

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
Auditor's Report and Financial Statements  
June 30, 2014 and 2013

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
June 30, 2014 and 2013**

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## Independent Auditor's Report

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, 2014 and 2013 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, 2014 and 2013, 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.

***Other Matters***

*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.

Board of Commissioners  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
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**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2014 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  
November 11, 2014

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

## **Management's Discussion and Analysis Years Ended June 30, 2014 and 2013**

### ***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, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Hospital.

### ***Financial Highlights***

- Operating cash decreased in 2014 by \$736,300 or 22% and increased in 2013 by \$474,583 or 17%.
- Noncurrent cash and deposits increased by \$1,117,474 or 31% and \$292,988 or 9% in 2014 and 2013, respectively.
- The Hospital's net position decreased in 2014 by \$133,010 or .7% and increased \$663,959 or 4% in 2013.
- The Hospital reported an operating loss in 2014 of \$189,691 and an operating income of \$664,451, in 2013.
- Net nonoperating revenues and expense increased by \$57,173 in 2014 compared to 2013.

### ***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 decreased by \$133,010 or .7% in 2014 over 2013 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,912,269	\$ 2,964,121	\$ 2,890,588
Other current assets	3,450,472	3,865,364	3,577,465
Capital assets, net	9,086,661	9,844,530	9,984,630
Other noncurrent assets	4,818,299	3,694,194	3,481,121
Total assets	<u>\$ 20,267,701</u>	<u>\$ 20,368,209</u>	<u>\$ 19,933,804</u>
<b>Liabilities</b>			
Other current and noncurrent liabilities	\$ 1,886,933	\$ 1,854,431	\$ 2,083,985
Total liabilities	<u>1,886,933</u>	<u>1,854,431</u>	<u>2,083,985</u>
<b>Net Position</b>			
Net investment in capital assets	9,086,661	9,801,233	9,984,631
Unrestricted	<u>9,294,107</u>	<u>8,712,545</u>	<u>7,865,188</u>
Total net position	<u>18,380,768</u>	<u>18,513,778</u>	<u>17,849,819</u>
Total liabilities and net position	<u>\$ 20,267,701</u>	<u>\$ 20,368,209</u>	<u>\$ 19,933,804</u>

In 2014, an excess of revenues under expenses was noted of \$133,010, and is included in the total net position, which resulted in a decrease of .7%. No major changes in services were noted.

In 2014, there was a net decrease of \$757,869 or 8% in capital assets.

In 2014, there was no long-term debt.

In 2014, there was an increase in current liabilities of \$32,502 or 2%.

In 2014, total assets decreased \$100,508 or .5%.

In 2013, an excess of revenues over expenses was noted 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 radiology 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%.

### **Operating Results and Changes in the Hospital's Net Position**

In 2014, the Hospital's net position decreased by \$133,010 or .7% as shown in Table 2. This decrease is made up of several different components and represents an operating income decrease of \$854,142 compared to 2013.

**Table 2: Operating Results and Changes in Net Position**

	<b>2014</b>	<b>2013</b>	<b>2012</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 22,651,752	\$ 22,741,667	\$ 22,538,176
Other operating revenues	494,668	488,940	513,445
Total operating revenues	<u>23,146,420</u>	<u>23,230,607</u>	<u>23,051,621</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	12,334,076	11,829,577	11,663,198
Medical professional fees	4,300,487	4,130,386	3,995,069
Depreciation	1,146,643	1,137,555	1,148,544
Other operating expenses	5,554,905	5,468,638	5,400,907
Total operating expenses	<u>23,336,111</u>	<u>22,566,156</u>	<u>22,207,718</u>
<b>Operating Income (Loss)</b>	<u>(189,691)</u>	<u>664,451</u>	<u>843,903</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	80,668	9,893	55,258
Contributions	5,127	5,784	4,228
Income taxes - Aesculapius	(29,114)	(16,169)	(35,415)
Total nonoperating revenues (expenses)	<u>56,681</u>	<u>(492)</u>	<u>24,071</u>
<b>Increase (Decrease) in Net Position</b>	<u>\$ (133,010)</u>	<u>\$ 663,959</u>	<u>\$ 867,974</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 2013 and 2012, the Hospital has reported an operating income but in 2014 the Hospital reported an operating loss. 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 2014 and 2013.

The operating income for 2014 decreased as compared to 2013. The primary components of the change in operating income are:

- A decrease in net patient service revenues of \$89,915 or .4%.
- An increase in salaries and wages and employee benefits of \$504,499 or 4%.
- An increase in depreciation of \$9,088 or 1%.
- An increase in medical professional fees and other operating expenses of \$256,368 or 3%.
- An increase in total operating expenses of \$769,955 or 3%.

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%.

In 2014 and 2013, 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 increased in 2014 as compared to 2013.

### ***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, 2014, the Hospital had \$9,086,661 in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2014, the Hospital had additions of capital assets of \$388,774.

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.

