023)
Total investment income	\$ 9,893	\$ 55,258

**Floyd County Memorial Hospital
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Notes to Financial Statements
June 30, 2013 and 2012**

Note 5: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2013 and 2012 was:

2013	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Land and improvements	\$ 495,488	\$ 43,297	\$ 40,000		\$ 498,785
Building and improvements	15,133,611	46,857	5,000	\$ 12,259	15,187,727
Fixed equipment	2,015,215				2,015,215
Major moveable equipment	5,057,204	837,261	274,059	12,305	5,632,711
Construction in progress	12,676	70,042		(24,564)	58,154
	<u>22,714,194</u>	<u>997,457</u>	<u>319,059</u>	<u>-</u>	<u>23,392,592</u>
Less accumulated depreciation					
Land improvements	273,355	23,475	40,000		256,830
Building and improvements	7,217,219	604,274	5,000		7,816,493
Fixed equipment	1,363,464	75,767			1,439,231
Major moveable equipment	3,875,528	434,039	274,059		4,035,508
Total accumulated depreciation	<u>12,729,566</u>	<u>1,137,555</u>	<u>319,059</u>		<u>13,548,062</u>
Capital assets, net	<u>\$ 9,984,628</u>	<u>\$ (140,098)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,844,530</u>
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>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 6: Operating Leases

Noncancellable operating lease for equipment expires in 2018.

Future minimum lease payments at June 30, 2013, were:

2014	\$ 320,408
2015	320,408
2016	304,744
2017	122,917
2018	<u>43,281</u>
Future minimum lease payments	<u>\$ 1,111,758</u>

Rental expense for all operating leases totaled \$222,096 and \$236,987 for 2013 and 2012, respectively.

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 5.78% and 5.38% of their annual covered salary and the Hospital is required to contribute 8.67% and 8.07% of annual covered payroll for 2013 and 2012, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2013, 2012 and 2011 were \$675,918, \$679,338 and \$551,553, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.67% of annual covered salary for 2013.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Note 8: 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 2013 and 2012 is summarized as follows:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 458,084	\$ 431,000
Current year claims and changes in estimates	(2,450,997)	(2,038,072)
Claim payments	<u>2,344,913</u>	<u>2,065,156</u>
Balance, end of year	<u>\$ 352,000</u>	<u>\$ 458,084</u>

Note 9: Condensed Balance Sheets

The following tables include condensed information for the Hospital and Health Care of Floyd County L.C., a blended component unit described in Note 1 as of June 30, 2013 and 2012.

Condensed Balance Sheets

	<u>June 30, 2013</u>			
	<u>Floyd County Memorial Hospital</u>	<u>HCFC</u>	<u>Eliminations</u>	<u>Total</u>
Assets				
Current assets	\$ 6,741,840	\$ 87,645	\$ -	\$ 6,829,485
Noncurrent cash and deposits	3,652,118	-	-	3,652,118
Capital assets	9,331,324	513,206	-	9,844,530
Other assets	<u>642,927</u>	<u>-</u>	<u>(600,851)</u>	<u>42,076</u>
Total assets	<u>\$ 20,368,209</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 20,368,209</u>
Liabilities and Net Position				
Current liabilities	\$ 1,854,431	\$ -	\$ -	\$ 1,854,431
Noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,854,431</u>	<u>-</u>	<u>-</u>	<u>1,854,431</u>
Net Position				
Net investment in capital assets	9,288,027	513,206	-	9,801,233
Unrestricted	<u>9,225,751</u>	<u>87,645</u>	<u>(600,851)</u>	<u>8,712,545</u>
Total net position	<u>18,513,778</u>	<u>600,851</u>	<u>(600,851)</u>	<u>18,513,778</u>
Total liabilities and net position	<u>\$ 20,368,209</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 20,368,209</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

