



Financial Statements
June 30, 2016 and 2015

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

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

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June 30, 2016 and 2015

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Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Board of Commissioners and Hospital Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
	<u>Board of Commissioners</u>	
James Moon	Chairperson	2018
Sue Pump	Treasurer	2018
Ronald James	Secretary	2016
Myrna Jakoubek	Member	2017
Paula Kingery	Member	2017
	<u>Hospital Officials</u>	
Bill Faust	Administrator	
Ronald Timpe	Chief Financial Officer	



Independent Auditor's Report

The 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 (Hospital), which comprise the statement of net position as of June 30, 2016, 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.

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 from material misstatement.

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

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, 2016, and its changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of June 30, 2015 were audited by other auditors, whose report dated December 14, 2015, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require Management's Discussion and Analysis on pages 4 through 10, the Budgetary Comparison Information on pages 37 and 38, the Schedule of the Hospital's Proportionate Share of the Net Pension Liability, and the Schedule of the Hospital's Contributions – Last 10 Fiscal Years on pages 39 through 41 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016 on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



Dubuque, Iowa
September 15, 2016

This discussion and analysis of the financial performance of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (Hospital) provides an overall review of the Hospital's financial activities and balances as of and for the years ended June 30, 2016, 2015 and 2014. The intent of this discussion is to provide further information on the Hospital's performance as a whole. We encourage readers to consider the information presented here in conjunction with the Hospital's financial statements, including the notes thereto to enhance their understanding of the Hospital's financial status.

Overview of the Financial Statements

The financial statements are composed of the statements of net position, statements of revenues, expenses, and changes in net position, and the statements of cash flows. The financial statements also include notes that explain in more detail some of the information in the financial statements. The financial statements are designed to provide readers with a broad overview of the Hospital's finances.

The Hospital's financial statements offer short and long term information about its activities. The statements of net position include all of the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital's creditors (liabilities). The statements of net position also provide the basis for evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital.

All of the current year's revenues and expenses are accounted for in the statements of revenues, expenses, and changes in net position. These statements measure the success of the Hospital's operations over the past year and can be used to determine whether the Hospital has successfully recovered all of its costs through its patient service revenue and other revenue sources. Revenues and expenses are reported on an accrual basis, which means the related cash could be received or paid in a subsequent period.

The final statement is the statement of cash flows. These statements report cash receipts, cash payments and net changes in cash resulting from operating, investing, and financing activities. They also provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Financial Highlights

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the net position of the Hospital and the changes in it. The Hospital's net position - the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources - is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic condition, population growth and new or changed governmental legislation should also be considered.

- The Statement of Net Position at June 30, 2016, indicates total assets of \$22,167,396, total deferred outflows of resources of \$1,964,669, total liabilities of \$8,493,556, total deferred inflows of resources of \$1,598,389, and net position of \$14,040,120. The Statement of Net Position at June 30, 2015, indicates total assets of \$21,432,932, total deferred outflows of resources of \$1,038,748, total liabilities of \$7,449,243, total deferred inflows of resources of \$2,062,564, and net position of \$12,959,873. The Statement of Net Position at June 30, 2014, indicates total assets of \$20,267,701, total liabilities of \$1,886,933, and net position of \$18,380,768.

- The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2016 indicates total net patient service revenue of \$24,327,536 increased 4.8% and total operating expenses of \$23,882,063 increased 5.5% from the previous year, and other operating revenues of \$555,914, resulting in operating income of \$1,001,387. Net non-operating revenues of \$78,860 brings the change in net position to \$1,080,247, a 0.2% decrease from the prior year. The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2015 indicates total net patient service revenue of \$23,209,563 decreased 2.5% and total operating expenses of \$22,636,072 decreased 3.0% from the previous year, and other operating revenues of \$489,131, resulting in operating income of \$1,062,622. Net non-operating revenues of \$19,870 brings the change in net position to \$1,082,492. The Statement of Revenues, Expenses, and Changes in Net Position at June 30, 2014 indicates total net patient service revenue of \$22,651,752 and total operating expenses of \$23,336,111, and other operating income of \$494,668, resulting in an operating loss of \$189,691. Net non-operating revenues of \$56,680 brings the change in net position to (\$133,011).
- The Hospital's current assets exceeded its current liabilities by \$3,345,603 at June 30, 2016, providing a 2.43 current ratio. The Hospital's current assets exceeded its current liabilities by \$6,028,517 at June 30, 2015, providing a 3.53 current ratio. The Hospital's current assets exceeded its current liabilities by \$4,475,808 at June 30, 2014, providing a 3.37 current ratio.
- Gross outpatient charges increased 10.1% during fiscal year 2016. Gross outpatient charges increased 10.0% during fiscal year 2015. Gross outpatient charges increased 4.6% during fiscal year 2014.
- Net patient days in accounts receivable continue to be very favorable at 54 days at June 30, 2016. Net patient days in accounts receivable were 53 days at June 30, 2015. Net patient days in accounts receivable were 47 days at June 30, 2014.
- Statistical information for the year ended June 30, 2016:
 - 76 - Surgical Cases (22.45% decrease)
 - 260,553 - Laboratory tests (0.92% decrease)
 - 13,157 - Radiology procedures (1.49% decrease)
 - 13,160 - Physical Therapy treatments (1.33% increase)
 - 5,077 - Emergency Room visits (10.73% decrease)
 - 1,862 - Acute Care patient days (1.43% decrease)
- The Hospital's net position increased approximately \$1.08 million from June 30, 2015 to June 30, 2016.

Condensed Financial Statements

The following tables on pages 6 through 8 presented for the year ended June 30, 2014 has not been restated for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Management's Discussion and Analysis

Condensed Financial Statements
Statements of Net Position

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2014</u>
Assets and Deferred Outflows of Resources			
Current Assets			
Cash and cash equivalents	\$ 1,436,234	\$ 2,944,795	\$ 2,604,022
Assets limited as to use or restricted	-	1,500,000	-
Patient receivables, net of estimated uncollectibles	3,570,052	3,358,650	2,912,269
Estimated third-party payor settlements	-	-	266,895
Other	684,084	605,582	579,555
Total current assets	<u>5,690,370</u>	<u>8,409,027</u>	<u>6,362,741</u>
Assets Limited as to Use or Restricted	<u>5,806,293</u>	<u>4,431,114</u>	<u>4,769,562</u>
Capital Assets, Net	<u>10,666,448</u>	<u>8,583,249</u>	<u>9,086,661</u>
Other Assets			
Investments and other	<u>4,285</u>	<u>9,542</u>	<u>48,737</u>
Total assets	22,167,396	21,432,932	20,267,701
Deferred Outflows of Resources			
Pension related deferred outflows	<u>1,964,669</u>	<u>1,038,748</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 24,132,065</u>	<u>\$ 22,471,680</u>	<u>\$ 20,267,701</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Management's Discussion and Analysis

Condensed Financial Statements
Statements of Net Position (continued)