### Debt

The Hospital had no long-term debt in 2014 or 2013. 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, 2014 and 2013**

**Assets**

	<b>2014</b>	<b>2013</b>
<b>Current Assets</b>		
Cash	\$ 2,604,022	\$ 3,340,322
Patient accounts receivable, net of allowance; 2014 - \$1,585,000, 2013 - \$1,511,000	2,912,269	2,964,121
Other receivables	83,215	65,813
Estimated amounts due from third-party payers	266,895	-
Supplies	436,532	415,200
Prepaid expenses	59,808	44,029
Total current assets	6,362,741	6,829,485
<b>Noncurrent Cash and Deposits</b>		
Internally designated for capital and other expenditures	3,269,562	2,152,118
Certificates of deposit	1,500,000	1,500,000
Total noncurrent cash and deposits	4,769,562	3,652,118
<b>Capital Assets, Net of Accumulated Depreciation</b>	9,086,661	9,844,530
<b>Other Assets</b>		
Investments and other	48,737	42,076
<b>Total Assets</b>	\$ 20,267,701	\$ 20,368,209

## Liabilities and Net Position

	<u>2014</u>	<u>2013</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 459,193	\$ 392,208
Accrued expenses		
Vacation pay	536,876	505,470
Payroll and related deductions	476,864	425,753
Health insurance	414,000	352,000
Estimated amounts due to third-party payers	<u>-</u>	<u>179,000</u>
Total current liabilities	<u>1,886,933</u>	<u>1,854,431</u>
<b>Net Position</b>		
Net investment in capital assets	9,086,661	9,801,233
Unrestricted	<u>9,294,107</u>	<u>8,712,545</u>
Total net position	<u>18,380,768</u>	<u>18,513,778</u>
 <b>Total Liabilities and Net Position</b>	 <u><u>\$ 20,267,701</u></u>	 <u><u>\$ 20,368,209</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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 24,000,236	\$ 24,095,405
Less provision for uncollectible accounts	1,348,484	1,353,738
Net patient service revenue	22,651,752	22,741,667
Other revenues	494,668	488,940
Total operating revenues	23,146,420	23,230,607
<b>Operating Expenses</b>		
Salaries and wages	8,535,966	8,341,503
Employee benefits	3,798,110	3,488,074
Medical professional fees	4,300,487	4,130,386
Supplies and expenses	3,147,646	3,078,627
General services	973,133	1,032,376
Administrative services	1,434,126	1,357,635
Depreciation	1,146,643	1,137,555
Total operating expenses	23,336,111	22,566,156
<b>Operating Income (Loss)</b>	(189,691)	664,451
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	80,668	9,893
Contributions	5,127	5,784
Income taxes – Aesculapius	(29,114)	(16,169)
Total nonoperating revenues (expenses)	56,681	(492)
<b>Increase (Decrease) in Net Position</b>	(133,010)	663,959
<b>Net Position, Beginning of the Year</b>	18,513,778	17,849,819
<b>Net Position, End of the Year</b>	\$ 18,380,768	\$ 18,513,778

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 22,257,709	\$ 22,654,134
Payments to suppliers	(9,755,554)	(9,651,736)
Payments to employees	(12,189,559)	(11,966,730)
Other receipts and payments, net	461,487	615,726
	<u>774,083</u>	<u>1,651,394</u>
<b>Noncapital Financing Activities</b>		
Unrestricted contributions	5,127	5,784
	<u>5,127</u>	<u>5,784</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(432,071)	(954,158)
Proceeds from sale of capital assets	-	1,800
	<u>(432,071)</u>	<u>(952,358)</u>
<b>Investing Activities</b>		
Purchase of investments	(30,000)	-
Income on investments	64,005	62,751
	<u>34,005</u>	<u>62,751</u>
<b>Increase in Cash</b>	381,144	767,571
<b>Cash, Beginning of Year</b>	<u>5,492,440</u>	<u>4,724,869</u>
<b>Cash, End of Year</b>	<u>\$ 5,873,584</u>	<u>\$ 5,492,440</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 2,604,022	\$ 3,340,322
Noncurrent cash		
Internally designated	<u>3,269,562</u>	<u>2,152,118</u>
Total cash	<u>\$ 5,873,584</u>	<u>\$ 5,492,440</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income (loss)	\$ (189,691)	\$ 664,451
Items not requiring (providing) cash		
Depreciation	1,146,643	1,137,555
Amortization	10,888	10,888
Gain on sale of assets	-	(1,800)
Changes in		
Patient and other accounts receivable, net	34,450	(37,021)
Supplies	(21,332)	58,098
Prepaid expenses	(15,779)	92,074
Accounts payable and accrued expenses	254,799	(258,851)
Estimated amounts due to third-party payers	<u>(445,895)</u>	<u>(14,000)</u>
Net cash provided by operating activities	<u>\$ 774,083</u>	<u>\$ 1,651,394</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	<u>\$ -</u>	<u>\$ 43,297</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013**

**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, 2014 and 2013**

***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, 2014 and 2013**

***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 \$209,318 and \$172,765 for 2014 and 2013, 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  
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Notes to Financial Statements  
June 30, 2014 and 2013**

***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 2014 or 2013.

***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, 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 \$0 and \$248,790, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013, respectively.