	June 30, 2012			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Assets				
Current assets	\$ 6,389,788	\$ 78,265	\$ -	\$ 6,468,053
Noncurrent cash and deposits	3,359,130	-	-	3,359,130
Capital assets	9,459,762	524,868	-	9,984,630
Other assets	725,124	-	(603,133)	121,991
	<u>19,933,804</u>	<u>603,133</u>	<u>(603,133)</u>	<u>19,933,804</u>
Total assets	<u>\$ 19,933,804</u>	<u>\$ 603,133</u>	<u>\$ (603,133)</u>	<u>\$ 19,933,804</u>
Liabilities and Net Position				
Current liabilities	\$ 2,083,985	\$ -	\$ -	\$ 2,083,985
	<u>2,083,985</u>	<u>-</u>	<u>-</u>	<u>2,083,985</u>
Total liabilities	<u>2,083,985</u>	<u>-</u>	<u>-</u>	<u>2,083,985</u>
Net Position				
Invested in capital assets	9,459,763	524,868	-	9,984,631
Unrestricted	8,390,056	78,265	(603,133)	7,865,188
	<u>17,849,819</u>	<u>603,133</u>	<u>(603,133)</u>	<u>17,849,819</u>
Total net position	<u>17,849,819</u>	<u>603,133</u>	<u>(603,133)</u>	<u>17,849,819</u>
Total liabilities and net position	<u>\$ 19,933,804</u>	<u>\$ 603,133</u>	<u>\$ (603,133)</u>	<u>\$ 19,933,804</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center**
Notes to Financial Statements
June 30, 2013 and 2012

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2013			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 22,741,667	\$ -	\$ -	\$ 22,741,667
Other	348,513	214,323	(73,896)	488,940
Total operating revenues	<u>23,090,180</u>	<u>214,323</u>	<u>(73,896)</u>	<u>23,230,607</u>
Operating Expenses				
Other operating expenses	21,419,724	82,773	(73,896)	21,428,601
Depreciation	1,099,892	37,663	-	1,137,555
Total operating expenses	<u>22,519,616</u>	<u>120,436</u>	<u>(73,896)</u>	<u>22,566,156</u>
Operating Income	<u>570,564</u>	<u>93,887</u>	<u>-</u>	<u>664,451</u>
Nonoperating Revenues (Expenses)				
Investment income	87,611	-	(77,718)	9,893
Contributions	5,784	-	-	5,784
Income taxes – Aesculapius	-	(16,169)	-	(16,169)
Total nonoperating revenues (expenses)	<u>93,395</u>	<u>(16,169)</u>	<u>(77,718)</u>	<u>(492)</u>
Increase in Net Position	663,959	77,718	(77,718)	663,959
Net Position, Beginning of Year	17,849,819	603,133	(603,133)	17,849,819
Dividends Paid	-	(80,000)	80,000	-
Net Position, End of Year	<u>\$ 18,513,778</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 18,513,778</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012

	Year Ended June 30, 2012			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue	\$ 22,538,176	\$ -	\$ -	\$ 22,538,176
Other	355,491	231,850	(73,896)	513,445
Total operating revenues	<u>22,893,667</u>	<u>231,850</u>	<u>(73,896)</u>	<u>23,051,621</u>
Operating Expenses				
Other operating expenses	21,039,539	93,531	(73,896)	21,059,174
Depreciation	1,120,802	27,742	-	1,148,544
Total operating expenses	<u>22,160,341</u>	<u>121,273</u>	<u>(73,896)</u>	<u>22,207,718</u>
Operating Income	<u>733,326</u>	<u>110,577</u>	<u>-</u>	<u>843,903</u>
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)	<u>134,648</u>	<u>(35,415)</u>	<u>(75,162)</u>	<u>24,071</u>
Increase in Net Position	867,974	75,162	(75,162)	867,974
Net Position, Beginning of Year	16,981,845	577,971	(577,971)	16,981,845
Dividends Paid	-	(50,000)	50,000	-
Net Position, End of Year	<u>\$ 17,849,819</u>	<u>\$ 603,133</u>	<u>\$ (603,133)</u>	<u>\$ 17,849,819</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

Condensed Statements of Cash Flows

	Year Ended June 30, 2013			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Net Cash Provided by Operating Activities	\$ 1,536,013	\$ 115,381	\$ -	\$ 1,651,394
Net Cash Provided by Noncapital Financing Activities	5,784	-	-	5,784
Net Cash Used in Capital and Related Financing Activities	(926,357)	(26,001)	-	(952,358)
Net Cash Provided by (Used in) Investing Activities	142,751	(80,000)	-	62,751
Change in Cash	758,191	9,380	-	767,571
Cash, Beginning of Year	4,646,604	78,265	-	4,724,869
Cash, End of Year	\$ 5,404,795	\$ 87,645	\$ -	\$ 5,492,440

