

Floyd County Memorial Hospital
Accountants' Reports and Financial Statements
June 30, 2004 and 2003



Floyd County Memorial Hospital

June 30, 2004 and 2003

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2004, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental 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.

Solutions
for
Success

/s/ **BKD, LLP**

Kansas City, Missouri
August 19, 2004

Floyd County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2004 and 2003

Introduction

This management's discussion and analysis of the financial performance of Floyd County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2004 and 2003. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash increased in 2004 by \$1,431,252 or 73% and decreased in 2003 by \$66,204 or 3%.
- The Hospital's net assets increased in each of the past two years with a \$1,069,878 or 11% increase in 2004 and a \$6,339 or 0.1% increase in 2003.
- The Hospital reported operating income in both 2004 and 2003 of \$1,168,926 and \$24,909, respectively.
- Net nonoperating revenues decreased by \$75,478 in 2004 compared to 2003.

Using This Annual Report

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

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

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,069,878 or 11% in 2004 over 2003 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Assets		
Patient accounts receivable, net	\$ 2,437,661	\$ 2,438,821
Other current assets	2,562,489	1,457,140
Capital assets, net	6,568,689	6,763,178
Other noncurrent assets	<u>1,672,094</u>	<u>1,362,122</u>
Total assets	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>
Liabilities		
Long-term debt, including current maturities	\$ 930,339	\$ 1,127,223
Other current and noncurrent liabilities	<u>1,773,451</u>	<u>1,426,773</u>
Total liabilities	<u>2,703,790</u>	<u>2,553,996</u>
Net Assets		
Invested in capital assets, net of related debt	5,598,946	5,659,014
Unrestricted	<u>4,938,197</u>	<u>3,808,251</u>
Total net assets	<u>10,537,143</u>	<u>9,467,265</u>
Total liabilities and net assets	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>

In 2004, there was an increase of \$1,105,349, or 76% in other current assets as a result of an increase in operating cash on hand of \$1,114,296, due to excess revenues over expenses for the fiscal year. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This capital expenditures account increased 28%, or \$316,956, and is included in other noncurrent assets. This account increased due to the fact that capital assets were not replaced this year, in the same relationship as they depreciated, thereby showing a decrease in capital assets, net of \$194,489, or a decrease of 3%.

In 2004, an excess of net revenues over expenses was noted of \$1,069,878, and is included in the total net assets, which resulted in an increase of 11%.

The decrease in long-term debt of \$196,884, or 17%, is reflective of monthly payments of principle on the long-term revenue bonds issued for the Hospital's renovation and addition in 2000-2001.

In 2003, the decrease in other current assets of \$522,249 or 27% was due primarily to a decrease in the general cash balance of \$538,069. The Hospital, on a monthly basis, transfers cash to the internally designated account for capital and other expenditures. This account is included in other noncurrent assets and increased \$452,818 or 67% over 2002.

A significant change in the Hospital's assets is the increase in patient accounts receivable. Net patient service revenues increased in 2003 by \$1,069,515 or 8.6% as compared to 2002, net patient accounts receivable increased by \$365,343 or 18% over 2002. The increase is primarily due to a large increase in volume in the three months just prior to the fiscal year end. In addition, the state Medicaid program and certain commercial insurance providers have become slower in making payments on behalf of covered individuals in 2003. This trend reflects tight budgetary constraints the state is experiencing and attempts by commercial insurance providers to conserve cash and control costs by challenging claims more strenuously.

Operating Results and Changes in the Hospital's Net Assets

In 2004, the Hospital's net assets increased by \$1,069,878 or 11% as shown in Table 2. This increase is made up of several different components and represents an increase of \$1,063,539 compared with the increase in net assets for 2003 of \$6,339.

Table 2: Operating Results and Changes in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues		
Net patient service revenue	\$ 14,983,319	\$ 13,458,915
Other operating revenues	<u>574,852</u>	<u>504,334</u>
Total operating revenues	<u>15,558,171</u>	<u>13,963,249</u>
Operating Expenses		
Salaries and wages and employee benefits	8,169,714	7,621,101
Medical professional fees	2,326,615	2,458,600
Depreciation	617,482	623,933
Other operating expenses	<u>3,275,434</u>	<u>3,234,706</u>
Total operating expenses	<u>14,389,245</u>	<u>13,938,340</u>
Operating Income	<u>1,168,926</u>	<u>24,909</u>
Nonoperating Revenues (Expenses)		
Investment income	16,576	42,121
Contributions	9,189	8,632
Interest expense	(62,621)	(71,004)
Income taxes – Aesculapuis	(28,424)	(23,672)
Minority interest - Aesculapuis	(33,768)	(20,000)
County assistance	<u>—</u>	<u>40,353</u>
Total nonoperating revenues	<u>(99,048)</u>	<u>(23,570)</u>
Contributions to Purchase Capital Assets	<u>—</u>	<u>5,000</u>
Increase in Net Assets	<u>\$ 1,069,878</u>	<u>\$ 6,339</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors give the Hospital an amount annually as the County's budget allows.

The operating income for 2004 increased as compared to 2003. The primary components of the increased operating income are:

- An increase in net patient service revenues of \$1,524,404 or 11%.
- An increase in other operating revenues of \$70,518 or 14%.
- An increase in operating expenses of \$450,905 or 3%, less than the increase in total net operating revenues.

Gross patient service revenue increased because of an increase in charges of \$1,240,646 or 6.39% from 2003 to 2004. The Hospital also experienced its first full year of critical access status in 2004.

Employee salaries and wages and benefits increased in 2004 in connection with the Hospital's retention and recruitment efforts. These efforts result primarily from the shortage of nurses and other health care professionals in the United States.

In 2003, other operating revenues increased primarily because of the institution of rental charges to physicians for specialty clinics.

The rate of health care inflation has a direct effect on the cost of services provided by the Hospital. A major component of the Hospital's costs are expenditures for medical supplies and prescription drugs. In 2002, medical supplies and prescription drug costs totaled \$1,555,159 or 12% of total operating expenses. In 2003, they totaled \$1,897,838 or 14% of total operating expenses, an increase of \$342,679 or 22% over 2002. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form, changes in therapeutic mix and pharmaceutical marketing.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of county governmental payments and investment income and interest expense, all of which decreased in 2004 as compared to 2003. Additional principal payments were made in 2002 that account for the decrease in interest expense for 2003. Also, between 2004 and 2003, investment income is down due to lower interest rates.

