

**Clarke County Public Hospital  
Osceola, Iowa**

**FINANCIAL REPORT**

**June 30, 2004**

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**Clarke County Public Hospital  
OFFICIALS  
June 30, 2004**

**BOARD OF TRUSTEES**

**Officers**

Neville Clayton, Chair  
Laurie Page, Vice Chair and Treasurer  
Patricia Wright, Secretary

**Members**

Rick Buesch  
Brian Oswald  
James Schipper  
Don Waltz

**Expiration of term**

December 31, 2008  
December 31, 2004  
December 31, 2006

December 31, 2008  
December 31, 2006  
December 31, 2008  
December 31, 2004

**CHIEF EXECUTIVE OFFICER**

David Coates

**CHIEF OPERATING OFFICER/CHIEF FINANCIAL OFFICER**

Michael Thilges

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Clarke County Public Hospital  
Osceola, Iowa

We have audited the accompanying balance sheets of Clarke County Public Hospital as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarke County Public Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Hospital adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended June 30, 2004.

The management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2004 on our consideration of Clarke County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
July 29, 2004

## **Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Clarke County Public Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2004 and 2003. Please read it in conjunction with the Hospital's financial statements, which follow this section.

### **Overview of the Financial Statements**

This annual report includes this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### **Required Financial Statements**

The financial statements of the Hospital report information of the Hospital using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The balance sheet includes all of the Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Hospital's creditors, liabilities. It also provides 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 statement of revenues, expenses, and changes in fund equity. This statement measures the success of the Hospital operations over the past year and can be used to determine whether the Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

The final required financial statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

### **Financial Highlights**

- Total assets decreased by \$590,376 or 4% to \$16,014,933
- Total noncurrent assets whose use is limited increased by \$324,760 to \$1,195,449
- Total property and equipment decreased by \$767,299 to \$10,913,075
- Total fund equity decreased by \$325,138 to \$6,649,603
- Total long-term debt decreased by \$217,715 to \$7,203,259
- Net patient service revenue increased by \$2,486,706, or 36% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status, effective March 1, 2003
- Expenses increased by \$1,650,151, or 19% to \$10,564,802

### **Financial Analysis of the Hospital**

The balance sheet and the statement of revenues, expenses, and changes in fund equity report the net assets of the Hospital and the changes in them. The Hospital's net assets, the difference between assets and liabilities, are a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

A summary of the Hospital's balance sheets is presented in Table 1.

**Table 1**  
**Condensed Balance Sheets**

	<u>2004</u>	<u>2003</u>
Current assets	\$ 2,766,409	\$ 2,994,246
Noncurrent assets whose use is limited	1,195,449	870,689
Property and equipment	10,913,075	11,680,374
Other asset	<u>1,140,000</u>	<u>1,060,000</u>
Total assets	<u>\$16,014,933</u>	<u>\$16,605,309</u>
Current liabilities	\$ 1,385,512	\$ 1,477,477
Long-term debt, less current maturities	6,839,818	7,093,091
Other noncurrent liabilities	<u>1,140,000</u>	<u>1,060,000</u>
Total liabilities	<u>\$ 9,365,330</u>	<u>\$ 9,630,568</u>
Invested in capital assets, net of related debt	\$ 3,709,816	\$ 4,259,400
Restricted	697,442	777,806
Unrestricted	<u>2,242,345</u>	<u>1,937,535</u>
Total fund equity	<u>\$ 6,649,603</u>	<u>\$ 6,974,741</u>

As depicted in Table 1, total assets decreased in fiscal year 2004 to \$16,014,933. The change in total assets results primarily from decreased investment in property and equipment.

During fiscal year 2003, the Hospital completed a construction and renovation project. Construction costs were funded using a combination of issuance of long-term debt as well as assets limited as to use by the Board of Trustees for plant replacement and expansion.

## **Revenues, Expenses, and Changes in Fund Equity**

A summary of the Hospital's historical revenues, expenses, and changes in fund equity is presented in Table 2.