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

	Year Ended June 30, 2012			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Net Cash Provided by Operating Activities	\$ 1,833,907	\$ 102,904	\$ -	\$ 1,936,811
Net Cash Provided by Noncapital Financing Activities	4,228	-	-	4,228
Net Cash Used in Capital and Related Financing Activities	(468,039)	(34,105)	-	(502,144)
Net Cash Provided by (Used in) Investing Activities	68,564	(50,000)	-	18,564
Change in Cash	1,438,660	18,799	-	1,457,459
Cash, Beginning of Year	3,207,944	59,466	-	3,267,410
Cash, End of Year	\$ 4,646,604	\$ 78,265	\$ -	\$ 4,724,869

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.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2013 and 2012**

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, 2013:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Other revenues/receipts	\$ 23,183,575	\$ (51,021)	\$ 23,132,554	\$ 26,080,000
Expenses/disbursements	<u>22,519,616</u>	<u>(74,718)</u>	<u>22,444,898</u>	<u>26,452,700</u>
	663,959	23,697	687,656	(372,700)
Balance, beginning of year	<u>17,849,819</u>	<u>(11,502,959)</u>	<u>6,346,860</u>	<u>6,346,860</u>
Balance, end of year	<u><u>\$ 18,513,778</u></u>	<u><u>\$ (11,479,262)</u></u>	<u><u>\$ 7,034,516</u></u>	<u><u>\$ 5,974,160</u></u>

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, 2013 and 2012.

Supplementary Information

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet
June 30, 2013**

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 3,252,677	\$ 87,645		\$ 3,340,322
Patient accounts receivable, net of allowance of \$1,511,000	2,964,121			2,964,121
Other receivables	65,813			65,813
Supplies	415,200			415,200
Prepaid expenses	44,029			44,029
	<u>6,741,840</u>	<u>87,645</u>		<u>6,829,485</u>
Noncurrent Cash and Deposits				
Internally designated for capital and other expenditures	2,152,118			2,152,118
Certificates of deposit	1,500,000			1,500,000
	<u>3,652,118</u>			<u>3,652,118</u>
Capital Assets, Net of Accumulated Depreciation				
	<u>9,331,324</u>	<u>513,206</u>		<u>9,844,530</u>
Other Assets				
Investments and other	642,927		\$ (600,851)	42,076
Total Assets	<u><u>\$ 20,368,209</u></u>	<u><u>\$ 600,851</u></u>	<u><u>\$ (600,851)</u></u>	<u><u>\$ 20,368,209</u></u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet (Continued)
June 30, 2013**

Liabilities and Net Position

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Accounts payable	\$ 392,208			\$ 392,208
Accrued expenses				
Vacation pay	505,470			505,470
Payroll and related deductions	425,753			425,753
Health insurance	352,000			352,000
Estimated amounts due to third-party payers	<u>179,000</u>			<u>179,000</u>
Total current liabilities	<u>1,854,431</u>			<u>1,854,431</u>
Net Position				
Net investment in capital assets	9,288,027	\$ 513,206		9,801,233
Unrestricted	<u>9,225,751</u>	<u>87,645</u>	<u>\$ (600,851)</u>	<u>8,712,545</u>
Total net position	<u>18,513,778</u>	<u>600,851</u>	<u>(600,851)</u>	<u>18,513,778</u>
Total Liabilities and Net Position	<u>\$ 20,368,209</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 20,368,209</u>

**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>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
	<u>725,124</u>		<u>\$ (603,133)</u>	<u>121,991</u>
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 Position