Capital Contributions

The Hospital received contributions of \$5,000 from a foundation to purchase capital assets in 2003, and no contributions in 2004. This contribution was expended and are reflected in invested in capital assets, net of related debt, as of June 30, 2003.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2004, the Hospital had \$6,568,689 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2004, the Hospital purchased new property and equipment costing \$422,993. In 2003, new property and equipment purchases totaled \$188,077. The Hospital has no capital leases and one major operating lease.

Debt

At June 30, 2004 and 2003, the Hospital had \$930,339 and \$1,127,223, respectively, in revenue capital loan notes outstanding. The Hospital issued no new debt in 2004 or 2003. The Hospital's formal debt issuances are subject to limitations imposed by state law.

Other Economic Factors

On March 1, 2003, the Hospital received the designation as a "Critical Access Hospital." Under this designation, inpatient and outpatient services and defined capital cost related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The effect on net patient service revenue in future periods will depend on the cost of providing those services as well as the volume and mix of services performed in future periods.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administrator or Chief Financial Officer by telephoning (641) 228-6830.

Floyd County Memorial Hospital

Balance Sheets

June 30, 2004 and 2003

Assets

	<u>2004</u>	<u>2003</u>
Current Assets		
Cash	\$ 1,939,024	\$ 824,728
Patient accounts receivable, net of allowance; 2004 - \$910,400, 2003 - \$839,700	2,437,661	2,438,821
Other receivables	64,904	86,755
Supplies	485,863	465,935
Prepaid expenses	<u>72,698</u>	<u>79,722</u>
Total current assets	<u>5,000,150</u>	<u>3,895,961</u>
Noncurrent Cash		
Internally designated for capital and other expenditures	<u>1,448,406</u>	<u>1,131,450</u>
Capital Assets, Net of Accumulated Depreciation	<u>6,568,689</u>	<u>6,763,178</u>
Other Assets		
Deferred financing costs	18,596	23,060
Investments	<u>205,092</u>	<u>207,612</u>
Total other assets	<u>223,688</u>	<u>230,672</u>
Total Assets	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>

Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Current Liabilities		
Current maturities of long-term debt	\$ 207,991	\$ 196,885
Accounts payable	539,429	362,071
Accrued expenses		
Vacation pay	336,945	318,447
Payroll and related deductions	325,200	273,151
Health insurance	215,000	240,000
Estimated amounts due to third-party payers	<u>147,183</u>	<u>11,333</u>
Total current liabilities	1,771,748	1,401,887
Minority Interest	209,694	221,771
Long-term Debt	<u>722,348</u>	<u>930,338</u>
Total liabilities	<u>2,703,790</u>	<u>2,553,996</u>
Net Assets		
Invested in capital assets, net of related debt	5,598,946	5,659,014
Unrestricted	<u>4,938,197</u>	<u>3,808,251</u>
Total net assets	<u>10,537,143</u>	<u>9,467,265</u>
Total Liabilities and Net Assets	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>

Floyd County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 15,587,935	\$ 13,938,521
Less provision for uncollectible accounts	<u>604,616</u>	<u>479,606</u>
Net patient service revenue	14,983,319	13,458,915
Other	<u>574,852</u>	<u>504,334</u>
	<u>15,558,171</u>	<u>13,963,249</u>
Operating Expenses		
Salaries and wages	5,920,028	5,528,784
Employee benefits	2,249,686	2,092,317
Medical professional fees	2,326,615	2,458,600
Supplies and expenses	1,903,300	1,897,838
General services	692,986	670,649
Administrative services	679,148	666,219
Depreciation	<u>617,482</u>	<u>623,933</u>
	<u>14,389,245</u>	<u>13,938,340</u>
Operating Income	<u>1,168,926</u>	<u>24,909</u>
Nonoperating Revenues (Expenses)		
Investment income	16,576	42,121
Contributions	9,189	8,632
Interest expense	(62,621)	(71,004)
Income taxes – Aesculapuis	(28,424)	(23,672)
Minority interest – Aesculapuis	(33,768)	(20,000)
County assistance	<u>—</u>	<u>40,353</u>
	<u>(99,048)</u>	<u>(23,570)</u>
Excess of Revenues over Expenses before Capital Gifts	1,069,878	1,339
Contributions to Purchase Capital Assets	<u>—</u>	<u>5,000</u>
Increase in Net Assets	1,069,878	6,339
Net Assets, Beginning of the Year	<u>9,467,265</u>	<u>9,460,926</u>
Net Assets, End of the Year	<u>\$ 10,537,143</u>	<u>\$ 9,467,265</u>

Floyd County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Operating Activities		
Receipts from and on behalf of patients	\$ 15,120,329	\$ 13,026,750
Payments to suppliers	(5,502,619)	(5,654,965)
Payments to employees	(8,124,167)	(7,524,081)
Other receipts and payments, net	<u>603,727</u>	<u>502,783</u>
Net cash provided by operating activities	<u>2,097,270</u>	<u>350,487</u>
Noncapital Financing Activities		
County assistance supporting operations	—	40,353
Unrestricted contributions	<u>9,189</u>	<u>8,632</u>
Net cash provided by noncapital financing activities	<u>9,189</u>	<u>48,985</u>
Capital and Related Financing Activities		
Purchase of capital assets	(364,993)	(188,077)
Principal payments on long-term debt	(196,884)	(186,372)
Interest paid on long-term debt	(58,157)	(71,004)
Contributions to purchase capital assets	<u>—</u>	<u>5,000</u>
Net cash used in capital and related financing activities	<u>(620,034)</u>	<u>(440,453)</u>
Investing Activities		
Income on investments	(5,173)	24,956
Purchase of investments	<u>(50,000)</u>	<u>(50,000)</u>
Net cash used in investing activities	<u>(55,173)</u>	<u>(25,044)</u>
Increase (Decrease) in Cash	1,431,252	(66,025)
Cash, Beginning of Year	<u>1,956,178</u>	<u>2,022,203</u>
Cash, End of Year	<u>\$ 3,387,430</u>	<u>\$ 1,956,178</u>