**Table 2**  
**Condensed Statements of Revenues, Expenses, and Changes in Fund Equity**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
Net patient service revenue	\$ 9,409,486	\$ 6,922,780
Other revenue	174,961	189,533
Total revenue	<u>9,584,447</u>	<u>7,112,313</u>
Salaries	3,728,647	3,490,263
Other expenses	5,552,118	4,761,457
Provision for depreciation	1,284,037	662,931
Total expenses	<u>10,564,802</u>	<u>8,914,651</u>
Operating (loss)	<u>(980,355)</u>	<u>(1,802,338)</u>
County taxes	1,040,288	866,884
Investment income	54,369	31,726
Unrestricted contributions	10,857	1,997
Interest expense	<u>(450,297)</u>	<u>(47,278)</u>
Total nonoperating gains	<u>655,217</u>	<u>853,329</u>
Change in fund equity	(325,138)	(949,009)
Total fund equity, beginning	<u>6,974,741</u>	<u>7,923,750</u>
Total fund equity, ending	<u>\$ 6,649,603</u>	<u>\$ 6,974,741</u>

## **Operating and Financial Performance**

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2004 and 2003.

**Net Patient Service Revenue:** Net patient service revenue is a product of volume, price increases and payor mix.

**Volume:** Acute discharges for fiscal year 2004 were 439 compared to 427 in fiscal year 2003. Average length of stay decreased slightly and patient days were 1,434 for each year. Volume on the outpatient side indicated positive growth in 2004. In 2004, gross outpatient charges increased to \$7,827,289 compared to \$6,511,323 in 2003. Operating and recovery rooms, emergency room and outpatient services, and diagnostic imaging ancillary services reflected the most significant growth in 2004.

**Price Increase:** As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2004. Overall, gross patient service revenue increased to \$11,526,534 from \$10,087,581 in 2003.

**Payor Mix:** Effective March, 2003, the Hospital was designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts declined significantly from \$2,117,048 in 2004 compared to \$3,164,801 in 2003.

A summary of the percentages of gross charges for patient services by primary payor is presented in Table 3.

**Table 3**  
**Payor Mix by Percentage**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Medicare	48%	50%
Medicaid	8	5
Wellmark	17	12
Commercial insurance	16	19
Self pay	<u>11</u>	<u>14</u>
Totals	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue decreased to \$174,961 in 2004 compared to \$189,533 in 2003, primarily due to decreased miscellaneous income.

**Expenses**

Approximately 35% of Hospital's expenses are for salaries. Total salaries increased by 7% to \$3,728,647 in 2004 from \$3,490,263 in 2003. The Hospital department experiencing the most significant increase in 2004 was medical and surgical.

Approximately 55% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 17% to \$5,552,118 in 2004 from \$4,761,457 in 2003. The Hospital departments experiencing the most significant increases were operating and recovery rooms, central supply, administration and information services.

Approximately 10% of Hospital's expenses relate to provision for depreciation. This provision for depreciation increased to \$1,284,037 in 2004 from \$662,931 in 2003.

**Nonoperating Gains**

Nonoperating gains decreased to \$655,217 from \$853,329 in 2003, primarily due to an increase in interest expense on long-term debt.

**Property and Equipment**

At the end of 2004, the Hospital had \$10,913,075 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2004, \$516,738 was spent to acquire new equipment.

A summary of the Hospital's property and equipment is presented in Table 4.

**Table 4  
Property and Equipment**

	<u>June 30</u>		<u>Change</u>
	<u>2004</u>	<u>2003</u>	
Land	\$ 9,550	\$ 9,550	\$ -
Land improvements	189,772	202,823	(13,051)
Building	8,545,110	8,434,345	110,765
Fixed equipment	2,872,848	2,744,040	128,808
Major movable equipment	3,934,772	3,955,980	(21,208)
Medical office building	<u>1,098,085</u>	<u>1,075,413</u>	<u>22,672</u>
Subtotal	16,650,137	16,422,151	227,986
Less accumulated depreciation	<u>(5,737,062)</u>	<u>(4,741,777)</u>	<u>(995,285)</u>
Property and equipment	<u>\$10,913,075</u>	<u>\$11,680,374</u>	<u>\$ (767,299)</u>

**Debt Administration**

At year end, the Hospital had \$6,805,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2003. This has decreased by \$220,000 in fiscal year 2004, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2004. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent 71% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$517,856 in current and long-term notes payable. This has decreased in fiscal year 2004. This decrease is the result of the required payments made on the outstanding notes for fiscal year 2004, offset by the purchase of equipment by issuance of note payable. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent 6% of the Hospital's total liabilities at year end.