	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>	<u>June 30,</u> <u>2014</u>
Liabilities, Deferred Inflows of Resources, and Net Position			
Current Liabilities			
Accounts payable			
Trade	\$ 456,586	\$ 584,484	\$ 459,193
Construction	216,559	-	-
Estimated third-party payor settlements	311,000	392,000	-
Estimated health claims payable	230,000	346,473	414,000
Accrued expenses	<u>1,130,622</u>	<u>1,057,553</u>	<u>1,013,740</u>
Total current liabilities	<u>2,344,767</u>	<u>2,380,510</u>	<u>1,886,933</u>
Noncurrent Liabilities			
Net pension liability	<u>6,148,789</u>	<u>5,068,733</u>	<u>-</u>
Total liabilities	<u>8,493,556</u>	<u>7,449,243</u>	<u>1,886,933</u>
Deferred Inflows of Resources			
Pension related deferred inflows	<u>1,598,389</u>	<u>2,062,564</u>	<u>-</u>
Net Position			
Net investment in capital assets	10,666,448	8,538,867	9,086,661
Unrestricted	<u>3,373,672</u>	<u>4,421,006</u>	<u>9,294,107</u>
Total net position	<u>14,040,120</u>	<u>12,959,873</u>	<u>18,380,768</u>
Total liabilities and net position	<u>\$ 24,132,065</u>	<u>\$ 22,471,680</u>	<u>\$ 20,267,701</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Position

	Year Ended June 30,		
	2016	2015	2014
Operating Revenues			
Net patient service revenue (net of provision for bad debts)	\$ 24,327,536	\$ 23,209,563	\$ 22,651,752
Other operating revenues	555,914	489,131	494,668
Total Operating Revenues	<u>24,883,450</u>	<u>23,698,694</u>	<u>23,146,420</u>
Operating Expenses			
Salaries and wages	8,939,320	8,650,427	8,535,966
Supplies and other expenses	13,915,355	12,880,988	13,653,502
Gain on disposal of capital assets	-	(10,084)	-
Depreciation and amortization	1,027,388	1,114,741	1,146,643
Total Operating Expenses	<u>23,882,063</u>	<u>22,636,072</u>	<u>23,336,111</u>
Operating Income (Loss)	<u>1,001,387</u>	<u>1,062,622</u>	<u>(189,691)</u>
Nonoperating Revenues (Expenses)			
Investment income	97,493	21,858	80,667
Noncapital contributions	4,667	19,772	5,127
Income Taxes- Aesculapius	(23,300)	(21,760)	(29,114)
Net Nonoperating Revenues	<u>78,860</u>	<u>19,870</u>	<u>56,680</u>
Change in Net Position	<u>1,080,247</u>	<u>1,082,492</u>	<u>(133,011)</u>
Net Position, Beginning of Year	12,959,873	18,380,767	18,513,778
Restatement	<u>-</u>	<u>(6,503,386)</u>	<u>-</u>
Net Position Beginning of Year, as Restated	<u>12,959,873</u>	<u>11,877,381</u>	<u>18,513,778</u>
Net Position, End of Year	<u><u>\$ 14,040,120</u></u>	<u><u>\$ 12,959,873</u></u>	<u><u>\$ 18,380,767</u></u>

Capital Assets

Significant capital asset activity during the year ended June 30, 2016 included:

- \$146,400 for an Ultrasound unit.
- \$81,100 for two Omnicell units.
- \$29,600 for a Flash Sterilizer.
- \$203,500 for the remodeling of Emergency Rooms.
- \$2.45 million for the Boiler Project.

Long-Term Debt

The Hospital has no long-term debt.

Economic and Other Factors and Next Year's Budget

The Hospital's Board and management considered many factors when preparing the fiscal year 2017 budget. Of primary consideration in the 2017 budget are the unknowns of health care reform and the continued difficulty in the status of the economy.

Items listed below were also considered:

- Medicare and Medicaid reimbursement rates
- Managed care contracts
- Increase in self-pay accounts receivable due to uninsured and underinsured
- Medicaid Expansion impacts on payor mix changes
- Increased expectations for quality at a lower price
- Salary and benefit costs
- Surging drug costs
- Energy costs
- Patient safety initiatives
- Monitoring pay-for-performance and quality indicators
- Technology advances
- Continued medical staff success
- Lower return on investments

Summary

The Hospital's Board of Commissioners and Management Team continue to be extremely proud of the excellent patient care, dedication, commitment and support each of our employees provide to every person 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 Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at the following address:

Floyd County Medical Center
800 11th Street
Charles City, Iowa 50616

	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash and cash equivalents	\$ 1,436,234	\$ 2,944,795
Assets limited as to use or restricted		
Certificate of deposit	-	1,500,000
Receivables		
Patient, net of estimated uncollectibles of \$1,650,000 in 2016 and \$1,500,000 in 2015	3,570,052	3,358,650
Other	80,411	54,432
Supplies	545,825	492,645
Prepaid expense	57,848	58,505
Total current assets	<u>5,690,370</u>	<u>8,409,027</u>
Assets Limited as to Use or Restricted		
Investments		
Internally designated for capital and other expenditures	4,284,621	4,431,114
Certificate of deposit	<u>1,521,672</u>	<u>-</u>
Total assets limited as to use or restricted	<u>5,806,293</u>	<u>4,431,114</u>
Capital Assets		
Capital assets not being depreciated	2,893,939	325,552
Depreciable capital assets, net of accumulated depreciation	<u>7,772,509</u>	<u>8,257,697</u>
Total capital assets, net	<u>10,666,448</u>	<u>8,583,249</u>
Other Assets		
Investments and other	<u>4,285</u>	<u>9,542</u>
Total assets	22,167,396	21,432,932
Deferred Outflows of Resources		
Pension related deferred outflows	<u>1,964,669</u>	<u>1,038,748</u>
Total assets and deferred outflows of resources	<u>\$ 24,132,065</u>	<u>\$ 22,471,680</u>

See Notes to Financial Statements

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Net Position
June 30, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources, and Net Position		
Current Liabilities		
Accounts payable		
Trade	\$ 456,586	\$ 584,484
Construction	216,559	-
Estimated third-party payor settlements	311,000	392,000
Estimated health claims payable	230,000	346,473
Accrued expenses		
Salaries and wages	472,265	399,433
Vacation	539,770	530,693
Payroll taxes and other	118,587	127,427
Total current liabilities	2,344,767	2,380,510
Noncurrent Liabilities		
Net pension liability	6,148,789	5,068,733
Total liabilities	8,493,556	7,449,243
Deferred Inflows of Resources		
Pension related deferred inflows	1,598,389	2,062,564
Net Position		
Net investment in capital assets	10,666,448	8,538,867
Unrestricted	3,373,672	4,421,006
Total net position	14,040,120	12,959,873
Total liabilities, deferred inflows of resources, and net position	\$ 24,132,065	\$ 22,471,680