(Continued)

Floyd County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

	2004	2003
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 1,939,024	\$ 824,728
Noncurrent cash		
Internally designated	1,448,406	1,131,450
Total cash	\$ 3,387,430	\$ 1,956,178
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 1,168,926	\$ 24,909
Items not requiring cash		
Depreciation	617,482	623,933
Amortization	20,878	20,806
Changes in		
Patient and other accounts receivable, net	23,011	(354,005)
Supplies	(19,928)	(14,269)
Prepaid expenses	(13,854)	(33,695)
Accounts payable and accrued expenses	164,905	149,630
Estimated amounts due to third-party payers	135,850	(66,822)
Net cash provided by operating activities	\$ 2,097,270	\$ 350,487
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 58,000	\$ —

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

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

Nature of Operations

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

Basis of Accounting and Presentation

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

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

Reporting Entity

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

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

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Health Care of Floyd County L.C. is consolidated into the Hospital's financial statements. HCFC is a legally separate limited liability corporation that is, in substance, a part of the Hospital's operations. It is organized primarily to hold certain assets for the Hospital. HCFC owns shares of a corporation whose earnings and losses are included in the financial statements. HCFC has agreed to purchase any remaining shares of the Corporation, not to exceed \$100,000 in any year they are offered.

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

Use of Estimates

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

Net Patient Service Revenue

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

Supplies

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

Deposits, Investments and Investment Income

The Hospital's deposits include demand deposits and money market accounts. HCFC's investment in a corporation is reported using the blended method. The Hospital also has investments in partnerships holding mobile medical equipment reported on the equity method.

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

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Patient Accounts Receivable

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

Noncurrent Cash

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

Capital Assets

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

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

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

County Assistance

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. The Hospital received less than 1% of its financial support from the County in 2003 and no support was provided in 2004. Such proceeds are unrestricted as to use by the Hospital and were used to support operations.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of the notes payable. Such costs are being amortized over the term of the respective notes payable using the straight-line method.

Risk Management

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

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

Compensated Absences

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

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. The reclassifications had no effect on the results of operations.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is designated as a Critical Access Hospital (CAH). Under this designation, inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

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

Approximately 48% and 47% of net patient service revenues are from participation in the Medicare and state sponsored Medicaid programs for each of the years ended June 30, 2004 and 2003.

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

Note 3: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of the Code of Iowa. The Code of Iowa provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2004 and 2003.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had limited investments in partnerships holding mobile medical equipment at June 30, 2004 and 2003.

Summary of Carrying Value

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

	<u>2004</u>	<u>2003</u>
Deposits	\$ <u>3,387,430</u>	\$ <u>1,956,178</u>
Included in the following balance sheet captions		
Cash	\$ 1,939,024	\$ 824,728
Noncurrent cash	<u>1,448,406</u>	<u>1,131,450</u>
	<u>\$ 3,387,430</u>	<u>\$ 1,956,178</u>

Investment Income

Investment income for the years ended June 30, 2004 and 2003 consisted of:

	<u>2004</u>	<u>2003</u>
Interest	\$ 45,292	\$ 32,889
Return on other investments	<u>(28,716)</u>	<u>9,232</u>
Total investment income	<u>\$ 16,576</u>	<u>\$ 42,121</u>

Floyd County Memorial Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 4: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2004 and 2003 was:

2004	Balance June 30, 2003	Additions	Retirements	Balance June 30, 2004
Land and improvements	\$ 428,569			\$ 428,569
Building and improvements	8,497,856	\$ 52,875		8,550,731
Fixed equipment	1,467,039	15,117		1,482,156
Major moveable equipment	<u>4,533,769</u>	<u>355,001</u>	\$ <u>552,131</u>	<u>4,336,639</u>
	<u>14,927,233</u>	<u>422,993</u>	<u>552,131</u>	<u>14,798,095</u>
Less accumulated depreciation				
Land improvements	206,466	22,796		229,262
Building and improvements	3,602,264	243,994		3,846,258
Fixed equipment	677,767	89,744		767,511
Major moveable equipment	<u>3,677,558</u>	<u>260,948</u>	<u>552,131</u>	<u>3,386,375</u>
Total accumulated depreciation	<u>8,164,055</u>	<u>617,482</u>	<u>552,131</u>	<u>8,229,406</u>
Capital assets, net	\$ <u>6,763,178</u>	\$ <u>(194,489)</u>	\$ <u>0</u>	\$ <u>6,568,689</u>
2003	Balance June 30, 2002	Additions	Retirements	Balance June 30, 2003
Land and improvements	\$ 426,014	\$ 2,555		\$ 428,569
Building and improvements	8,446,635	51,221		8,497,856
Fixed equipment	1,439,480	27,559		1,467,039
Major moveable equipment	<u>4,451,074</u>	<u>106,742</u>	\$ <u>24,047</u>	<u>4,533,769</u>
	<u>14,763,203</u>	<u>188,077</u>	<u>24,047</u>	<u>14,927,233</u>
Less accumulated depreciation				
Land improvements	183,254	23,212		206,466
Building and improvements	3,345,820	256,444		3,602,264
Fixed equipment	589,949	87,818		677,767
Major moveable equipment	<u>3,445,146</u>	<u>256,459</u>	<u>24,047</u>	<u>3,677,558</u>
Total accumulated depreciation	<u>7,564,169</u>	<u>623,933</u>	<u>24,047</u>	<u>8,164,055</u>
Capital assets, net	\$ <u>7,199,034</u>	\$ <u>(435,856)</u>	\$ <u>0</u>	\$ <u>6,763,178</u>

Floyd County Memorial Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 5: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2004 and 2003 follows:

2004	Balance June 30, 2003	Additions	Reductions	Balance June 30, 2004	Amounts Due Within One Year
Hospital Revenue Capital Loan Notes (A)	\$ <u>1,127,223</u>	\$ <u>0</u>	\$ <u>196,884</u>	\$ <u>930,339</u>	\$ <u>207,991</u>
2003	Balance June 30, 2002	Additions	Reductions	Balance June 30, 2003	Amounts Due Within One Year
Hospital Revenue Capital Loan Notes (A)	\$ <u>1,313,595</u>	\$ <u>0</u>	\$ <u>186,372</u>	\$ <u>1,127,223</u>	\$ <u>196,885</u>

(A) Hospital Revenue Capital Loan Notes, Series 2000, due in monthly installments of \$21,164, including interest at 5.50% through September 2008, collateralized by net revenues of the Hospital.