**Performance Compared to County Hospital Budget**

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2004 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5  
Actual vs County Hospital Budget**

	<u>Actual budget basis</u>	<u>Annual County Hospital budget</u>	<u>Amended Variance</u>
Amount to be raised by taxation	\$ 1,209,283	\$ 1,172,385	\$ 36,898
Other revenues/receipts	<u>9,199,376</u>	<u>9,086,826</u>	<u>112,550</u>
	10,408,659	10,259,211	149,448
Expenses/expenditures	<u>10,075,742</u>	<u>11,800,000</u>	<u>(1,724,258)</u>
Net	<u>\$ 332,917</u>	<u>\$ (1,540,789)</u>	<u>\$1,873,706</u>

Expenses/expenditures were lower than the County Hospital amended budget primarily due to less acquisition of property and equipment.

### **Economic and Other Factors and Next Year's Budget**

The Hospital's board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payers, especially Wellmark Blue Cross
- Cost of supplies
- Privacy legislation, HIPAA
- Facility expansion and growth in demand for services
- Technology advancements

### **Contacting Clarke County Public Hospital's Management**

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Operating Officer/Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital  
BALANCE SHEETS**

<b>ASSETS</b>	<b>June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 440,581	\$ 101,218
Assets whose use is limited-required for current liabilities	547,854	715,022
Patient receivables, less allowances for contractual adjustments and uncollectibles 2004 \$820,000; 2003 \$610,000	1,099,222	1,741,632
Other receivables	27,652	21,252
Estimated third-party payor settlements	420,000	200,000
Inventories	163,159	146,901
Prepaid expenses	67,941	68,221
Total current assets	<u>2,766,409</u>	<u>2,994,246</u>
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	605,179	572,225
Certificates of deposit	438,478	235,564
Interest receivable	2,204	116
	<u>1,045,861</u>	<u>807,905</u>
Restricted for payment of long-term debt and interest		
Cash	53,567	133,931
Certificate of deposit	643,875	643,875
Total assets whose use is limited	<u>1,743,303</u>	<u>1,585,711</u>
Less assets whose use is limited and that are required for current liabilities	<u>547,854</u>	<u>715,022</u>
Noncurrent assets whose use is limited	<u>1,195,449</u>	<u>870,689</u>
<b>PROPERTY AND EQUIPMENT</b>	16,650,137	16,422,151
Less accumulated depreciation	5,737,062	4,741,777
Total property and equipment	<u>10,913,075</u>	<u>11,680,374</u>
<b>OTHER ASSET</b>		
Succeeding year property tax receivable	<u>1,140,000</u>	<u>1,060,000</u>
Totals	<u>\$16,014,933</u>	<u>\$16,605,309</u>

See Notes to Financial Statements.



**Clarke County Public Hospital**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2004 \$768,174; 2003 \$711,260	\$ 9,409,486	\$6,922,780
<b>OTHER REVENUE</b>	<u>174,961</u>	<u>189,533</u>
Total revenue	<u>9,584,447</u>	<u>7,112,313</u>
<b>EXPENSES</b>		
Nursing service	3,349,440	2,915,256
Other professional service	2,469,834	2,322,544
General service	1,051,247	941,990
Fiscal and administrative service and unassigned expenses	2,410,244	2,071,930
Provision for depreciation	<u>1,284,037</u>	<u>662,931</u>
Total expenses	<u>10,564,802</u>	<u>8,914,651</u>
Operating (loss)	<u>(980,355)</u>	<u>(1,802,338)</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
County taxes	1,040,288	866,884
Investment income	54,369	31,726
Unrestricted contributions	10,857	1,997
Interest expense	<u>(450,297)</u>	<u>(47,278)</u>
Total nonoperating gains (losses)	<u>655,217</u>	<u>853,329</u>
Change in fund equity	(325,138)	(949,009)
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>6,974,741</u>	<u>7,923,750</u>
Ending	<u>\$ 6,649,603</u>	<u>\$6,974,741</u>