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$1,141,669 in 2016 and \$1,253,046 in 2015)	\$ 24,327,536	\$ 23,209,563
Other operating revenues	<u>555,914</u>	<u>489,131</u>
Total operating revenues	<u>24,883,450</u>	<u>23,698,694</u>
Operating Expenses		
Salaries and wages	8,939,320	8,650,427
Employee benefits	3,304,359	2,961,146
Supplies and other expenses	10,610,996	9,919,842
Gain on disposal of capital assets	-	(10,084)
Depreciation and amortization	<u>1,027,388</u>	<u>1,114,741</u>
Total operating expenses	<u>23,882,063</u>	<u>22,636,072</u>
Operating Income	<u>1,001,387</u>	<u>1,062,622</u>
Nonoperating Revenues (Expenses)		
Investment income	97,493	21,858
Noncapital contributions	4,667	19,772
Income taxes - Aesculapius	<u>(23,300)</u>	<u>(21,760)</u>
Net nonoperating revenues	<u>78,860</u>	<u>19,870</u>
Revenues in Excess of Expenses	1,080,247	1,082,492
Net Position, Beginning of Year	<u>12,959,873</u>	<u>11,877,381</u>
Net Position, End of Year	<u><u>\$ 14,040,120</u></u>	<u><u>\$ 12,959,873</u></u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 24,035,134	\$ 23,422,077
Payments to and on behalf of employees	(12,597,123)	(12,046,124)
Payments to suppliers and contractors	(10,791,417)	(9,893,773)
Other receipts and payments, net	529,935	517,914
Net Cash from Operating Activities	1,176,529	2,000,094
Noncapital Financing Activities		
Income taxes	(23,300)	(21,760)
Noncapital contributions	4,667	19,772
Net Cash used for Noncapital Financing Activities	(18,633)	(1,988)
Capital and Capital Related Financing Activities		
Purchase of capital assets	(2,894,028)	(577,537)
Proceeds from sale of capital assets	-	20,703
Net Cash used for Capital and Capital Related Financing Activities	(2,894,028)	(556,834)
Investing Activities		
Change in other investments	5,257	39,195
Investment income	75,821	21,858
Net Cash from Investing Activities	81,078	61,053
Net Change in Cash and Cash Equivalents	(1,655,054)	1,502,325
Cash and Cash Equivalents at Beginning of Year	7,375,909	5,873,584
Cash and Cash Equivalents at End of Year	\$ 5,720,855	\$ 7,375,909

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents in current assets	\$ 1,436,234	\$ 2,944,795
Cash and cash equivalents included in assets limited as to use or restricted	4,284,621	4,431,114
Total cash and cash equivalents	\$ 5,720,855	\$ 7,375,909
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 1,001,387	\$ 1,062,622
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	1,027,388	1,114,741
Gain on disposal of capital assets	-	(10,084)
Provision for bad debts	1,141,669	1,253,046
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources		
Receivables	(1,379,050)	(1,670,644)
Estimated third-party payor settlements	(81,000)	658,895
Supplies	(53,180)	(56,113)
Prepaid expense	657	1,303
Trade accounts payable	(127,898)	80,879
Estimated health claims payable	(116,473)	(67,527)
Accrued expenses	73,069	43,813
Net pension liability	1,080,056	(2,181,487)
Deferred outflows of resources	(925,921)	(291,914)
Deferred inflows of resources	(464,175)	2,062,564
Net Cash from Operating Activities	\$ 1,176,529	\$ 2,000,094
Supplemental Disclosure of Noncash Capital and Capital Related Financing Activities		
Construction payables / accounts payable for construction	\$ 216,559	\$ 44,412

Note 1 - Organization and Significant Accounting Policies

The financial statements of Floyd County Memorial Hospital, d/b/a Floyd County Medical Center (Hospital) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Hospital are described below.

Reporting Entity

The Hospital, located in Charles City, Iowa, is a critical access hospital organized under Chapter 37 of the Iowa Code and governed by a five member board of commissioners. The Hospital and Health Care of Floyd County L.C. (HCFC) are collectively referred to as the Organization. The Organization primarily earns revenues by providing health care services to patients on an inpatient and outpatient basis.

For financial reporting purposes, the Hospital has included all funds, organizations, agencies, boards, commissions, and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens to the Hospital.

Blended Component Unit

Health Care of Floyd County L.C. (HCFC) is a blended component unit of the Hospital. 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.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Hospital's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories/components:

Net investment in capital assets consists of capital assets reduced by the outstanding balances of any related debt obligations and deferred inflows of resources attributable to the acquisition, construction or improvement of those assets or the related debt obligations and increased by balances of deferred outflows of resources related to those assets or debt obligations.

Restricted net position:

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Hospital.

Expendable – Expendable net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Hospital's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding assets limited as to use or restricted. For purposes of the statements of cash flows, the Hospital considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest claim.

Patient accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rate (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital's process for calculating the allowance for doubtful accounts for self-pay patients has not significantly changed from June 30, 2015 to June 30, 2016. The Hospital does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write offs from third-party payors. The Hospital has not significantly changed its charity care or uninsured discount policies during fiscal years 2015 and 2016.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Assets Limited as to Use or Restricted

Assets limited as to use include assets set aside by the Board of Commissioners for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes.

Restricted funds are used to differentiate resources, the use of which is restricted by donors or grantors, from resources of general funds on which donors or grantors place no restriction or which arise as a result of the operations of the Hospital for its stated purposes.

Investment Income

Interest, dividends, and gains and losses on deposits and investments are included in nonoperating revenue when earned.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Interest expense incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of capital assets are as follows:

Land Improvements	15-20 years
Buildings, Improvements, and Fixed Equipment	20-40 years
Major Moveable Equipment, Computers and Furniture	3-7 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. The Hospital's deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Hospital's deferred inflows of resources consist of unrecognized items not yet charged to pension expense.

Compensated Absences

The Hospital's employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of projected vacation payouts is recorded as a current liability on the statement of net position based on pay rates that are in effect at June 30, 2016 and 2015.

Operating Revenues and Expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Hospital result from exchange transactions associated with providing health care services – the Hospital's principal activity and the costs of providing those services, including depreciation and excluding interest costs. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered, as noted above. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided or on the basis of discounted rates, if negotiated.

On the basis of historical experience, a certain portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. As a result, the Hospital records a provision for bad debts related to uninsured patients in the period the services are provided.

Charity Care and Community Benefits

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amounts of charges foregone for services provided under the Hospital's charity care policy were \$44,000 and \$70,000, for the years ended June 30, 2016 and 2015. Total direct and indirect costs related to these foregone charges were \$23,000 and \$37,000 at June 30, 2016 and 2015, based on an average ratio of cost to gross charges.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that demonstrate meaningful use of certified Electronic Health Records (EHR) technology.

Medicare

To qualify for the Medicare EHR incentive payments, hospitals and physicians must meet designated EHR meaningful use criteria. In addition, hospitals must attest that they have used certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. This attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. For Medicare, once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Hospital recognizes Medicare EHR incentive payments as revenue when there is reasonable assurance the Hospital will comply with the conditions attached to the incentive payments. As the entire Medicare EHR incentive payment is received in a lump sum for critical access hospitals and the Hospital must annually attest to increasingly stringent meaningful use criteria, the Medicare EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over the life of the qualifying assets.