	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 Position				
Net investment 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 position	<u>17,849,819</u>	<u>603,133</u>	<u>(603,133)</u>	<u>17,849,819</u>
Total Liabilities and Net Position	<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 Statement of Revenues, Expenses
and Changes in Net Position
Year Ended June 30, 2013**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 24,095,405			\$ 24,095,405
Less provision for uncollectible accounts	<u>1,353,738</u>			<u>1,353,738</u>
Net patient service revenue	22,741,667			22,741,667
Other revenues	<u>348,513</u>	<u>\$ 214,323</u>	<u>\$ (73,896)</u>	<u>488,940</u>
Total operating revenues	<u>23,090,180</u>	<u>214,323</u>	<u>(73,896)</u>	<u>23,230,607</u>
Operating Expenses				
Salaries and wages	8,341,503			8,341,503
Employee benefits	3,488,074			3,488,074
Medical professional fees	4,130,386			4,130,386
Supplies and expenses	3,078,627			3,078,627
General services	1,049,785	56,487	(73,896)	1,032,376
Administrative services	1,331,349	26,286		1,357,635
Depreciation	<u>1,099,892</u>	<u>37,663</u>		<u>1,137,555</u>
Total operating expenses	<u>22,519,616</u>	<u>120,436</u>	<u>(73,896)</u>	<u>22,566,156</u>
Operating Income	<u>570,564</u>	<u>93,887</u>	<u>-</u>	<u>664,451</u>
Nonoperating Revenues (Expenses)				
Investment income	87,611		(77,718)	9,893
Contributions	5,784			5,784
Income taxes – Aesculapius		<u>(16,169)</u>		<u>(16,169)</u>
Total nonoperating revenues (expenses)	<u>93,395</u>	<u>(16,169)</u>	<u>(77,718)</u>	<u>(492)</u>
Increase in Net Position	663,959	77,718	(77,718)	663,959
Net Position, Beginning of the Year	17,849,819	603,133	(603,133)	17,849,819
Dividends Paid		<u>(80,000)</u>	<u>80,000</u>	<u>-</u>
Net Position, End of the Year	<u>\$ 18,513,778</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 18,513,778</u>

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

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 23,494,275			\$ 23,494,275
Less provision for uncollectible accounts	956,099			956,099
Net patient service revenue	22,538,176			22,538,176
Other revenues	355,491	\$ 231,850	\$ (73,896)	513,445
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 Position	867,974	75,162	(75,162)	867,974
Net Position, Beginning of the Year	16,981,845	577,971	(577,971)	16,981,845
Dividends Paid		(50,000)	50,000	-
Net Position, 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
Schedules of Patient Service Revenues – Hospital
Years Ended June 30, 2013 and 2012**

	2013			2012		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 4,026,621	\$ 4,026,621		\$ 3,831,755	\$ 3,831,755	
Nursery	142,494	142,494		194,755	194,755	
	<u>4,169,115</u>	<u>4,169,115</u>		<u>4,026,510</u>	<u>4,026,510</u>	
Other Nursing Services						
Operating room	3,664,041	899,072	\$ 2,764,969	3,211,577	988,487	\$ 2,223,090
Recovery room	290,743	31,757	258,986	292,379	48,097	244,282
Delivery room	186,093	100,276	85,817	231,996	138,950	93,046
Emergency room	5,066,895	14,971	5,051,924	4,406,449	31,818	4,374,631
	<u>9,207,772</u>	<u>1,046,076</u>	<u>8,161,696</u>	<u>8,142,401</u>	<u>1,207,352</u>	<u>6,935,049</u>
Other Professional Services						
Central service and supply	709,540	258,532	451,008	399,425	154,819	244,606
Laboratory	6,631,770	777,905	5,853,865	6,312,294	747,583	5,564,711
Blood	266,185	102,560	163,625	329,782	115,143	214,639
Radiology	1,983,818	77,365	1,906,453	1,976,631	86,079	1,890,552
Electrocardiology	796,352	45,287	751,065	798,004	49,929	748,075
Ultrasound	295,465	12,632	282,833	328,544	10,775	317,769
Nuclear medicine	181,086	943	180,143	171,165	7,190	163,975
CT Scan	2,938,843	231,640	2,707,203	2,897,664	260,428	2,637,236
MRI	947,052	51,698	895,354	974,736	48,349	926,387
Pharmacy	2,059,010	968,306	1,090,704	2,074,587	727,913	1,346,674
Intravenous therapy	607,604	335,202	272,402	444,928	283,044	161,884
Respiratory therapy	1,384,581	668,991	715,590	1,264,500	604,190	660,310
Physical therapy	1,994,805	710,098	1,284,707	1,944,552	747,755	1,196,797
Occupational therapy	489,834	219,256	270,578	436,150	216,918	219,232
Speech pathology	408,302	49,925	358,377	368,502	33,946	334,556
Anesthesia	381,746	38,656	343,090	375,832	58,428	317,404
Medical clinic	105,131		105,131	130,809		130,809
Rural health clinic	1,140,892		1,140,892	1,096,800		1,096,800
Clinic Surgeon	521,950		521,950	250,173		250,173
CRNA services	399,654		399,654	416,281		416,281
	<u>24,243,620</u>	<u>4,548,996</u>	<u>19,694,624</u>	<u>22,991,359</u>	<u>4,152,489</u>	<u>18,838,870</u>
Patient Service Revenue	37,620,507	<u>\$ 9,764,187</u>	<u>\$27,856,320</u>	35,160,270	<u>\$ 9,386,351</u>	<u>\$25,773,919</u>
Contractual Allowance	(13,773,892)			(11,835,995)		
Electronic Health Records Incentive Revenue	248,790			170,000		
Net Patient Service Revenue before Provision for Uncollectible Accounts	24,095,405			23,494,275		
Provision for Uncollectible Accounts	<u>(1,353,738)</u>			<u>(956,099)</u>		
Net Patient Service Revenue	<u>\$22,741,667</u>			<u>\$22,538,176</u>		