**Clarke County Public Hospital  
STATEMENTS OF CASH FLOWS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$9,831,896	\$7,440,781
Cash paid to suppliers for goods and services	(5,516,990)	(4,760,255)
Cash paid to employees for services	(3,710,808)	(3,469,342)
Other operating revenue received	<u>174,961</u>	<u>189,533</u>
Net cash provided by (used in) operating activities	<u>779,059</u>	<u>(599,283)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County taxes received	1,040,288	866,884
Contributions received	<u>10,857</u>	<u>1,997</u>
Net cash provided by noncapital financing activities	<u>1,051,145</u>	<u>868,881</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(718,781)	(4,643,011)
Proceeds from issuance of long-term debt	110,755	575,000
Principal payments on long-term debt	(328,470)	(262,288)
Interest paid on long-term debt	<u>(451,122)</u>	<u>(442,993)</u>
Net cash (used in) capital and related financing activities	<u>(1,387,618)</u>	<u>(4,773,292)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	52,281	250,555
Proceeds from maturities of certificates of deposit	-	3,242,863
Purchase of certificates of deposit	<u>(202,914)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(150,633)</u>	<u>3,493,418</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	291,953	(1,010,276)
<b>CASH</b>		
Beginning	<u>807,374</u>	<u>1,817,650</u>
Ending	<u>\$1,099,327</u>	<u>\$ 807,374</u>

See Notes to Financial Statements.

**Clarke County Public Hospital  
STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
Operating (loss)	\$ (980,355)	\$(1,802,338)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Depreciation	1,284,037	662,931
Changes in assets and liabilities		
Decrease in patient receivables	642,410	538,001
(Increase) decrease in other receivables	(6,400)	1,075
(Increase) in net estimated third-party payor settlements	(220,000)	(20,000)
(Increase) decrease in inventories	(16,258)	1,666
(Increase) decrease in prepaid expenses	280	(28,239)
Increase (decrease) in accounts payable, net of amounts for property and equipment	92,773	(8,282)
Increase in accrued employee compensation	17,839	20,921
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(35,267)</u>	<u>34,982</u>
Net cash provided by (used in) operating activities	<u>\$ 779,059</u>	<u>\$ (599,283)</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$ 440,581	\$ 101,218
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	605,179	572,225
Restricted for payment of long-term debt and interest, cash	<u>53,567</u>	<u>133,931</u>
Totals per statement of cash flows	<u>\$1,099,327</u>	<u>\$ 807,374</u>

**Clarke County Public Hospital**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property and receives tax support from Clarke County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

**Reporting Entity**

For financial reporting purposes, Clarke County Public Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. 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 Governmental Accounting Standards Board 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 on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

**Measurement Focus and Basis of Accounting**

The Hospital is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Hospital is better or worse off economically as a result of events and transactions of the period.

The financial statements have been prepared in accordance with accounting principles which are applicable to health care proprietary funds of a governmental entity. The Hospital uses the accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

**Accounting Standards**

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board (FASB) issued on or before November 30, 1989.

Effective July 1, 2003, the Hospital adopted GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The adoption of these pronouncements had no financial impact on the Hospital.

**Investments and Investment Income**

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposits are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

**Inventories**

Inventories are stated at cost, based on the first-in, first-out method.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is three to forty years.

**Costs of Borrowing**

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**Property Tax Receivable**

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied.

**Deferred Revenue**

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

**Fund Equity**

Fund equity is presented in the following three components:

**Invested in capital assets, net of related debt**

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of the bonds and notes payable that are attributable to the acquisition, construction, or improvement of those assets.

**Restricted fund equity**

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Charity Care**

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

**Net Patient Service Revenue**

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. 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.

**Revenues, Expenses, and Changes in Fund Equity**

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

**Credit Policy**

The Hospital grants credit to patients, substantially all of whom are residents of the County.

**Accounting Estimates and Assumptions**

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Reclassifications**

Certain reclassifications have been made in the June 30, 2003 financial statements to conform to the June 30, 2004 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or by 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 Trustees; 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.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 PATIENT RECEIVABLES**

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	June 30	
	2004	2003
Patients	\$ 644,993	\$ 681,372
Insurance carriers	534,856	766,586
Medicare	606,988	785,512
Medicaid	<u>132,385</u>	<u>118,162</u>
Total patient receivables	1,919,222	2,351,632
Less allowances for contractual adjustments and uncollectible accounts	<u>(820,000)</u>	<u>(610,000)</u>
Net patient receivables	<u>\$1,099,222</u>	<u>\$1,741,632</u>

**NOTE 4 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 and Medicaid**

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid 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 fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2002.