The debt service requirements as of June 30, 2004 are as follows:

	Principal	Interest	Total
2005	\$ 207,991	\$ 45,977	\$ 253,968
2006	219,723	34,245	253,968
2007	232,117	21,851	253,968
2008	245,210	8,758	253,968
2009	<u>25,298</u>	<u>135</u>	<u>25,433</u>
	<u>\$ 930,339</u>	<u>\$ 110,966</u>	<u>\$ 1,041,305</u>

Floyd County Memorial Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 6: Operating Leases

Noncancellable operating leases for buildings and equipment expire in various years through 2008.

Future minimum lease payments at June 30, 2004, were:

2005	\$	239,112
2006		239,112
2007		239,112
2008		<u>144,188</u>
Future minimum lease payments	\$	<u><u>861,524</u></u>

Rental expense for all operating leases totaled \$215,632 and \$228,671 for 2004 and 2003, respectively.

Note 7: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Each plan member is required to contribute 3.70% of his or her annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2004 and 2003. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2004, 2003 and 2002 were \$337,412, \$315,809 and \$289,161, respectively, which equaled the required contributions for each year.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Note 8: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2004 and 2003 consisted of:

	<u>2004</u>	<u>2003</u>
Medicare	\$ 699,630	\$ 776,116
Medicaid	136,469	152,817
Third-party payers	946,741	710,399
Patients	1,463,331	1,385,204
Clinics	<u>101,890</u>	<u>253,985</u>
Total	3,348,061	3,278,521
Less allowance for uncollectible accounts	<u>910,400</u>	<u>839,700</u>
Patient accounts receivable, net	<u>\$ 2,437,661</u>	<u>\$ 2,438,821</u>

Note 9: Employee Health Insurance Claims

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2004 and 2003 is summarized as follows:

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 240,000	\$ 203,639
Current year claims and changes in estimates	1,121,970	1,295,865
Claim payments	<u>(1,146,970)</u>	<u>(1,259,504)</u>
Balance, end of year	<u>\$ 215,000</u>	<u>\$ 240,000</u>

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Note 10: Significant Estimates and Concentrations

Significant estimates and current vulnerability due to certain concentrations include the following:

- Estimates of allowances for adjustments included in net patient service revenue are described in Note 2. Estimates related to the accrual for self-insured health benefits are described in Notes 1 and 9.
- Five physicians serve the Hospital whose patients comprise approximately 85% of the Hospital's net patient service revenue for the year ended June 30, 2004.

Note 11: Budget and Budgetary Accounting

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

The following is reconciliation between reported amounts and cash basis presentation as well as a comparison to budget for the year ended June 30, 2004:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
County assistance	\$ —	\$ —	\$ —	\$ 50,000
Other revenues/receipts	<u>15,432,411</u>	<u>(38,023)</u>	<u>15,394,388</u>	<u>16,597,202</u>
	15,432,411	(38,023)	15,394,388	16,647,202
Expenses/disbursements	<u>14,362,533</u>	<u>(402,977)</u>	<u>13,959,556</u>	<u>16,450,200</u>
	1,069,878	364,954	1,434,832	197,002
Balance, beginning of year	<u>9,467,265</u>	<u>(6,676,513)</u>	<u>2,790,752</u>	<u>2,790,752</u>
Balance, end of year	<u>\$ 10,537,143</u>	<u>\$ (6,311,559)</u>	<u>\$ 4,225,584</u>	<u>\$ 2,987,754</u>

Independent Accountants' Report on Supplementary Information

Board of Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The nature of our audit procedures is more fully described in our report on the basic financial statements. The accompanying 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 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.

/s/ **BKD, LLP**

Kansas City, Missouri
August 19, 2004

Floyd County Memorial Hospital
Consolidating Balance Sheets
June 30, 2004

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 1,924,408	\$ 14,616		\$ 1,939,024
Patient accounts receivable, net of allowance of \$910,400	2,437,661			2,437,661
Other receivables	64,904			64,904
Supplies	485,863			485,863
Prepaid expenses	<u>72,698</u>	<u> </u>		<u>72,698</u>
Total current assets	<u>4,985,534</u>	<u>14,616</u>		<u>5,000,150</u>
Noncurrent Cash				
Internally designated for capital and other expenditures	<u>1,448,406</u>			<u>1,448,406</u>
Capital Assets, Net of Accumulated Depreciation	<u>5,954,223</u>	<u>614,466</u>		<u>6,568,689</u>
Other Assets				
Deferred financing costs	18,596			18,596
Investments	<u>834,174</u>		\$ <u>(629,082)</u>	<u>205,092</u>
Total other assets	<u>852,770</u>		<u>(629,082)</u>	<u>223,688</u>
Total Assets	<u>\$13,240,933</u>	<u>\$ 629,082</u>	<u>\$ (629,082)</u>	<u>\$13,240,933</u>

Floyd County Memorial Hospital
Consolidating Balance Sheets (Continued)
June 30, 2004

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 207,991			\$ 207,991
Accounts payable	539,429			539,429
Accrued expenses				
Vacation pay	336,945			336,945
Payroll and related deductions	325,200			325,200
Health insurance	215,000			215,000
Estimated amounts due to third-party payers	<u>147,183</u>			<u>147,183</u>
Total current liabilities	1,771,748			1,771,748
Minority Interest	209,694			209,694
Long-term Debt	<u>722,348</u>			<u>722,348</u>
Total liabilities	<u>2,703,790</u>			<u>2,703,790</u>
Net Assets				
Invested in capital assets, net of related debt	4,984,480	\$ 614,466		5,598,946
Unrestricted	<u>5,552,663</u>	<u>14,616</u>	\$ (629,082)	<u>4,938,197</u>
Total net assets	<u>10,537,143</u>	<u>629,082</u>	<u>(629,082)</u>	<u>10,537,143</u>
Total Liabilities and Net Assets	<u>\$13,240,933</u>	<u>\$ 629,082</u>	<u>\$ (629,082)</u>	<u>\$13,240,933</u>