Medicaid

The Medicaid EHR incentive payments are paid out based on state-specific legislation, and are not to exceed 50% of the entire Medicaid EHR incentive payment in any one year, and 90% of the entire Medicaid EHR incentive payment in any 2-year period. The incentives are paid over a minimum of a 3-year period and a maximum of a 6-year period. To qualify for the first Medicaid EHR incentive payment, the hospital must be in the Adopt, Implement, and Upgrade stages of the meaningful use criteria. To qualify for the second and third Medicaid EHR incentive payments, hospitals must satisfy the meaningful use criteria that are outlined within the Medicare EHR objectives. The Medicaid EHR incentive payments to hospitals for each payment year is calculated as a product of (1) an initial amount; (2) the Medicaid share; and (3) a transition factor applicable to that payment year. The Hospital recognizes Medicaid EHR incentive payments in the year received.

The Hospital had recognized the incentive payments received for qualified EHR technology expenditures during fiscal year 2013, which was the period during which management was reasonably assured meaningful use was achieved and earnings process was complete. The Hospital recorded no revenue relating to EHR technology expenditures during the years ended June 30, 2016 and 2015.

Grants and Contributions

The Hospital may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Hospital incurred \$73,364 and \$56,220 for advertising costs for the years ended June 30, 2016 and 2015.

Reclassifications

Reclassifications have been made to the June 30, 2015 financial information to make it conform to the current year presentation. The reclassifications had no effect on previously reported operating results or changes in net position.

Note 2 - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most inpatient and outpatient services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Hospital’s Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2014. Clinical services are paid on a cost basis or a fixed fee schedule.

Medicaid: The Hospital’s inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary. The Hospital’s Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2013.

Other Payors: The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

Concentration of gross revenues by major payor accounted for the following percentages of the Hospital’s patient service revenues for the years ended June 30, 2016 and 2015:

	2016	2015
Medicare	52%	53%
Medicaid	15%	15%
Blue Cross	19%	18%
Other Commerical Insurance	12%	12%
Self Pay	2%	2%
	100%	100%

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Centers for Medicare and Medicaid Services (CMS) has implemented a Recovery Audit Contractor (RAC) program under which claims are reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential overpayments, some being significant. If selected for audit, the potential exists that the Hospital may incur a liability for a claims overpayment at a future date. The Hospital unable to determine if it will be audited and, if so, the extent of the liability of overpayments, if any. As the outcome of such potential reviews is unknown and cannot be reasonably estimated, it is the Hospital's policy to adjust revenue for deductions from overpayment amounts or additions from underpayment amounts determined under the RAC audits at the time a change in reimbursement is agreed upon between the Hospital and CMS.

Note 3 - Deposits and Investments

The Hospital's deposits in banks at June 30, 2016 and 2015 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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 at June 30, 2016 and 2015.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as deposits and investments in this note.

At June 30, 2016 and 2015 the Hospital's carrying amounts of deposits and investments are as follows:

	2016	2015
Checking and Savings Accounts	\$ 5,720,855	\$ 7,375,909
Certificates of Deposits	1,511,282	1,500,000
Investment in Partnerships	4,285	9,542
Accrued Interest Receivable	10,390	-
	\$ 7,246,812	\$ 8,885,451

Deposits and investments are reported in the following statement of net position captions:

	2016	2015
Cash and Cash Equivalents	\$ 1,436,234	\$ 2,944,795
Assets Limited as to Use or Restricted	5,806,293	5,931,114
Other Assets	4,285	9,542
	\$ 7,246,812	\$ 8,885,451

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of the Hospital are:

1. Safety: Safety and preservation of principal in the overall portfolio.
2. Liquidity: Maintaining the necessary liquidity to match expected liabilities.
3. Return: Obtaining a reasonable return.

The Hospital attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

Note 4 - Capital Assets

Capital assets activity for the years ended June 30, 2016 and 2015 was as follows:

	June 30, 2015 Balance	Additions	Transfers and Retirements	June 30, 2016 Balance
Capital Assets Not Being Depreciated				
Land	\$ 32,203	\$ -	\$ -	\$ 32,203
Construction in progress	<u>293,349</u>	<u>2,772,111</u>	<u>(203,724)</u>	<u>2,861,736</u>
Total capital assets not being depreciated	<u>325,552</u>	<u>\$ 2,772,111</u>	<u>\$ (203,724)</u>	<u>2,893,939</u>
Capital Assets Being Depreciated				
Land improvements	584,486	\$ -	\$ -	584,486
Buildings and improvements	15,192,891	2,976	203,494	15,399,361
Equipment	<u>8,184,695</u>	<u>335,500</u>	<u>-</u>	<u>8,520,195</u>
Total capital assets being depreciated	<u>23,962,072</u>	<u>\$ 338,476</u>	<u>\$ 203,494</u>	<u>24,504,042</u>
Less Accumulated Depreciation for				
Land improvements	315,047	\$ 23,472	\$ -	338,519
Buildings and improvements	8,966,226	531,949	-	9,498,175
Equipment	<u>6,423,102</u>	<u>471,967</u>	<u>(230)</u>	<u>6,894,839</u>
Total accumulated depreciation	<u>15,704,375</u>	<u>\$ 1,027,388</u>	<u>\$ (230)</u>	<u>16,731,533</u>
Total Capital Assets Being Depreciated, Net	<u>8,257,697</u>			<u>7,772,509</u>
Total Capital Assets, Net	<u>\$ 8,583,249</u>			<u>\$ 10,666,448</u>

Construction in progress at June 30, 2016, primarily represents costs incurred to date for a boiler project that is expected to be completed during fiscal year 2017 (approximately \$2,743,000 of construction in progress at June 30, 2016). The boiler project is anticipated to have a total cost of \$2,765,000 and is being funded with internal funds.

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2014 Balance	Additions	Transfers and Retirements	June 30, 2015 Balance
Capital Assets Not Being Depreciated				
Land	\$ 32,203	\$ -	\$ -	\$ 32,203
Construction in progress	49,996	284,602	(41,249)	293,349
Total capital assets not being depreciated	<u>82,199</u>	<u>\$ 284,602</u>	<u>\$ (41,249)</u>	<u>325,552</u>
Capital Assets Being Depreciated				
Land improvements	547,286	\$ 37,200	\$ -	584,486
Buildings and improvements	15,189,326	14,268	(10,703)	15,192,891
Equipment	7,962,555	285,962	(63,822)	8,184,695
Total capital assets being depreciated	<u>23,699,167</u>	<u>\$ 337,430</u>	<u>\$ (74,525)</u>	<u>23,962,072</u>
Less Accumulated Depreciation for				
Land improvements	283,640	\$ 31,407	\$ -	315,047
Buildings and improvements	8,403,385	562,841	-	8,966,226
Equipment	6,007,680	520,493	(105,071)	6,423,102
Total accumulated depreciation	<u>14,694,705</u>	<u>\$ 1,114,741</u>	<u>\$ (105,071)</u>	<u>15,704,375</u>
Total Capital Assets Being Depreciated, Net	<u>9,004,462</u>			<u>8,257,697</u>
Total Capital Assets, Net	<u>\$ 9,086,661</u>			<u>\$ 8,583,249</u>

Note 5 - Pension Plan

Plan Description - Iowa Public Employees' Retirement System (IPERS) membership is mandatory for employees of the Hospital, except for those covered by another retirement system. Employees of the Hospital are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except for members with service before June 30, 2012, which use the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal years 2016 and 2015, pursuant to the required rate, regular members contributed 5.95% of covered payroll and the Hospital contributed 8.93% of covered payroll for a total rate of 14.88%.