**Other**

The Hospital has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

**NOTE 5 ASSETS WHOSE USE IS LIMITED**

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2004:

	Project Fund	Sinking Fund	Debt Service Reserve Fund	Total
<b>Balance</b> , beginning	\$ 79,194	\$ 54,737	\$ 643,875	\$ 777,806
Transfers from current assets, cash	-	638,954	-	638,954
Interest earned	-	2,248	-	2,248
Payments for construction costs	(79,194)	-	-	(79,194)
Payments for principal and interest	<u>-</u>	<u>(642,372)</u>	<u>-</u>	<u>(642,372)</u>
<b>Balance</b> , ending	<u>\$ -</u>	<u>\$ 53,567</u>	<u>\$ 643,875</u>	<u>\$ 697,442</u>

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 PROPERTY AND EQUIPMENT**

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ —	\$ 9,550	\$ —
Land improvements	189,772	150,543	202,823	158,868
Building	8,545,110	1,453,816	8,434,345	950,934
Fixed equipment	2,872,848	1,685,256	2,744,040	1,603,036
Major movable equipment	3,934,772	2,091,125	3,955,980	1,721,859
Medical office building	<u>1,098,085</u>	<u>356,322</u>	<u>1,075,413</u>	<u>307,080</u>
Totals	<u>\$16,650,137</u>	<u>\$5,737,062</u>	<u>\$16,422,151</u>	<u>\$4,741,777</u>

A summary of changes in property and equipment for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ —	\$ —	\$ —	\$ 9,550
Land improvements	202,823	—	13,051	—	189,772
Building	8,434,345	120,830	10,065	—	8,545,110
Fixed equipment	2,744,040	202,653	73,845	—	2,872,848
Major movable equipment	3,955,980	170,583	191,791	—	3,934,772
Medical office building	<u>1,075,413</u>	<u>22,672</u>	<u>—</u>	<u>—</u>	<u>1,098,085</u>
Totals	16,422,151	516,738	288,752	—	16,650,137
Less accumulated depreciation	<u>(4,741,777)</u>	<u>(1,284,037)</u>	<u>(288,752)</u>	<u>—</u>	<u>(5,737,062)</u>
Net property and equipment	<u>\$11,680,374</u>	<u>\$ (767,299)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$10,913,075</u>

A summary of changes in property and equipment for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ —	\$ —	\$ —	\$ 9,550
Land improvements	184,137	—	1,698	20,384	202,823
Building	1,196,029	—	4,256	7,242,572	8,434,345
Fixed equipment	2,294,578	7,333	35,080	477,209	2,744,040
Major movable equipment	2,620,910	897,336	556,036	993,770	3,955,980
Medical office building	1,075,413	—	—	—	1,075,413
Construction in progress	<u>4,889,930</u>	<u>3,844,005</u>	<u>—</u>	<u>(8,733,935)</u>	<u>—</u>
Totals	12,270,547	4,748,674	597,070	—	16,422,151
Less accumulated depreciation	<u>(4,666,143)</u>	<u>(662,931)</u>	<u>(587,297)</u>	<u>—</u>	<u>(4,741,777)</u>
Net property and equipment	<u>\$ 7,604,404</u>	<u>\$4,085,743</u>	<u>\$ 9,773</u>	<u>\$ —</u>	<u>\$11,680,374</u>

A summary of interest and amortization costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Construction period—interest expense	\$ —	\$ 402,094
Less interest earned on proceeds	<u>—</u>	<u>(59,867)</u>
Amount capitalized	<u>\$ —</u>	<u>\$ 342,227</u>

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Hospital Revenue Bonds, Series 2001	\$6,805,000	\$7,025,000
Notes payable, equipment	<u>517,856</u>	<u>522,712</u>
	7,322,856	7,547,712
Less unamortized discount and financing costs	119,597	126,738
Less current maturities	<u>363,441</u>	<u>327,883</u>
Long-term debt, net of current maturities	<u>\$6,839,818</u>	<u>\$7,093,091</u>

**Hospital Revenue Bonds, Series 2001**

The Hospital has issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2022, at interest rates ranging from 4.65% to 6.5%.

The Hospital Revenue Bonds, Series 2001, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2005 \$642,415; 2006 \$641,651; 2007 \$640,466; 2008 \$642,453; 2009 \$639,145.