Floyd County Memorial Hospital
Consolidating Balance Sheets (Continued)
June 30, 2003

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 803,316	\$ 21,412		\$ 824,728
Patient accounts receivable, net of allowance of \$839,700	2,438,821			2,438,821
Other receivables	86,755			86,755
Supplies	465,935			465,935
Prepaid expenses	<u>79,722</u>	<u> </u>		<u>79,722</u>
Total current assets	<u>3,874,549</u>	<u>21,412</u>		<u>3,895,961</u>
Noncurrent Cash				
Internally designated for capital and other expenditures	<u>1,131,450</u>			<u>1,131,450</u>
Capital Assets, Net of Accumulated Depreciation	<u>6,149,276</u>	<u>613,902</u>		<u>6,763,178</u>
Other Assets				
Deferred financing costs	23,060			23,060
Investments	<u>842,926</u>		\$ <u>(635,314)</u>	<u>207,612</u>
Total other assets	<u>865,986</u>		<u>(635,314)</u>	<u>230,672</u>
Total Assets	<u>\$12,021,261</u>	<u>\$ 635,314</u>	<u>\$ (635,314)</u>	<u>\$12,021,261</u>

Floyd County Memorial Hospital
Consolidating Balance Sheets (Continued)
June 30, 2003

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 196,885			\$ 196,885
Accounts payable	362,071			362,071
Accrued expenses				
Vacation pay	318,447			318,447
Payroll and related deductions	273,151			273,151
Health insurance	240,000			240,000
Estimated amounts due to third-party payers	<u>11,333</u>			<u>11,333</u>
Total current liabilities	1,401,887			1,401,887
Minority Interest	221,771			221,771
Long-term Debt	<u>930,338</u>			<u>930,338</u>
Total liabilities	<u>2,553,996</u>			<u>2,553,996</u>
Net Assets				
Invested in capital assets, net of related debt	5,045,112	\$ 613,902		5,659,014
Unrestricted	<u>4,422,153</u>	<u>21,412</u>	\$ <u>(635,314)</u>	<u>3,808,251</u>
Total net assets	<u>9,467,265</u>	<u>635,314</u>	<u>(635,314)</u>	<u>9,467,265</u>
Total Liabilities and Net Assets	<u>\$12,021,261</u>	<u>\$ 635,314</u>	<u>\$ (635,314)</u>	<u>\$12,021,261</u>

Floyd County Memorial Hospital
Consolidating Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2004

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 15,587,935			\$ 15,587,935
Less provision for uncollectible accounts	<u>604,616</u>			<u>604,616</u>
Net patient service revenue	14,983,319			14,983,319
Other	<u>343,672</u>	\$ <u>243,496</u>	\$ <u>(12,316)</u>	<u>574,852</u>
	<u>15,326,991</u>	<u>243,496</u>	<u>(12,316)</u>	<u>15,558,171</u>
Operating Expenses				
Salaries and wages	5,920,028			5,920,028
Employee benefits	2,249,686			2,249,686
Medical professional fees	2,326,615			2,326,615
Supplies and expenses	1,903,300			1,903,300
General services	648,272	57,030	(12,316)	692,986
Administrative services	655,074	24,074		679,148
Depreciation	<u>596,937</u>	<u>20,545</u>		<u>617,482</u>
	<u>14,299,912</u>	<u>101,649</u>	<u>(12,316)</u>	<u>14,389,245</u>
Operating Income	<u>1,027,079</u>	<u>141,847</u>		<u>1,168,926</u>
Nonoperating Revenues (Expenses)				
Investment income	16,231	345		16,576
Contributions	9,189			9,189
Interest expense	(62,621)			(62,621)
Income taxes – Aesculapuis		(28,424)		(28,424)
Dividends paid – Aesculapuis	80,000		(80,000)	0
Minority interest – Aesculapuis			<u>(33,768)</u>	<u>(33,768)</u>
	<u>42,799</u>	<u>(28,079)</u>	<u>(113,768)</u>	<u>(99,048)</u>
Excess of Revenues over Expenses before Capital Gifts	1,069,878	113,768	(113,768)	1,069,878
Contributions to Purchase Capital Assets	<u>0</u>			<u>0</u>
Increase in Net Assets	1,069,878	113,768	(113,768)	1,069,878
Net Assets, Beginning of the Year	9,467,265	635,314	(635,314)	9,467,265
Dividends Paid		<u>(120,000)</u>	<u>120,000</u>	<u>0</u>
Net Assets, End of the Year	<u>\$ 10,537,143</u>	<u>\$ 629,082</u>	<u>\$ (629,082)</u>	<u>\$ 10,537,143</u>

Floyd County Memorial Hospital
Consolidating Statement of Revenues, Expenses
and Changes in Net Assets (Continued)
Year Ended June 30, 2003

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 13,938,521			\$ 13,938,521
Less provision for uncollectible accounts	<u>479,606</u>			<u>479,606</u>
Net patient service revenue	13,458,915			13,458,915
Other	<u>300,057</u>	\$ <u>204,277</u>		<u>504,334</u>
	<u>13,758,972</u>	<u>204,277</u>		<u>13,963,249</u>
Operating Expenses				
Salaries and wages	5,528,784			5,528,784
Employee benefits	2,092,317			2,092,317
Medical professional fees	2,458,600			2,458,600
Supplies and expenses	1,897,838			1,897,838
General services	593,046	77,603		670,649
Administrative services	643,009	23,210		666,219
Depreciation	<u>603,907</u>	<u>20,026</u>		<u>623,933</u>
	<u>13,817,501</u>	<u>120,839</u>		<u>13,938,340</u>
Operating Income (Loss)	<u>(58,529)</u>	<u>83,438</u>		<u>24,909</u>
Nonoperating Revenues (Expenses)				
Investment income	41,887	234		41,121
Contributions	8,632			8,632
Interest expense	(71,004)			(71,004)
Income taxes – Aesculapuis		(23,672)		(23,672)
Dividends paid – Aesculapuis	40,000		\$ (40,000)	0
Minority interest – Aesculapuis			(20,000)	(20,000)
County assistance	<u>40,353</u>			<u>40,353</u>
	<u>59,868</u>	<u>(23,438)</u>	<u>(60,000)</u>	<u>(23,570)</u>
Excess of Revenues over Expenses before Capital Gifts	1,339	60,000	(60,000)	1,339
Contributions to Purchase Capital Assets	<u>5,000</u>			<u>5,000</u>
Increase in Net Assets	6,339	60,000	(60,000)	6,339
Net Assets, Beginning of the Year	9,460,926	635,314	(635,314)	9,460,926
Dividends Paid		<u>(60,000)</u>	<u>60,000</u>	<u>0</u>
Net Assets, End of the Year	<u>\$ 9,467,265</u>	<u>\$ 635,314</u>	<u>\$ (635,314)</u>	<u>\$ 9,467,265</u>