The Hospital's contributions to IPERS for the year ended June 30, 2016 and 2015 were \$782,496 and \$759,966.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016 and 2015, the Hospital reported a liability of \$6,148,789 and \$5,068,733 for its proportionate share of the net pension liability. The Hospital's net pension liability was measured as of June 30, 2015 and 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Hospital's proportion of the net pension liability was based on the Hospital's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2015, the Hospital's collective proportion was 0.123682%, which was a decrease of 0.001562% from its proportion measured as of June 30, 2014 of 0.125244%.

Floyd County Memorial Hospital
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Notes to Financial Statements
June 30, 2016 and 2015

For the years ended June 30, 2016 and 2015, the Hospital recognized pension expense of \$472,185 and \$346,127. At June 30, 2016 and 2015, the Hospital reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual experience	\$ 92,900	\$ -	\$ 55,087	\$ -
Changes of Assumptions	169,292	-	223,695	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	919,981	1,431,721	-	1,933,069
Changes in Proportion and Differences Between Health Center Contributions and Proportionate Share of Contributions	-	166,668	-	129,495
Health Center Contributions Subsequent to the Measurement Date	<u>782,496</u>	<u>-</u>	<u>759,966</u>	<u>-</u>
Total	<u>\$ 1,964,669</u>	<u>\$ 1,598,389</u>	<u>\$ 1,038,748</u>	<u>\$ 2,062,564</u>

The \$782,496 in 2016 and \$759,966 in 2015 reported as deferred outflows of resources related to pensions resulting from the Hospital's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the years ended June 30, 2017 and 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	2016	2015
2016	\$ -	\$ (450,505)
2017	(216,984)	(450,505)
2018	(216,984)	(450,505)
2019	(216,984)	(450,505)
2020	235,728	18,238
2021	<u>(992)</u>	<u>-</u>
	<u>\$ (416,216)</u>	<u>\$ (1,783,782)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Salary Increases (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-Term Investment Rate of Return (effective June 30, 1996)	7.50% per annum, compounded annually, net of pension plan, investment expense, including inflation
Wage Growth (effective June 30, 1996)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation

The actuarial assumptions used in the June 30, 2016 and 2015 valuations were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core-Plus Fixed Income	28%	2.04%
Domestic Equity	24%	6.29%
International Equity	16%	6.75%
Private Equity/Debt	11%	11.32%
Real Estate	8%	3.48%
Credit Opportunities	5%	3.63%
U.S. TIPS	5%	1.91%
Other Real Assets	2%	6.24%
Cash	1%	(0.71%)
	<u>100%</u>	

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

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

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Health Center's Proportionate Share of the Net Pension Liability at June 30, 2015	\$ 10,765,423	\$ 6,148,789	\$ 2,252,018
Health Center's Proportionate Share of the Net Pension Liability at June 30, 2014	\$ 9,577,228	\$ 5,068,733	\$ 1,263,096

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2016 and 2015, the Hospital reported payables to the defined benefit pension plan of \$42,215 and \$40,852 for legally required employer contributions not yet remitted to IPERS.

Note 6 - Lease Obligations

The Hospital leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as operating leases. Total lease expense for all operating leases for the years ended June 30, 2016 and 2015 was \$192,463 and \$198,801.

Minimum future lease payments for noncancelable operating leases are as follows:

Years Ending June 30,	Amount
2017	\$ 122,917
2018	43,281
Total Minimum Lease Payments	\$ 166,198

Note 7 - Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2016 and 2015 was as follows:

	2016	2015
Medicare	42%	38%
Medicaid	7%	10%
Blue Cross	12%	11%
Other Commerical Insurance	7%	9%
Self Pay	32%	32%
	100%	100%

Note 8 - Contingencies

Risk Management

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. This coverage has not changed significantly from the previous year. The Hospital assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

Malpractice Insurance

The Hospital has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigation, Claims, and Disputes

The Hospital is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Hospital.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 9 - Condensed Financial Statements

The following tables include condensed information for the Hospital and HCFC, a blended component unit described in Note 1 as of June 30, 2016 and 2015.

Condensed Statements of Net Position

	June 30, 2016			
	Hospital	HCFC	Eliminations	Combined
Assets and Deferred Outflows of Resources				
Current Assets	\$ 5,345,569	\$ 344,801	\$ -	\$ 5,690,370
Assets Limited as to Use or Restricted	5,806,293	-	-	5,806,293
Capital Assets, Net	10,236,652	429,796	-	10,666,448
Other assets	778,882	-	(774,597)	4,285
Total assets	22,167,396	774,597	(774,597)	22,167,396
Deferred Outflows of Resources				
Pension related deferred outflows	1,964,669	-	-	1,964,669
Total assets and deferred outflows of resources	\$ 24,132,065	\$ 774,597	\$ (774,597)	\$ 24,132,065
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities	\$ 2,344,767	\$ -	\$ -	\$ 2,344,767
Net pension liability	6,148,789	-	-	6,148,789
Total liabilities	8,493,556	-	-	8,493,556
Deferred Inflows of Resources				
Pension related deferred inflows	1,598,389	-	-	1,598,389
Net Position				
Net investment in capital assets	10,236,652	429,796	-	10,666,448
Unrestricted	3,803,468	344,801	(774,597)	3,373,672
Total net position	14,040,120	774,597	(774,597)	14,040,120
Total liabilities, deferred inflows of resources, and net position	\$ 24,132,065	\$ 774,597	\$ (774,597)	\$ 24,132,065

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2016 and 2015

	June 30, 2015			
	Hospital	HCFC	Eliminations	Combined
Assets and Deferred Outflows of Resources				
Current Assets	\$ 8,170,940	\$ 238,087	\$ -	\$ 8,409,027
Assets Limited as to Use or Restricted	4,431,114	-	-	4,431,114
Capital Assets, Net	8,126,999	456,250	-	8,583,249
Other assets	703,879	-	(694,337)	9,542
	21,432,932	694,337	(694,337)	21,432,932
Deferred Outflows of Resources				
Pension related deferred outflows	1,038,748	-	-	1,038,748
	1,038,748	-	-	1,038,748
Total assets and deferred outflows of resources	\$ 22,471,680	\$ 694,337	\$ (694,337)	\$ 22,471,680
Liabilities, Deferred Inflows of Resources, and Net Position				
Current Liabilities	\$ 2,380,510	\$ -	\$ -	\$ 2,380,510
Net pension liability	5,068,733	-	-	5,068,733
	7,449,243	-	-	7,449,243
Deferred Inflows of Resources				
Pension related deferred inflows	2,062,564	-	-	2,062,564
	2,062,564	-	-	2,062,564
Net Position				
Net investment in capital assets	8,082,617	456,250	-	8,538,867
Unrestricted	4,877,256	238,087	(694,337)	4,421,006
Total net position	12,959,873	694,337	(694,337)	12,959,873
Total liabilities, deferred inflows of resources, and net position	\$ 22,471,680	\$ 694,337	\$ (694,337)	\$ 22,471,680