**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 2023.

***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 57% and 60% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2014 and 2013, 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.

**Floyd County Memorial Hospital  
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June 30, 2014 and 2013**

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, 2014 and 2013 consisted of:

	<b>2014</b>	<b>2013</b>
Medicare	\$ 917,269	\$ 1,049,475
Medicaid	260,380	104,466
Third-party payers	872,537	894,612
Patients	2,232,949	2,265,256
Clinics	214,134	161,312
Total	<u>4,497,269</u>	<u>4,475,121</u>
Less allowance for uncollectible accounts	<u>1,585,000</u>	<u>1,511,000</u>
Patient accounts receivable, net	<u><u>\$ 2,912,269</u></u>	<u><u>\$ 2,964,121</u></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, 2014 and 2013. The Hospital's deposits in banks at June 30, 2014 and 2013 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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***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, 2014 and 2013.

***Summary of Carrying Value***

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

	<u><b>2014</b></u>	<u><b>2013</b></u>
Deposits	\$ 7,373,584	\$ 6,992,440
Included in the following balance sheet captions		
Cash	\$ 2,604,022	\$ 3,340,322
Noncurrent cash and deposits	4,769,562	3,652,118
	<u>\$ 7,373,584</u>	<u>\$ 6,992,440</u>

***Investment Income***

Investment income for the years ended June 30, 2014 and 2013 consisted of:

	<u><b>2014</b></u>	<u><b>2013</b></u>
Interest and dividends	\$ 66,642	\$ 66,314
Return on other investments	14,026	(56,421)
	<u>\$ 80,668</u>	<u>\$ 9,893</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013**

**Note 5: Capital Assets**

Consolidated capital assets activity for the years ended June 30, 2014 and 2013 was:

<b>2014</b>	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2014</b>
Land and improvements	\$ 498,785	\$ 75,766		\$ 4,938	\$ 579,489
Building and improvements	15,187,727	1,599			15,189,326
Fixed equipment	2,015,215				2,015,215
Major moveable equipment	5,632,711	175,401		139,228	5,947,340
Construction in progress	58,154	136,008		(144,166)	49,996
	<u>23,392,592</u>	<u>388,774</u>	<u>-</u>	<u>-</u>	<u>23,781,366</u>
Less accumulated depreciation					
Land improvements	256,830	26,810			283,640
Building and improvements	7,816,493	586,892			8,403,385
Fixed equipment	1,439,231	75,574			1,514,805
Major moveable equipment	4,035,508	457,367			4,492,875
Total accumulated depreciation	<u>13,548,062</u>	<u>1,146,643</u>	<u>-</u>		<u>14,694,705</u>
Capital assets, net	<u>\$ 9,844,530</u>	<u>\$ (757,869)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,086,661</u>
<b>2013</b>	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2013</b>
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>

**Floyd County Memorial Hospital  
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Notes to Financial Statements  
June 30, 2014 and 2013**

**Note 6: Operating Leases**

Noncancellable operating lease for equipment expires in various years through 2018.

Future minimum lease payments at June 30, 2014, were:

2015	\$ 320,408
2016	304,744
2017	122,917
2018	<u>43,281</u>
Future minimum lease payments	<u><u>\$ 791,350</u></u>

Rental expense for all operating leases totaled \$181,301 and \$222,096 for 2014 and 2013, 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. IPERS 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 5.95% and 5.78% of their annual covered salary and the Hospital is required to contribute 8.93% and 8.67% of annual covered payroll for 2014 and 2013, respectively. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2014, 2013 and 2012 were \$757,246, \$675,918 and \$679,338, respectively, equal to the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 8.93% of annual covered salary for 2014.

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013**

**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 2014 and 2013 is summarized as follows:

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 352,000	\$ 458,084
Current year claims and changes in estimates	(2,215,106)	(2,450,997)
Claim payments	<u>2,277,106</u>	<u>2,344,913</u>
Balance, end of year	<u>\$ 414,000</u>	<u>\$ 352,000</u>

**Note 9: Condensed Financial Statements**

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, 2014 and 2013.

**Condensed Balance Sheets**

	<u>June 30, 2014</u>			
	<u>Floyd County Memorial Hospital</u>	<u>HCFC</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Current assets	\$ 6,222,105	\$ 140,636	\$ -	\$ 6,362,741
Noncurrent cash and deposits	4,769,562	-	-	4,769,562
Capital assets	8,602,918	483,743	-	9,086,661
Other assets	<u>673,116</u>	<u>-</u>	<u>(624,379)</u>	<u>48,737</u>
Total assets	<u>\$ 20,267,701</u>	<u>\$ 624,379</u>	<u>\$ (624,379)</u>	<u>\$ 20,267,701</u>
<b>Liabilities and Net Position</b>				
Current liabilities	<u>\$ 1,886,933</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,886,933</u>
Total liabilities	<u>1,886,933</u>	<u>-</u>	<u>-</u>	<u>1,886,933</u>
<b>Net Position</b>				
Net investment in capital assets	8,602,918	483,743	-	9,086,661
Unrestricted	<u>9,777,850</u>	<u>140,636</u>	<u>(624,379)</u>	<u>9,294,107</u>
Total net position	<u>18,380,768</u>	<u>624,379</u>	<u>(624,379)</u>	<u>18,380,768</u>
Total liabilities and net position	<u>\$ 20,267,701</u>	<u>\$ 624,379</u>	<u>\$ (624,379)</u>	<u>\$ 20,267,701</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013**