Floyd County Memorial Hospital
Schedules of Patient Service Revenues - Hospital
Years Ended June 30, 2004 and 2003

	2004			2003		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 2,746,338	\$ 2,746,338		\$ 2,497,332	\$ 2,497,332	
Nursery	81,519	81,519		64,642	64,642	
	<u>2,827,857</u>	<u>2,827,857</u>		<u>2,561,974</u>	<u>2,561,974</u>	
Other Nursing Services						
Operating room	1,434,573	402,955	\$ 1,031,618	1,594,595	457,036	\$ 1,137,559
Recovery room	164,500	34,000	130,500	178,262	30,464	147,798
Delivery room	99,573	99,573		103,152	103,152	
Emergency room	2,252,686	89,818	2,162,868	2,045,840	166,526	1,879,314
Home Health Agency	627,115		627,115	534,137		534,137
	<u>4,578,447</u>	<u>626,346</u>	<u>3,952,101</u>	<u>4,455,986</u>	<u>757,178</u>	<u>3,698,808</u>
Other Professional Services						
Central service and supply	224,248	87,704	136,544	232,274	79,876	152,398
Laboratory	3,319,413	607,229	2,712,184	3,520,389	632,004	2,888,385
Blood	155,896	62,386	93,510	125,170	47,530	77,640
Radiology	962,681	73,164	889,517	1,035,788	93,751	942,037
Electrocardiology	313,542	45,086	268,456	282,086	50,051	232,035
Ultrasound	235,575	14,500	221,075	221,558	18,122	203,436
Nuclear medicine	164,950	16,572	148,378	155,240	17,912	137,328
CT Scan	1,606,456	323,082	1,283,374	1,008,653	220,708	787,945
MRI	841,507	49,356	792,151	766,228	61,895	704,333
Pharmacy	1,396,477	750,299	646,178	1,294,192	610,482	683,710
Intravenous therapy	538,659	311,833	226,826	498,903	290,126	208,777
Respiratory therapy	1,180,903	481,054	699,849	1,109,807	437,545	672,262
Physical therapy	1,686,864	464,540	1,222,324	1,591,012	466,073	1,124,939
Occupational therapy	198,327	96,853	101,474	167,047	85,700	81,347
Speech pathology	223,456	9,218	214,238	181,731	22,987	158,744
Anesthesia	214,712	42,251	172,461	221,286	38,543	182,743
Clinic	778,854		778,854	1,487,138		1,487,138
	<u>14,042,520</u>	<u>3,435,127</u>	<u>10,607,393</u>	<u>13,898,502</u>	<u>3,173,305</u>	<u>10,725,197</u>
Patient Service Revenue	21,448,824	\$ <u>6,889,330</u>	\$ <u>14,559,494</u>	20,916,462	\$ <u>6,492,457</u>	\$ <u>14,424,005</u>
Contractual Allowance	<u>(5,860,889)</u>			<u>(6,977,941)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	15,587,935			13,938,521		
Provision for Uncollectible Accounts	<u>(604,616)</u>			<u>(479,606)</u>		
Net Patient Service Revenue	\$ <u>14,983,319</u>			\$ <u>13,458,915</u>		

Floyd County Memorial Hospital
Schedules of Other Operating Revenues - Hospital
Years Ended June 30, 2004 and 2003

	2004	2003
Cafeteria	\$ 165,015	\$ 159,539
Specialty clinics	79,921	53,201
Office rental	26,579	25,262
Registration fees	4,432	8,220
Medical records transcripts	11,733	8,733
Other	55,992	45,102
	\$ 343,672	\$ 300,057

Floyd County Memorial Hospital
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2004 and 2003

	2004			2003		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 655,619	\$ 500,524	\$ 155,095	\$ 616,444	\$ 462,680	\$ 153,764
Routine care	1,886,564	1,315,189	571,375	1,691,515	1,189,612	501,903
Nursery	37,622	31,591	6,031	23,708	19,170	4,538
Operating room	635,522	237,902	397,620	656,660	217,868	438,792
Delivery room	17,167	13,786	3,381	17,006	13,318	3,688
Emergency room	952,233	402,478	549,755	898,715	372,060	526,655
Home Health Agency	<u>510,842</u>	<u>317,782</u>	<u>193,060</u>	<u>444,157</u>	<u>280,756</u>	<u>163,401</u>
	<u>4,695,569</u>	<u>2,819,252</u>	<u>1,876,317</u>	<u>4,348,205</u>	<u>2,555,464</u>	<u>1,792,741</u>
Other Professional Services						
Central service and supply	220,108	53,730	166,378	206,756	50,447	156,309
Laboratory	872,624	337,628	534,996	850,424	308,395	542,029
Blood	52,280		52,280	40,099		40,099
Radiology	586,547	311,380	275,167	553,019	269,928	283,091
Electrocardiology	95,105	41,657	53,448	97,914	40,286	57,628
Ultrasound	130,314	30,803	99,511	101,845	26,017	75,828
Nuclear medicine	51,071		51,071	50,171		50,171
Pharmacy	529,117	58,806	470,311	525,115	56,465	468,648
Intravenous therapy	92,374	22,719	69,655	86,790	22,185	64,605
Respiratory therapy	390,838		390,838	361,962		361,962
Physical therapy	627,855		627,855	580,526		580,526
Occupational therapy	66,955		66,955	65,282		65,282
Speech pathology	131,498	108,782	22,716	110,403	91,897	18,506
CT Scan	427,249		427,249	343,383		343,383
Medical clinic	<u>926,491</u>	<u>383,225</u>	<u>543,266</u>	<u>1,293,313</u>	<u>475,302</u>	<u>818,011</u>
	<u>5,200,426</u>	<u>1,348,730</u>	<u>3,851,696</u>	<u>5,267,002</u>	<u>1,340,922</u>	<u>3,926,078</u>