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2016 and 2015

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30, 2016			
	Hospital	HCFC	Eliminations	Combined
Operating Revenues				
Net patient service revenue (net of provision for bad debts)	\$ 24,327,536	\$ -	\$ -	\$ 24,327,536
Other operating revenues	415,354	214,456	(73,896)	555,914
Total operating revenues	<u>24,742,890</u>	<u>214,456</u>	<u>(73,896)</u>	<u>24,883,450</u>
Operating Expenses				
Other operating expenses	22,847,335	81,236	(73,896)	22,854,675
Depreciation	997,728	29,660	-	1,027,388
Total operating expenses	<u>23,845,063</u>	<u>110,896</u>	<u>(73,896)</u>	<u>23,882,063</u>
Operating Income	<u>897,827</u>	<u>103,560</u>	<u>-</u>	<u>1,001,387</u>
Nonoperating Revenues (Expenses)				
Investment income	177,753	-	(80,260)	97,493
Noncapital contributions	4,667	-	-	4,667
Income taxes - Aesculapius	-	(23,300)	-	(23,300)
Net nonoperating revenues (expenses)	<u>182,420</u>	<u>(23,300)</u>	<u>(80,260)</u>	<u>78,860</u>
Change in Net Position	1,080,247	80,260	(80,260)	1,080,247
Net Position, Beginning of Year	<u>12,959,873</u>	<u>694,337</u>	<u>(694,337)</u>	<u>12,959,873</u>
Net Position, End of Year	<u>\$ 14,040,120</u>	<u>\$ 774,597</u>	<u>\$ (774,597)</u>	<u>\$ 14,040,120</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2016 and 2015

	Year Ended June 30, 2015			
	Hospital	HCFC	Eliminations	Combined
Operating Revenues				
Net patient service revenue (net of provision for bad debts)	\$ 23,209,563	\$ -	\$ -	\$ 23,209,563
Other operating revenues	348,673	214,354	(73,896)	489,131
Total operating revenues	23,558,236	214,354	(73,896)	23,698,694
Operating Expenses				
Other operating expenses	21,503,648	91,579	(73,896)	21,521,331
Depreciation and amortization	1,083,683	31,058	-	1,114,741
Total operating expenses	22,587,331	122,637	(73,896)	22,636,072
Operating Income	970,905	91,717	-	1,062,622
Nonoperating Revenues (Expenses)				
Investment income	91,815	-	(69,957)	21,858
Noncapital contributions	19,772	-	-	19,772
Income taxes - Aesculapius	-	(21,760)	-	(21,760)
Net nonoperating revenues (expenses)	111,587	(21,760)	(69,957)	19,870
Change in Net Position	1,082,492	69,957	(69,957)	1,082,492
Net Position, Beginning of Year	11,877,381	624,380	(624,380)	11,877,381
Net Position, End of Year	\$ 12,959,873	\$ 694,337	\$ (694,337)	\$ 12,959,873

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2016 and 2015

Condensed Statements of Cash Flows

	Year Ended June 30, 2016			
	Hospital	HCFC	Eliminations	Combined
Net Cash from Operating Activities	\$ 1,043,309	\$ 133,220	\$ -	\$ 1,176,529
Net Cash from (used for) Noncapital Financing Activities	4,667	(23,300)	-	(18,633)
Net Cash used for Capital and Capital Related Financing Activities	(2,890,822)	(3,206)	-	(2,894,028)
Net Cash from Investing Activities	81,078	-	-	81,078
Net Change in Cash and Cash Equivalents	(1,761,768)	106,714	-	(1,655,054)
Cash and Cash Equivalents at Beginning of Year	7,137,822	238,087	-	7,375,909
Cash and Cash Equivalents at End of Year	<u>\$ 5,376,054</u>	<u>\$ 344,801</u>	<u>\$ -</u>	<u>\$ 5,720,855</u>
	Year Ended June 30, 2015			
	Hospital	HCFC	Eliminations	Combined
Net Cash from Operating Activities	\$ 1,877,319	\$ 122,775	\$ -	\$ 2,000,094
Net Cash from (used for) Noncapital Financing Activities	19,772	(21,760)	-	(1,988)
Net Cash used for Capital and Capital Related Financing Activities	(553,270)	(3,564)	-	(556,834)
Net Cash from Investing Activities	61,053	-	-	61,053
Net Change in Cash and Cash Equivalents	1,404,874	97,451	-	1,502,325
Cash and Cash Equivalents at Beginning of Year	5,732,948	140,636	-	5,873,584
Cash and Cash Equivalents at End of Year	<u>\$ 7,137,822</u>	<u>\$ 238,087</u>	<u>\$ -</u>	<u>\$ 7,375,909</u>



Required Supplementary Information
June 30, 2016 and 2015

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

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
 Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position
 – Budget and Actual (Cash Basis) – Hospital Only
 Required Supplementary Information
 Year Ended June 30, 2016

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Adopted Budget	Variance Favorable (Unfavorable)
Estimated Other					
Revenues/Receipts	\$ 24,925,310	\$ 1,035,926	\$ 25,961,236	\$ 39,783,500	\$ (13,822,264)
Expenses/Disbursements	<u>23,845,063</u>	<u>2,356,269</u>	<u>26,201,332</u>	<u>36,538,000</u>	<u>10,336,668</u>
Net	1,080,247	(1,320,343)	(240,096)	3,245,500	<u>\$ (3,485,596)</u>
Balance, Beginning of Year	<u>12,959,873</u>	<u>(5,822,051)</u>	<u>7,137,822</u>	<u>23,779,075</u>	
Balance, End of Year	<u>\$ 14,040,120</u>	<u>\$ (7,142,394)</u>	<u>\$ 6,897,726</u>	<u>\$ 27,024,575</u>	

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

Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2016

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from the Hospital preparing a budget on the cash basis of accounting.

The Board of Commissioners annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347A of the Code of Iowa. The Board of Commissioners certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. The budget was not amended during the year ended June 30, 2016.

For the year ended June 30, 2016, the Hospital's expenditures did not exceed the amount budgeted.

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of the Hospital's Proportionate Share of the Net Pension Liability
Required Supplementary Information
Years Ended June 30, 2016 and 2015

	2016	2015
Hospital's Proportion of the Net Pension Liability	0.123682%	0.125244%
Hospital's Proportionate Share of the Net Pension Liability	\$ 6,148,789	\$ 5,068,733
Hospital's Covered-Employee Payroll	\$ 8,510,258	\$ 8,363,203
Hospital's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	72.25%	60.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	85.19%	87.61%

The amounts reported are measured as of June 30, 2015 and 2014 (measurement dates).

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Hospital will present information for those years for which information is available.