A Debt Service Reserve Fund in an amount equal to the maximum annual amount of principal and interest due in any succeeding fiscal year.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bonds at June 30, 2004.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

**Notes Payable, Equipment**

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$10,629, including interest at 4.15%, with the final payment due December, 2007. At June 30, 2004, the remaining balance on this note is \$414,829.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,028, including interest at 4%, with the final payment due May, 2009. At June 30, 2004, the remaining balance on this note is \$54,155.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,014, including interest at 3.5%, with the final payment due October, 2008. At June 30, 2004, the remaining balance on this note is \$48,872.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

Aggregate maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 230,000	\$ 133,441	\$ 363,441	\$ 431,092	\$ 794,533
2006	240,000	139,000	379,000	414,838	793,838
2007	250,000	144,791	394,791	397,527	792,318
2008	265,000	86,496	351,496	379,548	731,044
2009	275,000	14,128	289,128	364,326	653,454
2010 - 2014	1,635,000	-	1,635,000	1,571,698	3,206,698
2015 - 2019	2,215,000	-	2,215,000	997,625	3,212,625
2020 - 2022	<u>1,695,000</u>	<u>-</u>	<u>1,695,000</u>	<u>224,900</u>	<u>1,919,900</u>
Total	6,805,000	517,856	7,322,856	4,781,554	12,104,410
Less unamortized discount and financing costs	119,597	-	119,597	-	119,597
Less current maturities	<u>230,000</u>	<u>133,441</u>	<u>363,441</u>	<u>431,092</u>	<u>794,533</u>
Total long-term debt	<u>\$6,455,403</u>	<u>\$ 384,415</u>	<u>\$6,839,818</u>	<u>\$4,350,462</u>	<u>\$11,190,280</u>

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$7,025,000	\$ -	\$ 220,000	\$6,805,000	\$ 230,000
Notes payable	<u>522,712</u>	<u>110,755</u>	<u>115,611</u>	<u>517,856</u>	<u>133,441</u>
Totals	<u>\$7,547,712</u>	<u>\$ 110,755</u>	<u>\$ 335,611</u>	<u>\$7,322,856</u>	<u>\$ 363,441</u>

A summary of changes in long-term debt for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$7,235,000	\$ -	\$ 210,000	\$7,025,000	\$ 220,000
Note payable	<u>-</u>	<u>575,000</u>	<u>52,288</u>	<u>522,712</u>	<u>107,883</u>
Totals	<u>\$7,235,000</u>	<u>\$ 575,000</u>	<u>\$ 262,288</u>	<u>\$7,547,712</u>	<u>\$ 327,883</u>

**NOTE 8 MEDICAL OFFICE BUILDING**

The Hospital and a medical group practice entered into a lease agreement covering a substantial portion of the medical office building. The noncancelable lease began in 1997 for a ten year period, and provides guaranteed annual rents of \$51,113, payable monthly at \$12.50 per leased square foot. The lease also grants the medical group practice options to extend the lease for an additional term of five years and to expand the space included in the agreement, at specified new rates. Other revenue for each of the years ended June 30, 2004 and 2003 included \$54,987 received under the lease agreement.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 9 DEFINED BENEFIT PENSION PLAN**

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$209,615, \$196,481 and \$186,065, respectively, equal to the required contributions for each year.

**NOTE 10 CHARITY CARE**

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	<b>2004</b>	<b>2003</b>
Charges foregone, based on established rates	\$ <u>13,682</u>	\$ <u>37,255</u>
Equivalent percentage of charity care patients to all patients served	<u>.1%</u>	<u>.4%</u>

**NOTE 11 MALPRACTICE CLAIMS**

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant impact on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2004 may result in the assertion of claims. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

**NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING**

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service payments are recorded as expenditures on the County Hospital budget basis.

**Clarke County Public Hospital  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)**

The following is a comparison of reported amounts to the amended County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Amended County Hospital budget</u>
Amount to be raised by taxation	\$ 1,040,288	\$ 168,995	\$ 1,209,283	\$ 1,172,385
Other revenues/receipts	<u>9,199,376</u>	<u>—</u>	<u>9,199,376</u>	<u>9,086,826</u>
	10,239,664	168,995	10,408,659	10,259,211
Expenses/expenditures	<u>10,564,802</u>	<u>(489,060)</u>	<u>10,075,742</u>	<u>11,800,000</u>
Net	(325,138)	658,055	332,917	(1,540,789)
Balance, beginning	<u>6,974,741</u>	<u>—</u>	<u>6,974,741</u>	<u>7,657,072</u>
Balance, ending	<u>\$ 6,649,603</u>	<u>\$ 658,055</u>	<u>\$ 7,307,658</u>	<u>\$ 6,116,283</u>

**NOTE 13 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. 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 in any of the past three fiscal years.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees  
Clarke County Public Hospital  
Osceola, Iowa