(Continued)

Floyd County Memorial Hospital
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2004 and 2003

	2004			2003		
	Total	Salaries	Other	Total	Salaries	Other
General Services						
Dietary	\$ 724,239	\$ 332,751	\$ 391,488	\$ 674,046	\$ 309,270	\$ 364,776
Operation of plant	425,196	93,358	331,838	442,853	90,029	352,824
Housekeeping	418,176	271,765	146,411	372,720	256,673	116,047
Laundry	<u>87,911</u>	<u>12,643</u>	<u>75,268</u>	<u>81,829</u>	<u>12,287</u>	<u>69,542</u>
	<u>1,655,522</u>	<u>710,517</u>	<u>945,005</u>	<u>1,571,448</u>	<u>668,259</u>	<u>903,189</u>
Administrative Services						
Medical records	330,668	200,953	129,715	313,251	181,333	131,918
Administration	1,558,796	711,953	846,843	1,460,986	660,810	800,176
Purchasing	104,964	76,478	28,486	96,277	72,391	23,886
Personnel	73,275	52,145	21,130	72,193	49,605	22,590
Insurance	<u>83,755</u>	<u> </u>	<u>83,755</u>	<u>84,232</u>	<u> </u>	<u>84,232</u>
	<u>2,151,458</u>	<u>1,041,529</u>	<u>1,109,929</u>	<u>2,026,939</u>	<u>964,139</u>	<u>1,062,802</u>
Depreciation	<u>596,937</u>		<u>596,937</u>	<u>603,907</u>		<u>603,907</u>
	<u>\$ 14,299,912</u>	<u>\$ 5,920,028</u>	<u>\$ 8,379,884</u>	<u>\$ 13,817,501</u>	<u>\$ 5,528,784</u>	<u>\$ 8,288,717</u>

Floyd County Memorial Hospital
Schedules of Patient Receivables and Allowance for
Uncollectible Accounts – Hospital
Years Ended June 30, 2004 and 2003

Schedules of Patient Receivables

<u>Days Since Discharge</u>	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0-30	\$ 1,852,368	\$ 1,700,469	47.65%	45.94%
31-60	558,818	553,124	14.38	14.95
61-90	208,543	278,022	5.36	7.51
91-120	156,834	156,073	4.03	4.21
121-150	130,143	91,492	3.35	2.48
151 and over	<u>980,485</u>	<u>921,846</u>	<u>25.23</u>	<u>24.91</u>
	3,887,191	3,701,026	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>194,178</u>	<u>323,295</u>		
	<u>4,081,369</u>	<u>4,024,321</u>		
Less				
Contractual allow- ances	733,308	745,800		
Allowance for uncol- lectible accounts	<u>910,400</u>	<u>839,700</u>		
	<u>1,643,708</u>	<u>1,585,500</u>		
	<u>\$ 2,437,661</u>	<u>\$ 2,438,821</u>		

Allowance for Uncollectible Accounts

	<u>2004</u>	<u>2003</u>
Balance, beginning of year	\$ 839,700	\$ 822,200
Provision for year	604,616	479,606
Recoveries of accounts previously written off	<u>152,232</u>	<u>137,712</u>
	1,596,548	1,439,518
Less accounts written off	<u>686,148</u>	<u>599,818</u>
Balance, end of year	<u>\$ 910,400</u>	<u>\$ 839,700</u>

Floyd County Memorial Hospital
Schedules of Noncurrent Cash Transactions – Hospital
Years Ended June 30, 2004 and 2003

	Total
Balance, July 1, 2002	\$ 678,632
Deposits	698,661
Withdrawals	(245,843)
Balance, June 30, 2003	1,131,450
Deposits	710,840
Withdrawals	(393,884)
Balance, June 30, 2004	\$ 1,448,406

Floyd County Memorial Hospital
Schedule of Officials - Hospital
Year Ended June 30, 2004

Name	Title	Term Expires
Board of Commissioners		
Larry Richards	Chairman	2004
Betty Held	Secretary	2006
Gene Jamtgaard	Treasurer	2005
Ross Enabnit	Member	2006
Kenneth Carr	Member	2005
Hospital Officials		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	

Floyd County Memorial Hospital
Schedules of Financial and Statistical Data - Hospital
Years Ended June 30, 2004 and 2003

	2004	2003
Patient Days (Exclusive of Swing-Bed)		
Medicare	2,135	2,181
Medicaid	249	209
Private and other	711	641
	3,095	3,031
Medicare and Medicaid Percent	77%	79%
Percent of Occupancy*	42%	55%
Discharges (Exclusive of swing-bed)		
Medicare	617	586
Medicaid	89	107
Private and other	253	318
	959	1,011
Average Length of Stay in Days	3.2	3.0

* In 2003, the Hospital beds decreased to 15 for acute care. As of January 1, 2004, the Hospital can use 25 beds for acute care.

Floyd County Memorial Hospital
Schedules of Supplies and Prepaid Expense - Hospital
Years Ended June 30, 2004 and 2003

	2004	2003
Supplies		
Storeroom	\$ 171,831	\$ 184,284
Pharmacy	133,092	98,675
Surgery	173,285	175,291
Dietary	<u>7,655</u>	<u>7,685</u>
	<u>\$ 485,863</u>	<u>\$ 465,935</u>
 Prepaid Expense		
Insurance	\$ 14,003	\$ 12,736
Maintenance contracts	46,932	55,138
Memberships and dues	6,388	6,150
Workers' compensation insurance	<u>5,375</u>	<u>5,698</u>
	<u>\$ 72,698</u>	<u>\$ 79,722</u>



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

Board of Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital as of and for the year ended June 30, 2004 and have issued our report thereon dated August 19, 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.