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Other Operating Revenues – Hospital
Years Ended June 30, 2013 and 2012**

	<u>2013</u>	<u>2012</u>
Cafeteria	\$ 158,664	\$ 151,105
Specialty clinics	118,531	111,704
Office rental	18,314	18,214
Registration fees	3,194	5,908
Medical records transcripts	17,533	16,544
Other	<u>32,277</u>	<u>52,016</u>
	<u>\$ 348,513</u>	<u>\$ 355,491</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2013 and 2012**

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 438,666	\$ 328,552	\$ 110,114	\$ 520,454	\$ 365,634	\$ 154,820
Routine care	3,050,475	2,098,961	951,514	2,919,550	2,037,338	882,212
Nursery	86,569	60,111	26,458	116,233	82,404	33,829
Operating room	1,166,431	391,069	775,362	1,125,053	376,731	748,322
Delivery room	61,910	44,545	17,365	89,250	64,283	24,967
Emergency room	2,121,861	764,449	1,357,412	2,055,119	742,838	1,312,281
	<u>6,925,912</u>	<u>3,687,687</u>	<u>3,238,225</u>	<u>6,825,659</u>	<u>3,669,228</u>	<u>3,156,431</u>
Other Professional Services						
Central service and supply	299,610	79,048	220,562	277,089	78,542	198,547
Laboratory	1,569,383	559,445	1,009,938	1,515,226	557,881	957,345
Radiology	1,004,083	474,776	529,307	965,812	434,912	530,900
Electrocardiology	142,439	65,222	77,217	145,387	64,415	80,972
Nuclear medicine	83,001		83,001	76,015		76,015
Pharmacy	1,172,817	113,608	1,059,209	1,385,589	120,904	1,264,685
Respiratory therapy	343,042		343,042	323,809		323,809
Physical therapy	826,226		826,226	818,840		818,840
Occupational therapy	110,560		110,560	103,090		103,090
Speech pathology	234,336	183,220	51,116	227,390	176,327	51,063
CT Scan	308,727		308,727	350,633		350,633
Medical clinic	168,406	66,431	101,975	175,957	67,807	108,150
Rural health clinic	1,227,222	425,427	801,795	1,180,640	420,991	759,649
Sleep studies	33,505		33,505	42,185		42,185
Clinic Surgeon	325,921		325,921	161,078		161,078
CRNA services	429,118		429,118	417,172		417,172
	<u>8,278,396</u>	<u>1,967,177</u>	<u>6,311,219</u>	<u>8,165,912</u>	<u>1,921,779</u>	<u>6,244,133</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital (Continued)
Years Ended June 30, 2013 and 2012**

	2013			2012		
	Total	Salaries	Other	Total	Salaries	Other
General Services						
Dietary	\$ 886,773	\$ 467,137	\$ 419,636	\$ 885,693	\$ 453,238	\$ 432,455
Operation of plant	878,421	210,637	667,784	770,742	207,067	563,675
Housekeeping	543,025	340,781	202,244	566,390	365,436	200,954
Laundry	106,764	14,334	92,430	103,834	14,828	89,006
	<u>2,414,983</u>	<u>1,032,889</u>	<u>1,382,094</u>	<u>2,326,659</u>	<u>1,040,569</u>	<u>1,286,090</u>
Administrative Services						
Medical records	468,329	291,333	176,996	471,479	286,799	184,680
Administration	2,992,029	1,198,592	1,793,437	2,913,958	1,194,780	1,719,178
Purchasing	151,087	89,605	61,482	151,451	88,304	63,147
Personnel	111,606	74,220	37,386	102,718	73,566	29,152
Insurance	77,382		77,382	81,703		81,703
	<u>3,800,433</u>	<u>1,653,750</u>	<u>2,146,683</u>	<u>3,721,309</u>	<u>1,643,449</u>	<u>2,077,860</u>
Depreciation	<u>1,099,892</u>		<u>1,099,892</u>	<u>1,120,802</u>		<u>1,120,802</u>
	<u>\$ 22,519,616</u>	<u>\$ 8,341,503</u>	<u>\$ 14,178,113</u>	<u>\$ 22,160,341</u>	<u>\$ 8,275,025</u>	<u>\$ 13,885,316</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, 2013 and 2012**