	<b>June 30, 2013</b>			
	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Assets</b>				
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	642,927	-	(600,851)	42,076
	<u>\$ 20,368,209</u>	<u>\$ 600,851</u>	<u>\$ (600,851)</u>	<u>\$ 20,368,209</u>
<b>Liabilities and Net Position</b>				
Current liabilities	\$ 1,854,431	\$ -	\$ -	\$ 1,854,431
	<u>1,854,431</u>	<u>-</u>	<u>-</u>	<u>1,854,431</u>
<b>Net Position</b>				
Invested in capital assets	9,288,027	513,206	-	9,801,233
Unrestricted	9,225,751	87,645	(600,851)	8,712,545
	<u>18,513,778</u>	<u>600,851</u>	<u>(600,851)</u>	<u>18,513,778</u>
	<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, 2014 and 2013**

**Condensed Statements of Revenues, Expenses and Changes in Net Position**

	Year Ended June 30, 2014			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue	\$ 22,651,752	\$ -	\$ -	\$ 22,651,752
Other	354,286	214,278	(73,896)	494,668
Total operating revenues	<u>23,006,038</u>	<u>214,278</u>	<u>(73,896)</u>	<u>23,146,420</u>
<b>Operating Expenses</b>				
Other operating expenses	22,177,090	86,274	(73,896)	22,189,468
Depreciation	1,111,281	35,362	-	1,146,643
Total operating expenses	<u>23,288,371</u>	<u>121,636</u>	<u>(73,896)</u>	<u>23,336,111</u>
<b>Operating Income (Loss)</b>	<u>(282,333)</u>	<u>92,642</u>	<u>-</u>	<u>(189,691)</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	144,196	-	(63,528)	80,668
Contributions	5,127	-	-	5,127
Income taxes – Aesculapius	-	(29,114)	-	(29,114)
Total nonoperating revenues (expenses)	<u>149,323</u>	<u>(29,114)</u>	<u>(63,528)</u>	<u>56,681</u>
<b>Increase (Decrease) in Net Position</b>	<u>(133,010)</u>	<u>63,528</u>	<u>(63,528)</u>	<u>(133,010)</u>
<b>Net Position, Beginning of Year</b>	18,513,778	600,851	(600,851)	18,513,778
<b>Dividends Paid</b>	<u>-</u>	<u>(40,000)</u>	<u>40,000</u>	<u>-</u>
<b>Net Position, End of Year</b>	<u>\$ 18,380,768</u>	<u>\$ 624,379</u>	<u>\$ (624,379)</u>	<u>\$ 18,380,768</u>

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
**Notes to Financial Statements**  
**June 30, 2014 and 2013**

	<b>Year Ended June 30, 2013</b>			
	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
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>
<b>Operating Expenses</b>				
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>
<b>Operating Income</b>	<u>570,564</u>	<u>93,887</u>	<u>-</u>	<u>664,451</u>
<b>Nonoperating Revenues (Expenses)</b>				
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>
<b>Increase in Net Position</b>	663,959	77,718	(77,718)	663,959
<b>Net Position, Beginning of Year</b>	17,849,819	603,133	(603,133)	17,849,819
<b>Dividends Paid</b>	<u>-</u>	<u>(80,000)</u>	<u>80,000</u>	<u>-</u>
<b>Net Position, End of Year</b>	<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, 2014 and 2013**

**Condensed Statements of Cash Flows**

	Year Ended June 30, 2014			
	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Net Cash Provided by Operating Activities	\$ 675,193	\$ 98,890	\$ -	\$ 774,083
Net Cash Provided by Noncapital Financing Activities	5,127	-	-	5,127
Net Cash Used in Capital and Related Financing Activities	(426,172)	(5,899)	-	(432,071)
Net Cash Provided by (Used in) Investing Activities	74,005	(40,000)	-	34,005
Change in Cash	328,153	52,991	-	381,144
Cash, Beginning of Year	5,404,795	87,645	-	5,492,440
Cash, End of Year	\$ 5,732,948	\$ 140,636	\$ -	\$ 5,873,584

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2014 and 2013**

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

**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, 2014 and 2013**

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, 2014:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Other revenues/receipts	\$ 23,155,361	\$ (411,445)	\$ 22,743,916	\$ 28,690,000
Expenses/disbursements	23,288,371	(932,260)	22,356,111	26,980,300
	(133,010)	520,815	387,805	1,709,700
Balance, beginning of year	18,513,778	(11,479,262)	7,034,516	7,034,516
Balance, end of year	\$ 18,380,768	\$ (10,958,447)	\$ 7,422,321	\$ 8,744,216

**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, 2014 and 2013.

**Note 12: Subsequent Events**

The Board of Commissioners approved a project after year end for replacement of the boilers and air handlers at the Hospital at an estimated cost of \$3,200,000 to be paid for with internal funds.