Our report on our audits of the basic financial statements of Clarke County Public Hospital for 2004 and 2003 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
July 29, 2004

**Clarke County Public Hospital  
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Patients in Hospital at end of year	\$ 106,349	\$ 48,635	5.54%	2.07%
Unbilled	285,803	481,149	14.89	20.46
0 - 60 days	678,471	737,850	35.35	31.37
61 - 180 days	467,051	515,246	24.33	21.91
181 - 365 days	216,973	197,487	11.31	8.40
366 and over	<u>164,575</u>	<u>371,265</u>	<u>8.58</u>	<u>15.79</u>
Totals	<u>1,919,222</u>	<u>2,351,632</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	240,000	160,000		
Medicaid	80,000	50,000		
Other	80,000	100,000		
Uncollectibles	<u>420,000</u>	<u>300,000</u>		
Total allowances	<u>820,000</u>	<u>610,000</u>		
Totals	<u>\$1,099,222</u>	<u>\$1,741,632</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 25,709</u>	<u>\$ 18,967</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>43</u>	<u>92</u>		

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
<b>BALANCE</b> , beginning	\$ 300,000	\$ 360,000		
<b>ADD</b>				
Provision for bad debts	768,174	711,260	8.16%	10.27%
Recoveries of accounts previously written off	<u>96,630</u>	<u>39,010</u>	1.03	.56
	1,164,804	1,110,270		
<b>DEDUCT</b>				
Accounts written off	<u>744,804</u>	<u>810,270</u>	7.92	11.70
<b>BALANCE</b> , ending	<u>\$ 420,000</u>	<u>\$ 300,000</u>		

**Clarke County Public Hospital**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2004, with comparative totals for 2003

	<u>2004</u>			<u>2003</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical and surgical	\$ 883,550	\$ -	\$ 883,550	\$ 781,632
Skilled care	180,144	-	180,144	200,099
Extended care	803,037	-	803,037	864,597
	<u>1,866,731</u>	<u>-</u>	<u>1,866,731</u>	<u>1,846,328</u>
<b>OTHER NURSING SERVICES</b>				
Operating and recovery rooms	109,507	1,089,876	1,199,383	873,457
Emergency room and outpatient services	207,397	1,682,696	1,890,093	1,513,914
Central supply	114,172	369,613	483,785	307,806
Ambulance	15,656	562,786	578,442	514,528
	<u>446,732</u>	<u>3,704,971</u>	<u>4,151,703</u>	<u>3,209,705</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory	463,274	987,128	1,450,402	1,364,401
Cardiopulmonary	38,639	86,778	125,417	124,763
Cardiac rehabilitation	431	143,273	143,704	168,933
Respiratory therapy	72,215	12,485	84,700	124,037
Diagnostic imaging	300,960	1,682,771	1,983,731	1,662,210
Pharmacy	400,677	488,246	888,923	912,765
Anesthesiology	37,738	237,710	275,448	229,879
Speech therapy	3,510	22,110	25,620	13,090
Physical therapy	81,665	437,340	519,005	457,210
Occupational therapy	355	24,477	24,832	11,515
	<u>1,399,464</u>	<u>4,122,318</u>	<u>5,521,782</u>	<u>5,068,803</u>
Totals	<u>\$3,712,927</u>	<u>\$7,827,289</u>	11,540,216	10,124,836
Charity care charges foregone, based on established rates			(13,682)	(37,255)
Total gross patient service revenue			11,526,534	10,087,581
Provisions for contractual adjustments and bad debts			(2,117,048)	(3,164,801)
Total net patient service revenue			<u>\$ 9,409,486</u>	<u>\$ 6,922,780</u>

**Clarke County Public Hospital**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Contractual adjustments		
Medicare	\$ 565,345	\$1,623,996
Medicaid	144,157	263,317
Other adjustments	639,372	566,228
Provision for bad debts	<u>768,174</u>	<u>711,260</u>
Totals	<u>\$2,117,048</u>	<u>\$3,164,801</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Meals	\$ 22,329	\$ 20,664
Community fitness center fees	15,808	15,739
Medical office building		
Rental income	54,987	54,987
Other income	25,719	21,656
Miscellaneous	<u>56,118</u>	<u>76,487</u>
Totals	<u>\$ 174,961</u>	<u>\$ 189,533</u>