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Statutorily Required Contribution	\$ 782,496	\$ 759,966	\$ 746,834	\$ 718,037
Contributions in Relation to the Statutorily Required Contribution	<u>(782,496)</u>	<u>(759,966)</u>	<u>(746,834)</u>	<u>(718,037)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Hospital's Covered-Employee Payroll	\$ 8,762,553	\$ 8,510,258	\$ 8,363,203	\$ 8,281,857
Contributions as a Percentage of Covered-Employee Payroll	8.93%	8.93%	8.93%	8.67%

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
 Schedule of the Hospital's Contributions – Last 10 Fiscal Years
 Required Supplementary Information
 Year Ended June 30, 2016

<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$ 679,338	\$ 551,553	\$ 503,204	\$ 482,377	\$ 434,099	\$ 368,613
<u>(679,338)</u>	<u>(551,553)</u>	<u>(503,204)</u>	<u>(482,377)</u>	<u>(434,099)</u>	<u>(368,613)</u>
<u>\$ -</u>					
\$ 8,418,067	\$ 7,936,014	\$ 7,566,977	\$ 7,596,488	\$ 7,175,190	\$ 6,410,661
8.07%	6.95%	6.65%	6.35%	6.05%	5.75%

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

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

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

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

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

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

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

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

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



Supplementary Information
June 30, 2016 and 2015

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



Independent Auditor's Report on Supplementary Information

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

We have audited the financial statements of Floyd County Memorial Hospital, d/b/a Floyd County Medical Center (Hospital), as of and for the year ended June 30, 2016 and 2015, and our report thereon dated September 15, 2016, which expressed an unmodified opinion on those financial statements, appears on pages 2 and 3. Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of net patient service revenue – Hospital only, other operating revenues – Hospital only, operating expenses – Hospital only, patient receivables, collection statistics, supplies and prepaid expense, and statistical information are presented for the purposes of additional analysis and are not a required part of the financial statements. The schedules of net patient service revenue – Hospital only, other operating revenues – Hospital only, operating expenses – Hospital only, and supplies and prepaid expense are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of net patient service revenue – Hospital only, other operating revenues – Hospital only, operating expenses – Hospital only, and supplies and prepaid expense are fairly stated in all material respects in relation to the financial statements as a whole as of and for the year ended June 30, 2016 and 2015. The schedules of patient receivables, collection statistics, and statistical information have not been subjected to the auditing procedures applied in the audits of the financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Dubuque, Iowa
September 15, 2016

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Net Patient Service Revenue – Hospital Only
Years Ended June 30, 2016 and 2015

	2016	2015
Patient Service Revenue		
Routine services - hospital	\$ 4,457,863	\$ 4,209,740
Routine services - nursery	264,677	207,418
Operating and recovery rooms	4,605,601	4,498,065
Emergency room	6,455,393	5,822,895
Delivery and labor rooms	353,322	324,410
Central services and supply	543,219	524,670
Laboratory and blood bank	9,013,775	7,930,400
Radiology	7,670,494	7,186,068
Electrocardiology	1,099,909	890,556
Pharmacy	2,549,097	2,472,818
Intravenous therapy	247,143	254,649
Respiratory therapy	1,549,553	1,393,214
Physical therapy	2,690,977	2,431,123
Occupational therapy	496,071	481,567
Speech therapy	541,808	485,238
Anesthesiology	445,132	408,603
Medical clinic	116,996	123,956
Rural health clinic	1,500,750	1,336,132
Clinic surgeon	507,243	521,037
CRNA services	361,706	356,823
	45,470,729	41,859,382
Charity care (charges foregone)	(44,474)	(70,127)
	\$ 45,426,255	\$ 41,789,255
* Total Patient Service Revenue - Reclassified		
Inpatient revenue	\$ 10,207,418	\$ 9,822,702
Outpatient revenue	35,263,311	32,036,680
Charity care (charges foregone)	(44,474)	(70,127)
Total patient service revenue	45,426,255	41,789,255
Contractual adjustments	(19,951,654)	(17,320,807)
Policy discounts	(5,396)	(5,839)
Net Patient and Resident Service Revenue	25,469,205	24,462,609
Provision for Bad Debts	(1,141,669)	(1,253,046)
Net Patient and Resident Service Revenue (Net of Provision for Bad Debts)	\$ 24,327,536	\$ 23,209,563

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Other Operating Revenues – Hospital Only
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Specialty Clinics	\$ 165,018	\$ 126,485
Cafeteria	149,638	146,175
Medical Records Transcripts	26,532	20,260
Office Rental	18,964	18,834
Other	<u>55,202</u>	<u>36,919</u>
Total Other Operating Revenues	<u><u>\$ 415,354</u></u>	<u><u>\$ 348,673</u></u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital Only
Years Ended June 30, 2016 and 2015

	2016	2015
Nursing Administration		
Salaries and wages	\$ 334,340	\$ 352,132
Supplies and other expenses	26,103	20,256
	<u>360,443</u>	<u>372,388</u>
Routine Nursing Services		
Salaries and wages	2,178,537	2,140,212
Supplies and other expenses	130,375	126,844
	<u>2,308,912</u>	<u>2,267,056</u>
Nursery		
Salaries and wages	86,659	68,824
Supplies and other expenses	1,570	1,405
	<u>88,229</u>	<u>70,229</u>
Operating and Recovery Rooms		
Salaries and wages	470,527	407,443
Supplies and other expenses	562,911	679,171
	<u>1,033,438</u>	<u>1,086,614</u>
Delivery and Labor Rooms		
Salaries and wages	79,331	61,209
Supplies and other expenses	3,858	3,455
	<u>83,189</u>	<u>64,664</u>
Emergency room and Wound Care		
Salaries and wages	689,253	674,561
Supplies and other expenses	1,235,801	1,100,192
	<u>1,925,054</u>	<u>1,774,753</u>
Central Services and Supply		
Salaries and wages	85,201	86,834
Supplies and other expenses	137,553	136,420
	<u>222,754</u>	<u>223,254</u>
Laboratory and Blood Bank		
Salaries and wages	626,802	611,444
Supplies and other expenses	779,633	702,242
	<u>1,406,435</u>	<u>1,313,686</u>
Radiology		
Salaries and wages	524,112	533,431
Supplies and other expenses	722,581	732,676
	<u>1,246,693</u>	<u>1,266,107</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital Only
Years Ended June 30, 2016 and 2015