**Note 13: Future Accounting Change**

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for the Hospital which provide its employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the balance sheet is expected to include a liability for the government’s proportionate share of the employee pension plan.

## **Supplementary Information**

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet  
June 30, 2014**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,463,386	\$ 140,636		\$ 2,604,022
Patient accounts receivable, net of allowance of \$1,585,000	2,912,269			2,912,269
Other receivables	83,215			83,215
Estimated amounts due from third-party payers	266,895			266,895
Supplies	436,532			436,532
Prepaid expenses	59,808			59,808
	<u>6,222,105</u>	<u>140,636</u>		<u>6,362,741</u>
<b>Noncurrent Cash and Deposits</b>				
Internally designated for capital and other expenditures	3,269,562			3,269,562
Certificates of deposit	1,500,000			1,500,000
	<u>4,769,562</u>			<u>4,769,562</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>				
	<u>8,602,918</u>	<u>483,743</u>		<u>9,086,661</u>
<b>Other Assets</b>				
Investments and other	673,116		\$ (624,379)	48,737
<b>Total Assets</b>	<u>\$ 20,267,701</u>	<u>\$ 624,379</u>	<u>\$ (624,379)</u>	<u>\$ 20,267,701</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet (Continued)  
June 30, 2014**

**Liabilities and Net Position**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Accounts payable	\$ 459,193			\$ 459,193
Accrued expenses				
Vacation pay	536,876			536,876
Payroll and related deductions	476,864			476,864
Health insurance	414,000			414,000
	<u>1,886,933</u>			<u>1,886,933</u>
<b>Net Position</b>				
Net investment in capital assets	8,602,918	\$ 483,743		9,086,661
Unrestricted	9,777,850	140,636	\$ (624,379)	9,294,107
	<u>18,380,768</u>	<u>624,379</u>	<u>(624,379)</u>	<u>18,380,768</u>
<b>Total Liabilities and Net Position</b>	<u><u>\$ 20,267,701</u></u>	<u><u>\$ 624,379</u></u>	<u><u>\$ (624,379)</u></u>	<u><u>\$ 20,267,701</u></u>

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

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
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>
<b>Noncurrent Cash and Deposits</b>				
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>
<b>Capital Assets, Net of Accumulated Depreciation</b>				
	<u>9,331,324</u>	<u>513,206</u>		<u>9,844,530</u>
<b>Other Assets</b>				
Investments and other	642,927		\$ (600,851)	42,076
	<u>642,927</u>		<u>\$ (600,851)</u>	<u>42,076</u>
<b>Total Assets</b>	<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**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
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>
<b>Net Position</b>				
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>
<b>Total Liabilities and Net Position</b>	<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 Statement of Revenues, Expenses**  
**and Changes in Net Position**  
**Year Ended June 30, 2014**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 24,000,236			\$ 24,000,236
Less provision for uncollectible accounts	1,348,484			1,348,484
	22,651,752			22,651,752
Other revenues	354,286	\$ 214,278	\$ (73,896)	494,668
Total operating revenues	23,006,038	214,278	(73,896)	23,146,420
<b>Operating Expenses</b>				
Salaries and wages	8,535,966			8,535,966
Employee benefits	3,798,110			3,798,110
Medical professional fees	4,300,487			4,300,487
Supplies and expenses	3,147,646			3,147,646
General services	983,594	63,435	(73,896)	973,133
Administrative services	1,411,287	22,839		1,434,126
Depreciation	1,111,281	35,362		1,146,643
Total operating expenses	23,288,371	121,636	(73,896)	23,336,111
<b>Operating Income (Loss)</b>	(282,333)	92,642	-	(189,691)
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	144,196		(63,528)	80,668
Contributions	5,127			5,127
Income taxes – Aesculapius		(29,114)		(29,114)
Total nonoperating revenues (expenses)	149,323	(29,114)	(63,528)	56,681
<b>Increase (Decrease) in Net Position</b>	(133,010)	63,528	(63,528)	(133,010)
<b>Net Position, Beginning of the Year</b>	18,513,778	600,851	(600,851)	18,513,778
<b>Dividends Paid</b>		(40,000)	40,000	-
<b>Net Position, End of the Year</b>	\$ 18,380,768	\$ 624,379	\$ (624,379)	\$ 18,380,768