Compliance

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization'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 assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-1, 04-2, 04-3 and 04-4.

A material weakness is a 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 in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-1 and 04-2 to be material weaknesses. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the Organization's management in a separate letter dated August 19, 2004.

Compliance with Certain Provisions of Iowa Law

The following comments about the Organization's compliance with certain provisions of Iowa law for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Organization for the year ended June 30, 2004. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Organization's compliance with those requirements.

Official Depository Banks

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

Certified Budget

Hospital expenditures during the year ended June 30, 2004 did not exceed amounts budgeted.

Entertainment Expense

We did not note any expenditures for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

Travel Expense

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

Business Transactions

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

Commission Minutes

No transactions were found that we believe should have been approved in the Commission minutes but were not. However, a schedule of bills allowed and salaries paid by job description and category was not published as required by Chapter 347.13(15) of the Code of Iowa.

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.

Publication of Bills Allowed and Salaries

Chapter 347.13(15) of the Code of Iowa states "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category..." The Hospital did not publish a schedule of bills allowed or a schedule of salaries paid as required by the Code.

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

/s/ **BKD, LLP**

Kansas City, Missouri
August 19, 2004

Floyd County Memorial Hospital
Schedule of Findings and Questioned Costs
Year Ended June 30, 2004

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Questioned Costs
04-1	Individuals in the data processing department have the ability to prepare checks, have access to signed checks to be issued to vendors, have access to the accounts payable subledger and general ledger and perform the monthly bank reconciliation. Hospital management should periodically reconsider whether further segregation of duties is warranted.	None
04-2	Individuals in the data processing department have responsibility in various forms in the payroll area, which allows access to signed checks, ability to record transactions and monitoring responsibilities. Hospital management should periodically reconsider whether further segregation of duties is warranted.	None
04-3	One individual in the data processing department has the ability to record revenue information, has access to assets and has monitoring responsibilities. Hospital management should periodically reconsider whether further segregation of duties is warranted.	None
04-4	The CFO has duties in the revenue cycle that include access to assets, recording abilities and monitoring responsibilities. Hospital management should periodically reconsider whether further segregation of duties is warranted.	None

Floyd County Memorial Hospital
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding	Status
03-1	Individuals in the data processing department have the ability to prepare checks, have access to signed checks to be issued to vendors, have access to the accounts payable subledger and general ledger and perform the monthly bank reconciliation. Hospital management should periodically reconsider whether further segregation of duties is warranted.	Resolved
03-2	One individual in the personnel office has the ability to record payroll information, controls the check signature plate and has access to signed payroll checks to be issued. Hospital management should periodically reconsider whether further segregation of duties is warranted.	Resolved
03-3	Individuals in the data processing department have responsibility in various forms in the payroll area, which allows access to signed checks, ability to record transactions and monitoring responsibilities. Hospital management should periodically reconsider whether further segregation of duties is warranted.	Resolved



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Board of Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

As part of our audit of the financial statements of Floyd County Memorial Hospital for the year ended June 30, 2004, we studied and evaluated the Organization's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2003 audit engagement in a letter dated August 21, 2003.

Segregation of Duties

Certain matters regarding internal controls were included in the Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department may be difficult because of the limited number of personnel. However, there may be compensating controls management could implement to reduce the possibility of errors or irregularities going undetected in the normal course of business. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

Individuals in data processing have duties in the revenue, purchases and payroll cycles that allow for access to assets, recording responsibilities and monitoring responsibilities. We recommend these individuals no longer be allowed to have access to assets, either cash or checks from patients or signed payable and payroll checks.

The CFO has duties in the revenue cycle that include access to assets, recording abilities and monitoring responsibilities. We recommend the CFO not have access to cash receipts at the Hospital.

**Solutions
for
Success**

Charity Care Policy

In view of the recent emphasis placed on adopting and maintaining a sound Charity Care Policy by the healthcare industry and as the Hospital is a governmental hospital that exists for the benefit of the community, we recommend adopting a charity care policy for those patients unable to pay for services. The utilization of such a policy will enable the Hospital to apply consistent application of discounts or write-offs to patients who fall within specific income guidelines.

Ethics and Code of Conduct

We noted the Hospital has a Code of Conduct for employees; however, there is no formal training or communication related to management's views on business practices and the importance of ethical behavior. We recommend a formal approach to training and informing employees on the Code of Conduct.

Standard Accounting Policies and Procedures

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

Corporate Compliance Program

The Organization has a corporate compliance plan in place. We would encourage the Organization to continue its efforts to implement the plan fully. The next steps should be:

- Provide education to all management, Board of Commissioners and medical staff on the importance of the plan.
- Management should train affected employees on the corporate compliance plan and maintain documentation of the training.
- An audit work plan should be developed to ensure areas of greatest risk are audited on a regular basis.
- Periodic reports should be made to the Board of Commissioners regarding the plan.

Health Insurance Portability and Accountability Act

Industry associations continue to focus attention on compliance with the Health Insurance Portability and Accountability Act (HIPAA). HIPAA's far reaching provisions impact hospital information systems, operating policies and procedures and strategic planning. As regulations for HIPAA's components continue to be released and clarified, organizations often have a relatively short period to comply. While compliance with the privacy and transaction and code set regulations of HIPAA's administrative provisions has previously been the main focus of many organizations, another HIPAA area that will be receiving increased attention in the upcoming year revolves around the security standards.

The primary focus of the security rule is the safeguarding of information and systems that store, process and transmit that information. The major provisions of the rule involve administrative, physical and technical safeguards. Compliance with these provisions is required by April 21, 2005. Maintaining compliance will be an ongoing effort as systems are upgraded and new systems are added.

The security rule requires you to perform risk assessments and this expense should be budgeted. The Hospital should begin the risk assessment and remediation process early, as this process could prove lengthy and time consuming. As with the other HIPAA provisions, documentation of decisions and good-faith efforts will help you defend possible complaints.

* * *

We appreciate the opportunity to present these comments and suggestions. This letter does not express an opinion on the Organization's overall internal control structure; it does, however, include items that we believe merit your consideration. We can discuss these matters further at your convenience and provide any implementation assistance for changes or improvements you may require.

This letter is intended solely for the information and use of the Board of Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
August 19, 2004