**Clarke County Public Hospital**  
**EXPENSES**  
Year ended June 30, 2004, with comparative totals for 2003

	<u>2004</u>			<u>2003</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 71,567	\$ 8,015	\$ 79,582	\$ 108,976
Medical and surgical	797,127	38,758	835,885	723,988
Extended care	489,630	110,493	600,123	550,570
Operating and recovery rooms	188,841	193,347	382,188	237,613
Emergency room and outpatient services	298,626	674,875	973,501	805,659
Central supply	-	289,685	289,685	180,583
Ambulance	163,769	24,707	188,476	307,867
Total nursing service	<u>2,009,560</u>	<u>1,339,880</u>	<u>3,349,440</u>	<u>2,915,256</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	253,925	227,358	481,283	464,601
Cardiopulmonary	3,359	11,132	14,491	21,713
Cardiac rehabilitation	49,704	11,762	61,466	59,880
Respiratory therapy	44,709	2,921	47,630	46,830
Diagnostic imaging	232,148	382,998	615,146	591,042
Pharmacy	11,108	422,287	433,395	400,565
Anesthesiology	-	155,140	155,140	134,567
Speech therapy	-	12,125	12,125	14,803
Physical therapy	-	314,925	314,925	276,226
Occupational therapy	-	10,560	10,560	12,500
Medical office building	-	23,328	23,328	19,449
Health information	107,109	83,815	190,924	191,337
Quality improvement and utilization management	96,288	13,133	109,421	89,031
Total other professional service	<u>798,350</u>	<u>1,671,484</u>	<u>2,469,834</u>	<u>2,322,544</u>
<b>GENERAL SERVICE</b>				
Dietary	151,087	132,702	283,789	275,312
Plant operation	131,027	316,061	447,088	365,148
Environmental services	173,225	60,055	233,280	203,362
Laundry and linen	-	87,090	87,090	98,168
Total general service	<u>455,339</u>	<u>595,908</u>	<u>1,051,247</u>	<u>941,990</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b>				
Administration	34,041	484,929	518,970	365,122
Accounting and business office	352,692	152,949	505,641	536,956
Information services	6,460	176,666	183,126	86,987
Purchasing	62,335	2,865	65,200	60,947
Community fitness center	9,870	14,270	24,140	22,360
FICA	-	267,590	267,590	248,653
IPERS	-	209,615	209,615	196,481
Group health, life, and disability insurance	-	495,366	495,366	446,432
Insurance	-	140,596	140,596	107,992
Total fiscal and administrative service and unassigned expenses	<u>465,398</u>	<u>1,944,846</u>	<u>2,410,244</u>	<u>2,071,930</u>
<b>PROVISION FOR DEPRECIATION</b>				
	<u>-</u>	<u>1,284,037</u>	<u>1,284,037</u>	<u>662,931</u>
Total expenses	<u>\$3,728,647</u>	<u>\$6,836,155</u>	<u>\$10,564,802</u>	<u>\$8,914,651</u>

**Clarke County Public Hospital  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b>2004</b>	<b>2003</b>
<b>PATIENT DAYS</b>		
Adult and pediatric	1,434	1,434
Swing bed	648	708
Extended care	8,123	10,177
Totals	10,205	12,319
<b>DISCHARGES</b>		
Adult and pediatric	439	427
Swing bed	92	85
Extended care	52	36
Totals	583	548
<b>AVERAGE LENGTH OF STAY</b>		
Adult and pediatric	3.27	3.36
Swing bed	7.04	8.33
Extended care	156.21	282.69

**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**

Board of Trustees  
Clarke County Public Hospital  
Osceola, Iowa

We have audited the financial statements of Clarke County Public Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated July 29, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. 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. Those comments are presented in Part II of the accompanying schedule of findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Clarke County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.

*Denman & Company, LLP*  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
July 29, 2004

**Clarke County Public Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part I—Findings Related to the Financial Statements**

No matters regarding reportable conditions, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Clarke County Public Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2004**

**Part II—Findings Related to Required Statutory Reporting**

**04-II-A OFFICIAL DEPOSITORIES**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

**04-II-B CERTIFIED COUNTY HOSPITAL BUDGET**

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget, as amended, for the year ended June 30, 2004.

**04-II-C QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**04-II-D TRAVEL EXPENSES**

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

**04-II-E BUSINESS TRANSACTIONS**

No business transactions were found between the Hospital and Hospital officials and/or employees.

**04-II-F BOARD MINUTES**

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

**04-II-G DEPOSITS AND INVESTMENTS**

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