**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
<b>Operating Revenues</b>				
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>
<b>Operating Expenses</b>				
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>
<b>Operating Income</b>	<u>570,564</u>	<u>93,887</u>	<u>-</u>	<u>664,451</u>
<b>Nonoperating Revenues (Expenses)</b>				
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>
<b>Increase in Net Position</b>	663,959	77,718	(77,718)	663,959
<b>Net Position, Beginning of the Year</b>	17,849,819	603,133	(603,133)	17,849,819
<b>Dividends Paid</b>		<u>(80,000)</u>	<u>80,000</u>	<u>-</u>
<b>Net Position, End of the Year</b>	<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  
Schedules of Patient Service Revenues – Hospital  
Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 3,809,499	\$ 3,809,499		\$ 4,026,621	\$ 4,026,621	
Nursery	212,433	212,433		142,494	142,494	
	<u>4,021,932</u>	<u>4,021,932</u>		<u>4,169,115</u>	<u>4,169,115</u>	
<b>Other Nursing Services</b>						
Operating room	3,926,706	1,081,010	\$ 2,845,696	3,664,041	899,072	\$ 2,764,969
Recovery room	282,160	37,384	244,776	290,743	31,757	258,986
Delivery room	239,770	161,950	77,820	186,093	100,276	85,817
Emergency room	5,200,119	111,698	5,088,421	5,066,895	14,971	5,051,924
	<u>9,648,755</u>	<u>1,392,042</u>	<u>8,256,713</u>	<u>9,207,772</u>	<u>1,046,076</u>	<u>8,161,696</u>
<b>Other Professional Services</b>						
Central service and supply	739,932	298,427	441,505	709,540	258,532	451,008
Laboratory	7,003,278	737,530	6,265,748	6,631,770	777,905	5,853,865
Blood	243,801	88,755	155,046	266,185	102,560	163,625
Radiology	2,083,001	73,035	2,009,966	1,983,818	77,365	1,906,453
Electrocardiology	897,743	46,636	851,107	796,352	45,287	751,065
Ultrasound	335,756	12,579	323,177	295,465	12,632	282,833
Nuclear medicine	138,561	1,924	136,637	181,086	943	180,143
CT Scan	3,105,953	237,226	2,868,727	2,938,843	231,640	2,707,203
MRI	981,635	68,840	912,795	947,052	51,698	895,354
Pharmacy	2,152,424	977,672	1,174,752	2,059,010	968,306	1,090,704
Intravenous therapy	377,494	198,888	178,606	607,604	335,202	272,402
Respiratory therapy	1,397,720	656,058	741,662	1,384,581	668,991	715,590
Physical therapy	2,181,973	622,969	1,559,004	1,994,805	710,098	1,284,707
Occupational therapy	464,005	192,459	271,546	489,834	219,256	270,578
Speech pathology	421,202	38,795	382,407	408,302	49,925	358,377
Anesthesia	360,769	47,794	312,975	381,746	38,656	343,090
Medical clinic	110,997		110,997	105,131		105,131
Rural health clinic	1,257,749		1,257,749	1,140,892		1,140,892
Clinic Surgeon	534,395		534,395	521,950		521,950
CRNA services	383,506		383,506	399,654		399,654
	<u>25,171,894</u>	<u>4,299,587</u>	<u>20,872,307</u>	<u>24,243,620</u>	<u>4,548,996</u>	<u>19,694,624</u>
<b>Patient Service Revenue</b>	38,842,581	\$ 9,713,561	\$29,129,020	37,620,507	\$ 9,764,187	\$27,856,320
<b>Contractual Allowance</b>	(14,842,345)			(13,773,892)		
<b>Electronic Health Records Incentive Revenue</b>	-			248,790		
<b>Net Patient Service Revenue before Provision for Uncollectible Accounts</b>	24,000,236			24,095,405		
<b>Provision for Uncollectible Accounts</b>	(1,348,484)			(1,353,738)		
<b>Net Patient Service Revenue</b>	<u>\$22,651,752</u>			<u>\$22,741,667</u>		

See Independent Auditor's Report

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Other Operating Revenues – Hospital  
Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Cafeteria	\$ 142,932	\$ 158,664
Specialty clinics	122,760	118,531
Office rental	19,073	18,314
Registration fees	50	3,194
Medical records transcripts	18,695	17,533
Other	<u>50,776</u>	<u>32,277</u>
	<u>\$ 354,286</u>	<u>\$ 348,513</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Operating Expenses – Hospital  
Years Ended June 30, 2014 and 2013**