Schedules of Patient Receivables

	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Days Since Discharge				
0-30	\$ 2,976,928	\$ 2,717,770	53.51%	52.98%
31-60	450,800	440,139	8.10%	8.58%
61-90	285,571	225,843	5.13%	4.40%
91-120	221,524	175,770	3.98%	3.43%
121-150	216,800	163,115	3.90%	3.18%
151 and over	1,411,186	1,407,380	25.38%	27.43%
	<u>5,562,809</u>	<u>5,130,017</u>	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>232,012</u>	<u>248,871</u>		
	<u>5,794,821</u>	<u>5,378,888</u>		
Less				
Contractual allowances	1,319,700	988,700		
Allowance for uncollectible accounts	<u>1,511,000</u>	<u>1,499,600</u>		
	<u>2,830,700</u>	<u>2,488,300</u>		
	<u>\$ 2,964,121</u>	<u>\$ 2,890,588</u>		

Allowance for Uncollectible Accounts

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 1,499,600	\$ 1,460,500
Provision for year	1,353,738	956,099
Recoveries of accounts previously written off	<u>124,476</u>	<u>166,941</u>
	2,977,814	2,583,540
Less accounts written off	<u>1,466,814</u>	<u>1,083,940</u>
Balance, end of year	<u>\$ 1,511,000</u>	<u>\$ 1,499,600</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Noncurrent Cash Transactions – Hospital
Years Ended June 30, 2013 and 2012**

	Total
Balance, July 1, 2011	\$ 1,170,722
Deposits	1,176,444
Withdrawals	(488,036)
Balance, June 30, 2012	1,859,130
Deposits	1,221,143
Withdrawals	(928,155)
Balance, June 30, 2013	\$ 2,152,118

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Supplies and Prepaid Expenses – Hospital
Years Ended June 30, 2013 and 2012**

	2013	2012
Supplies		
Storeroom	\$ 72,901	\$ 141,486
Pharmacy	175,730	160,158
Surgery	154,957	161,395
Dietary	11,612	10,259
	\$ 415,200	\$ 473,298
 Prepaid Expenses		
Insurance	\$ 35,861	\$ 35,584
Maintenance contracts	-	74,921
Memberships and dues	-	17,949
Workers' compensation insurance	8,168	7,649
	\$ 44,029	\$ 136,103

Other Supplementary Information

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of Officials – Hospital
Year Ended June 30, 2013**

Name	Title	Term Expires
Board of Commissioners		
Mike Marth	Chairman	2014
James Moon	Secretary	2015
Sue Pump	Treasurer	2015
Myrna Jakoubek	Member	2014
Ronald James	Member	2013
Hospital Officials		
Bill Faust	Administrator	
Ronald Timpe	Chief Financial Officer	

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Financial and Statistical Data – Hospital
Years Ended June 30, 2013 and 2012**

	2013	2012
Patient Days (Exclusive of Swing-bed)		
Medicare	1,685	1,629
Medicaid	174	194
Private and other	371	516
	2,230	2,339
Medicare and Medicaid Percent	83.4%	77.9%
Percent of Occupancy (Exclusive of Swing-bed)	24%	26%
Discharges (Exclusive of Swing-bed)		
Medicare	483	480
Medicaid	65	75
Private and other	142	203
	690	758
Average Length of Stay in Days	3.2	3.1

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the Hospital), which comprise the balance sheet as of June 30, 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying schedule of findings and responses as item 2013-001 that we consider to be a significant deficiency in internal control.

Compliance

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2013 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, 2013. 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, 2013.

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, 2013 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, 2012. 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.

Management's Response to Findings

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

Other Matters

We also noted certain matters that we reported to the Hospital's management in a separate letter dated December 16, 2013.