	2016	2015
Electrocardiology		
Salaries and wages	\$ 92,085	\$ 82,993
Supplies and other expenses	33,211	35,513
	<u>125,296</u>	<u>118,506</u>
Pharmacy		
Salaries and wages	103,034	103,619
Supplies and other expenses	1,274,175	1,110,787
	<u>1,377,209</u>	<u>1,214,406</u>
Respiratory therapy		
Supplies and other expenses	<u>364,225</u>	<u>353,661</u>
Physical Therapy		
Supplies and other expenses	<u>986,196</u>	<u>927,912</u>
Occupational Therapy		
Supplies and other expenses	<u>101,781</u>	<u>107,092</u>
Speech Therapy		
Salaries and wages	220,220	197,378
Supplies and other expenses	7,700	9,115
	<u>227,920</u>	<u>206,493</u>
Medical clinic		
Salaries and wages	66,811	62,892
Supplies and other expenses	86,763	75,320
	<u>153,574</u>	<u>138,212</u>
Rural Health Clinic		
Salaries and wages	488,705	441,907
Supplies and other expenses	669,264	625,576
	<u>1,157,969</u>	<u>1,067,483</u>
Sleep Studies		
Supplies and other expenses	<u>58,628</u>	<u>46,613</u>
Clinic Surgeon		
Supplies and other expenses	<u>460,563</u>	<u>321,995</u>
CRNA Services		
Supplies and other expenses	<u>418,198</u>	<u>413,173</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital Only
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Specialty Clinics		
Salaries and wages	\$ 116,972	\$ 134,228
Supplies and other expenses	17,497	12,825
	<u>134,469</u>	<u>147,053</u>
Dietary		
Salaries and wages	532,320	500,592
Supplies and other expenses	233,734	223,455
	<u>766,054</u>	<u>724,047</u>
Plant Operation and Maintenance		
Salaries and wages	218,681	217,459
Supplies and other expenses	521,921	500,380
	<u>740,602</u>	<u>717,839</u>
Housekeeping		
Salaries and wages	360,831	349,185
Supplies and other expenses	40,891	39,352
	<u>401,722</u>	<u>388,537</u>
Laundry and Linen		
Salaries and wages	15,607	15,066
Supplies and other expenses	95,238	71,098
	<u>110,845</u>	<u>86,164</u>
Medical Records		
Salaries and wages	263,236	273,378
Supplies and other expenses	38,171	38,680
	<u>301,407</u>	<u>312,058</u>
Administrative Services		
Salaries and wages	1,386,056	1,335,640
Supplies and other expenses	1,506,069	1,394,812
	<u>2,892,125</u>	<u>2,730,452</u>
Unassigned Expenses		
Depreciation and amortization	997,728	1,083,683
Gain on disposal of capital assets	-	(10,084)
Insurance	89,046	92,139
Employee benefits	3,304,359	2,961,146
	<u>4,391,133</u>	<u>4,126,884</u>
Total Operating Expenses	<u>\$ 23,845,063</u>	<u>\$ 22,587,331</u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Patient Receivables and Collection Statistics (Unaudited)
June 30, 2016 and 2015

Analysis of Aging

<u>Days Since Discharge</u>	<u>2016</u>		<u>2015</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
30 Days or Less	\$ 4,049,872	52.93%	\$ 3,534,267	50.49%
31 to 60 Days	710,046	9.28%	565,592	8.08%
61 to 90 Days	430,695	5.63%	470,097	6.72%
91 to 120 Days	291,539	3.81%	318,434	4.55%
121 to 150 Days	318,611	4.16%	203,049	2.90%
151 Days and over	1,850,789	24.19%	1,908,711	27.26%
	7,651,552	<u>100.00%</u>	7,000,150	<u>100.00%</u>
Less: Allowance for Doubtful Accounts	1,650,000		1,500,000	
Allowance for Contractual Adjustments	2,431,500		2,141,500	
Net	<u>\$ 3,570,052</u>		<u>\$ 3,358,650</u>	

	<u>2016</u>	<u>2015</u>
Collection Statistics		
Net patient accounts receivable	\$ 3,570,052	\$ 3,358,650
Number of days charges outstanding (1)	54	53
Uncollectible accounts (2)	\$ 1,186,143	\$ 1,323,173
Percentage of uncollectible accounts to total charges	2.61%	3.16%

(1) Based on average daily net patient service revenue for the entire year

(2) Includes provision for bad debts and charity care.

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Supplies and Prepaid Expense
June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Supplies		
Pharmacy	\$ 275,346	\$ 231,065
Surgery	188,810	183,020
Storeroom	68,718	65,333
Dietary	<u>12,951</u>	<u>13,227</u>
Total	<u><u>\$ 545,825</u></u>	<u><u>\$ 492,645</u></u>
Prepaid Expense		
Insurance	<u><u>\$ 57,848</u></u>	<u><u>\$ 58,505</u></u>

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Statistical Information (Unaudited)
Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Patient Days		
Acute	1,862	1,889
Swing-bed	1,651	1,657
Number of Beds	25	25
Percentage of Occupancy	38%	39%
Discharges		
Acute	504	528
Swing-bed	175	194
Average Length of Stay		
Acute	3.69	3.58
Swing-bed	9.43	8.54



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

The 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 (Hospital), as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 the 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weaknesses and a significant deficiency.

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. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2016-A to be a material weakness.

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. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings and Responses as item 2016-B to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2016, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and are reported in Part II of the accompanying Schedule of Findings and Responses. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Hospital's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Dubuque, Iowa
September 15, 2016

Part I: Findings Related to the Financial Statements:

Material Weakness:

2016-A Preparation of Financial Statements and Audit Adjustments

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity. Management is responsible for establishing and maintaining internal control over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Condition – Floyd County Memorial Hospital, d/b/a Floyd County Medical Center (Hospital) does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes and statement of cash flows, as required by GAAP. In conjunction with completion of our audit, we were requested to draft the financial statements and accompanying notes to the financial statements. Also, adjusting journal entries, which are material in the aggregate, were proposed and made to the financial statements during the audit.

Cause – The outsourcing of these services is not unusual in an organization of your size. We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, in accordance with GAAP, can be considered costly and ineffective.

Effect – The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Hospital. The outside party does not have the constant contact with ongoing financial transactions that internal staff have. Furthermore, it is possible that new standards may not be adopted and applied timely to the interim financial reporting. Accordingly, interim financial statements may be misstated as well.

Recommendation – It is the responsibility of Hospital management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. We recommend that management continue reviewing operating procedures in order to obtain the maximum internal control over financial reporting possible under the circumstances to enable staff to draft the financial statements internally and make any necessary adjustments on a regular basis.

Response – This finding and recommendation is not a result of any change in the Hospital's procedures, rather it is due to an auditing standard implemented by the American Institute of Certified Public Accountants. Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Part I: Findings Related to the Financial Statements: (continued)

Significant Deficiency:

2016-B Segregation of Duties

Criteria – An effective system of internal control depends on an adequate segregation of duties with respect to the execution and recording of transactions, as well as the custody of an organization’s assets. Accordingly, an effective system of internal control will be designed such that these functions are performed by different employees, so that no one individual handles a transaction from its inception to its completion.

Condition – Certain employees perform duties that are incompatible.

Cause – The limited number of office personnel prevents a proper segregation of accounting functions necessary to ensure optimal effective internal control. This is not an unusual condition in organizations of your size.

Effect – The lack of segregation of duties increases the risk of fraud related to misappropriation of assets, financial statement misstatement, or both. Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. It is the responsibility of management and those charged with governance to determine whether to accept the degree of risk associated with the condition because of cost or other considerations.

However, the Hospital should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Hospital should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Response – Management agrees with the finding and has reviewed the operating procedures of the Hospital. Due to the limited number of office employees, management will continue to monitor the Hospital’s operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

Part II: Other Findings Related to Required Statutory Reporting:

- 2016-IA-A Certified Budget** – Disbursements during the year ended June 30, 2016, did not exceed the amount budgeted.
- 2016-IA-B Questionable Expenditures** – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- 2016-IA-C Travel Expense** – No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.
- 2016-IA-D Business Transactions** – We noted no material transactions between the Hospital and Hospital officials and/or employees.
- 2016-IA-E Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 2016-IA-F Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital’s investment policy were noted.