	2014			2013		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 482,266	\$ 354,025	\$ 128,241	\$ 438,666	\$ 328,552	\$ 110,114
Routine care	3,163,642	2,143,484	1,020,158	3,050,475	2,098,961	951,514
Nursery	113,964	80,231	33,733	86,569	60,111	26,458
Operating room	1,365,059	403,361	961,698	1,166,431	391,069	775,362
Delivery room	77,200	53,868	23,332	61,910	44,545	17,365
Emergency room	2,195,039	805,348	1,389,691	2,121,861	764,449	1,357,412
	<u>7,397,170</u>	<u>3,840,317</u>	<u>3,556,853</u>	<u>6,925,912</u>	<u>3,687,687</u>	<u>3,238,225</u>
<b>Other Professional Services</b>						
Central service and supply	294,969	82,137	212,832	299,610	79,048	220,562
Laboratory	1,542,273	565,253	977,020	1,569,383	559,445	1,009,938
Radiology	1,116,192	506,691	609,501	1,004,083	474,776	529,307
Electrocardiology	122,815	66,844	55,971	142,439	65,222	77,217
Nuclear medicine	68,578		68,578	83,001		83,001
Pharmacy	1,172,000	106,681	1,065,319	1,172,817	113,608	1,059,209
Respiratory therapy	350,354		350,354	343,042		343,042
Physical therapy	888,042		888,042	826,226		826,226
Occupational therapy	109,301		109,301	110,560		110,560
Speech pathology	251,396	193,434	57,962	234,336	183,220	51,116
CT Scan	264,691		264,691	308,727		308,727
Medical clinic	171,119	65,204	105,915	168,406	66,431	101,975
Rural health clinic	1,252,223	421,676	830,547	1,227,222	425,427	801,795
Sleep studies	61,426		61,426	33,505		33,505
Clinic Surgeon	324,526		324,526	325,921		325,921
CRNA services	431,736		431,736	429,118		429,118
	<u>8,421,641</u>	<u>2,007,920</u>	<u>6,413,721</u>	<u>8,278,396</u>	<u>1,967,177</u>	<u>6,311,219</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Operating Expenses – Hospital (Continued)  
Years Ended June 30, 2014 and 2013**

	<b>2014</b>			<b>2013</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>General Services</b>						
Dietary	\$ 902,193	\$ 491,856	\$ 410,337	\$ 886,773	\$ 467,137	\$ 419,636
Operation of plant	840,676	218,688	621,988	878,421	210,637	667,784
Housekeeping	532,092	341,270	190,822	543,025	340,781	202,244
Laundry	108,631	16,539	92,092	106,764	14,334	92,430
	<u>2,383,592</u>	<u>1,068,353</u>	<u>1,315,239</u>	<u>2,414,983</u>	<u>1,032,889</u>	<u>1,382,094</u>
<b>Administrative Services</b>						
Medical records	480,855	268,805	212,050	468,329	291,333	176,996
Administration	3,028,844	1,169,963	1,858,881	2,992,029	1,198,592	1,793,437
Purchasing	169,438	96,939	72,499	151,087	89,605	61,482
Personnel	214,480	83,669	130,811	111,606	74,220	37,386
Insurance	81,070		81,070	77,382		77,382
	<u>3,974,687</u>	<u>1,619,376</u>	<u>2,355,311</u>	<u>3,800,433</u>	<u>1,653,750</u>	<u>2,146,683</u>
<b>Depreciation</b>	<u>1,111,281</u>		<u>1,111,281</u>	<u>1,099,892</u>		<u>1,099,892</u>
	<u><u>\$ 23,288,371</u></u>	<u><u>\$ 8,535,966</u></u>	<u><u>\$ 14,752,405</u></u>	<u><u>\$ 22,519,616</u></u>	<u><u>\$ 8,341,503</u></u>	<u><u>\$ 14,178,113</u></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, 2014 and 2013**

**Schedules of Patient Receivables**

	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Days Since Discharge				
0-30	\$ 2,899,368	\$ 2,976,928	48.88%	53.51%
31-60	569,334	450,800	9.60%	8.10%
61-90	305,715	285,571	5.15%	5.13%
91-120	272,653	221,524	4.60%	3.98%
121-150	182,021	216,800	3.07%	3.90%
151 and over	1,702,044	1,411,186	28.70%	25.38%
	<u>5,931,135</u>	<u>5,562,809</u>	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>287,234</u>	<u>232,012</u>		
	<u>6,218,369</u>	<u>5,794,821</u>		
Less				
Contractual allowances	1,721,100	1,319,700		
Allowance for uncollectible accounts	<u>1,585,000</u>	<u>1,511,000</u>		
	<u>3,306,100</u>	<u>2,830,700</u>		
	<u>\$ 2,912,269</u>	<u>\$ 2,964,121</u>		

**Allowance for Uncollectible Accounts**

	<u>2014</u>	<u>2013</u>
Balance, beginning of year	\$ 1,511,000	\$ 1,499,600
Provision for year	1,348,484	1,353,738
Recoveries of accounts previously written off	<u>116,306</u>	<u>124,476</u>
	2,975,790	2,977,814
Less accounts written off	<u>1,390,790</u>	<u>1,466,814</u>
Balance, end of year	<u>\$ 1,585,000</u>	<u>\$ 1,511,000</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Noncurrent Cash Transactions – Hospital  
Years Ended June 30, 2014 and 2013**

	<b>Total</b>
<b>Balance, July 1, 2012</b>	\$ 1,859,130
Deposits	1,221,143
Withdrawals	(928,155)
<b>Balance, June 30, 2013</b>	2,152,118
Deposits	1,281,504
Withdrawals	(164,060)
<b>Balance, June 30, 2014</b>	\$ 3,269,562

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Supplies and Prepaid Expenses – Hospital  
Years Ended June 30, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Supplies</b>		
Storeroom	\$ 69,109	\$ 72,901
Pharmacy	199,800	175,730
Surgery	157,708	154,957
Dietary	9,915	11,612
	\$ 436,532	\$ 415,200
 <b>Prepaid Expenses</b>		
Insurance	\$ 59,808	\$ 35,861
Workers' compensation insurance	-	8,168
	\$ 59,808	\$ 44,029