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

BKD, LLP

Kansas City, Missouri
December 16, 2013

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2013**

Reference Number	Finding
2013-001	<p>Criteria or Specific Requirement—Management is responsible for reporting accurate financial statements.</p> <p>Condition—Significant audit adjustments were proposed to management related to accounts receivable allowances and accrued liability accounts.</p> <p>Context—Management's financial statement preparation procedures were not sufficient such that misstatements were not identified in the financial statements.</p> <p>Effect—Misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not sufficient such that misstatements are identified before issuing financial statements.</p> <p>Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with generally accepted accounting principles.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the finding and recommendation. Management will perform suggested evaluation and make changes within the next year.</p>

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, 2013, 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. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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 a significant deficiency and deficiencies.

Significant Deficiency

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

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.

We observed matters we considered to be deficiencies that were communicated to management orally.

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

Certain provisions of the Federal Government's *Budget Control Act of 2011* went into effect on January 1, 2013. Among these are mandatory payment reductions under the Medicare Fee-for-Service program, known as sequestration. The *American Taxpayer Relief Act of 2012* postponed sequestration for two months, but the order was issued by President Obama on March 1, 2013. Under these provisions, Medicare reimbursement was reduced by two percent on all claims with dates-of-service or dates-of-discharge on or after April 1, 2013. Under current law, sequestration is scheduled to last through 2021. The estimated annual impact of sequestration for the Hospital is approximately \$240,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

Critical Access Hospital Status

The Office of Inspector General (OIG) recently released a study regarding original regulatory requirements for obtaining critical access hospital (CAH) status primarily related to distance and location requirements. The study found that nearly two-thirds of CAHs would not meet the distance requirement if they were required to re-enroll. The study also noted that if CMS decertified CAHs that were 15 miles or fewer from the nearest hospitals in 2011, the Medicare program would have saved \$449 million.

The OIG also has on its workplan to review swing bed reimbursement in CAHs compared to amounts reimbursed to traditional skilled nursing facilities. CAHs are paid on a cost reimbursement methodology while skilled nursing facilities are paid on prospective payment methodology that generally is less reimbursement than what would be received by a CAH for similar services.

If the Centers for Medicare and Medicaid Services were to act on the OIG study to re-enroll CAHs or make adjustments to CAH swingbed reimbursement, there would be significant financial implications for the CAH program and the Hospital.

Affordable Care Act

The effects of the Affordable Care Act (the Act) are far-reaching and complex and will have an impact on substantially all employers. The bulk of the provisions will phase in by January 2015, with the remaining major provisions phased in by 2018. Beginning in 2015, a large employer that does not offer qualifying health insurance coverage as required under the Act, will be required to pay a penalty if any full-time employee certifies to the employer as having purchased health insurance through a state exchange and a tax credit or cost-sharing reduction is allowed or paid to the employee. To make sure you are in compliance with the Act, we suggest you work with your insurance advisor, attorney and BKD to:

- Determine what your health insurance compliance requirements are under the Act
 - Review the regulations of the Act and compare the requirements to provide minimum essential coverage to your current health insurance plan
 - Consider new benchmarks for health insurance in your industry
 - Determine what the acceptable level of health insurance coverage is for your employees
 - Determine what the required employer contributions will be
- Determine what options are available under the Act and which is best for your business model
 - Analyze financial implications of the Act to your financial statements
 - Perform cost projections to evaluate costs and benefits of current insurance coverage, state sponsored plans or other alternatives
 - Develop a multiyear strategy for plan design and employer and employee contributions
 - Develop an implementation plan and monitoring procedures

While many of these provisions do not take effect until 2015, the evaluation should start now to determine the best options for the Hospital and what the reporting requirements to comply with the Act will be.

Electronic Health Records Meaningful Use Audits

The *American Recovery and Reinvestment Act of 2009* included significant potential funding for hospitals starting in 2011 once they demonstrated they are meaningful users of certified electronic health record (EHR) technology. Beginning in 2012, the Centers for Medicare and Medicaid Services (CMS) contracted with 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. As the Hospital continues implementing EHR, we recommend the Hospital evaluate and retain appropriate documentation in the event the Hospital is selected by CMS for an audit of the meaningful use of certified EHR technology for the attestation period.

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 standard we believe will have the most impact on the Hospital.

- Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* – Effective for the Hospital’s fiscal year end June 30, 2015

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.

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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
December 16, 2013