## **Other Supplementary Information**

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedule of Officials – Hospital  
Year Ended June 30, 2014**

Name	Title	Term Expires
<b>Board of Commissioners</b>		
Mike Marth	Chairman	2014
James Moon	Secretary	2015
Sue Pump	Treasurer	2015
Myrna Jakoubek	Member	2014
Ronald James	Member	2016
<b>Hospital Officials</b>		
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, 2014 and 2013**

	<b>2014</b>	<b>2013</b>
<b>Patient Days (Exclusive of Swing-bed)</b>		
Medicare	1,497	1,685
Medicaid	164	174
Private and other	394	371
	2,055	2,230
<b>Medicare and Medicaid Percent</b>	80.8%	83.4%
<b>Percent of Occupancy (Exclusive of Swing-bed)</b>	23%	24%
<b>Discharges (Exclusive of Swing-bed)</b>		
Medicare	389	483
Medicaid	60	65
Private and other	145	142
	594	690
<b>Average Length of Stay in Days</b>	3.5	3.2

**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, 2014, 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 November 11, 2014.

***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. 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.

***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, 2014 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, 2014. 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, 2014.

#### ***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, 2014 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. 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.

***Other Matters***

We noted certain matters that we reported to the Hospital’s management in a separate letter dated November 11, 2014.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or compliance. This report 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  
November 11, 2014

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedule of Findings and Responses  
Year Ended June 30, 2014**

**Reference Number**

**Finding**

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No matters are reportable.

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, 2014, 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.

### Audit Adjustments

During the course of performing the audit, we identified misstatements resulting in audit journal entries to adjust the financial statement amounts. We proposed adjustments to management based on our testing related to electronic health record payments, health insurance accruals and commercial contractual allowances.

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 2023. The estimated annual impact of sequestration for the Hospital is \$186,000. The continuation of these payment cuts for an extended period of time will have an adverse effect on operating results of the Hospital.

### ***Electronic Health Records Meaningful Use Audits***

The Centers for Medicare and Medicaid Services (CMS) has significantly increased the activity related to audits on Medicare and dually eligible (Medicare and Medicaid) providers who are participating in the Electronic Health Record (EHR) Incentive Programs. This audit activity falls into three categories: payment audits, compliance audits and Medicaid audits. Each of these audits focuses on a different portion of the Incentive Program and requires different documentation information. Below is a recap of the three audit categories and the specific key elements associated with each.

- Payment audits - The requested documentation related to the payment audits will require different and more detailed documentation than the normal Medicare Administrative Contractors (MAC) cost report audit requests. Due to the nature of the EHR audit documentation requests, we recommend all EHR payment audits be handled separately from other cost report reviews.
- Compliance audits - These audits are receiving the most publicity and tend to have the most risk associated with them. Based on early compliance audit experience, it appears failure on just one point under the compliance audit could result in a recoupment of the entire program year payment amount, possibly including both Medicare and Medicaid EHR payments. Preparing for these compliance audits is an important and significant process in documenting the Hospital's compliance with the meaningful use requirements.
- Medicaid audits - In addition to the Medicare EHR audits, there are also audits of the Medicaid EHR incentive program. It is very important to pay close attention to any audit changes that may be proposed even if they initially appear to only be statistical in nature. There can be far-reaching and adverse long-term effects from these audits. Failure to supply adequate documentation for these audits not only puts the Medicaid EHR incentive payment for the year under audit at risk, it can also put future and prior program payments at risk.

### ***Strategic Positioning Under Health Care Reform***

Health care reform is driving rapid changes throughout the nation's health care system, causing many hospitals to reassess their current operations and environment and prepare strategies for success. Some organizations are facing challenges with aging infrastructure, health care reform implementation, required information technology upgrades, positioning to pursue economics of scale and developing strategies to expand health care services to their communities. Any consideration of a significant strategic or operational shift should be built on a solid understanding of the organization's current positioning and future challenges and opportunities. We recommend organizations perform a health care reform strategic readiness assessment, which encompasses an evaluation of their financial position, readiness for health care reform and strategic partnership opportunities, before health care reform is fully implemented.

### ***Conversion to ICD-10***

The United States Department of Health and Human Services (HHS) has issued a rule finalizing October 1, 2015 as the new compliance date for health care providers, health plans and health care clearing Houses to transition to ICD-10. This process will convert 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 the conversion date cannot be paid. The conversion will improve the information reported regarding a patients' 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 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.

We recommend Hospital management evaluate the impact of ICD-10 on the Hospital and develop a strategic plan to address these changes and the implementation process. Typically, we see as part of this evaluation, an overall assessment of the impact of ICD-10 to the Hospital, evaluation and coordination with billing services, clearing houses and other vendors on their process in addressing the changes and a systematic approach to training personnel and physicians on the changes.

**New GASB Standard**

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  
November 11, 2014