

Hamilton County Public Hospital

Accountants' Report and Financial Statements

June 30, 2004 and 2003



Hamilton County Public Hospital
June 30, 2004 and 2003

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the accompanying balance sheet of Hamilton County Public Hospital, as of June 30, 2004, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of Hamilton County Public Hospital as of and for the year ended June 30, 2003, before restatement for the matters described in Note 11, were audited by other accountants whose report dated August 22, 2003, expressed an unqualified opinion on those statements.

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 for 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 audit provides a reasonable basis for our opinion.

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

As discussed in Note 11, in 2004, the Hospital changed its method of financial statement presentation and disclosure to conform to Governmental Auditing Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, by retroactively restating prior year financial statements. Also, as discussed in Note 11, in 2004, the Hospital changed its method of accounting for property taxes by retroactively restating prior year financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2004 on our consideration of Hamilton County Public 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.

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Hamilton County Public Hospital
Board of Trustees
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The accompanying management's discussion and analysis as listed in the table of contents are not a required part of the basic financial statements but are 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.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit 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
September 17, 2004

Hamilton County Public 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 Hamilton County Public Hospital provides an overview of the Hospital's financial activities for the year ended June 30, 2004 and 2003. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and short-term deposits increased in 2004 by \$1,443,446 or 26% and decreased in 2003 by \$27,907 or .1%.
- The Hospital's net assets increased by \$771,618 or 5% in 2004 and decreased in 2003 by \$637,529 or 4%.
- The Hospital reported an operating loss in 2004 of \$152,637 and \$1,507,970 in 2003. The operating loss was reduced in 2004 by \$1,355,333 or 90% over the operating loss reported in 2003.
- Net nonoperating revenues increased by \$53,814 or 6% in 2004 compared to an increase of \$14,521 or 2% in 2003 from 2002.

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 and contributors. 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 and cash equivalents 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 and cash equivalents 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 \$771,618 or 5% in 2004 over 2003 and decreased by \$637,529 or 4% in 2003 over 2002 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

| | 2004 | 2003 | 2002 |
|----------------------------------|----------------------|----------------------|----------------------|
| Assets | | * | * |
| Patient accounts receivable, net | \$ 2,595,147 | \$ 2,872,327 | \$ 3,031,886 |
| Other current assets | 8,402,082 | 6,952,931 | 7,184,277 |
| Certificate of deposit | 50,000 | 50,000 | 50,000 |
| Capital assets, net | 4,785,662 | 5,236,928 | 5,300,508 |
| Noncurrent cash and deposits | <u>677,820</u> | <u>575,876</u> | <u>557,333</u> |
| Total assets | <u>\$ 16,510,711</u> | <u>\$ 15,688,062</u> | <u>\$ 16,124,004</u> |
| Total Liabilities | <u>\$ 1,903,357</u> | <u>\$ 1,852,326</u> | <u>\$ 1,650,739</u> |
| Net Assets | | | |
| Invested in capital assets | 4,785,662 | 5,236,928 | 5,300,508 |
| Unrestricted | <u>9,821,692</u> | <u>8,598,808</u> | <u>9,172,757</u> |
| Total net assets | <u>14,607,354</u> | <u>13,835,736</u> | <u>14,473,265</u> |
| Total liabilities and net assets | <u>\$ 16,510,711</u> | <u>\$ 15,688,062</u> | <u>\$ 16,124,004</u> |

*Assets and Liabilities were restated to include property tax receivables and deferred revenue.

Net patient accounts receivable decreased by \$277,180 or 9.6% in 2004 over 2003 due to internal changes in the claims submission process, which resulted in the claims being processed quicker. There was also a change in the bad debt allowance calculation, resulting in a higher allowance being taken. Noncurrent cash and deposits limited to use by the Board increased \$101,944 or 18% due to a major donation to the Hospital Foundation by an estate.

Operating Results

In 2004, the Hospital's Increase in Net Assets was \$771,618, compared to the Decrease in Net Assets of \$(637,529) in 2003 as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

| | 2004 | 2003 | 2002 |
|---|-------------------|---------------------|-------------------|
| Operating Revenues | | * | * |
| Net patient service revenue | \$ 13,202,134 | \$ 11,549,257 | \$ 12,654,105 |
| Other operating revenues | <u>112,909</u> | <u>156,101</u> | <u>201,503</u> |
| Total operating revenues | <u>13,315,043</u> | <u>11,705,358</u> | <u>12,855,608</u> |
| Operating Expenses | | | |
| Salaries and wages and employee benefits | 7,724,286 | 7,567,672 | 7,551,411 |
| Medical supplies, professional fees and other | 3,155,401 | 2,910,415 | 2,989,720 |
| Depreciation | 868,169 | 962,832 | 949,768 |
| Other operating expenses | <u>1,719,824</u> | <u>1,772,409</u> | <u>1,713,490</u> |
| Total operating expenses | <u>13,467,680</u> | <u>13,213,328</u> | <u>13,204,389</u> |
| Operating Loss | <u>(152,637)</u> | <u>(1,507,970)</u> | <u>(348,781)</u> |
| Nonoperating Revenues | | | |
| Property taxes | 730,974 | 749,581 | 746,055 |
| Interest income | 80,713 | 104,571 | 97,658 |
| Other | <u>112,568</u> | <u>16,289</u> | <u>12,207</u> |
| Total nonoperating revenues | <u>924,255</u> | <u>870,441</u> | <u>855,920</u> |
| Increase (Decrease) in Net Assets | <u>\$ 771,618</u> | <u>\$ (637,529)</u> | <u>\$ 507,139</u> |

*Restated presentation related to GASB 34

Operating Losses

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 three years, the Hospital has reported an operating loss. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Hamilton County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2004 decreased by \$1,355,333 or 90% as compared to 2003. The primary components of the decrease in the operating loss are:

An increase in net patient service revenue of \$1,652,877 or 14%. Of this increase, 10% was for inpatient revenue. This is due to changes in the charging structure for special procedures done for inpatients and changes in the pharmacy charge structure for drugs. Outpatient revenue also increased and was due to an increase in outpatient surgery procedures of 4.3% and the addition of a surgeon who performs ear, nose and throat procedures. There also was a high number of IV Therapy patients who used emergency room services several times a day, increasing emergency room revenues. Additional lab tests were also performed for one of the physician clinics in town. Also, the Hospital opened a clinic in Jewell, Iowa in August of 2003, which contributed to an increase in revenues for professional fees and lab tests done at the Hospital for the provider based clinic. Changes in pharmacy charge structure for drugs also contributed to the increase in revenue on the outpatient side. Finally, Hospital charges were increased an average of 10% on the inpatient side and an average of 5% on the outpatient side from 2003 to 2004.

Operating expenses increased \$254,352 or 1.9%. Salaries and wages for the Hospital's employees increased \$201,789 or 3.3%, due to increases to employee wages as per union contract. A decrease in employee benefits of \$45,175 or 2.8% was experienced, due to several high health risk employees leaving employment and a decrease in the number of highly paid administrative staff. Supplies and professional fees expense increased \$244,986 or 8.4% due to supplies needed to set up the provider based clinic in Jewell, Iowa and an increase in CRNA professional fees due to the increase in surgeries. Professional services also increased due to contracting out services to cover a shortage of clinical staff in pharmacy and the emergency department.

The operating loss for fiscal year 2003 was \$1,507,970 compared to a loss for fiscal year 2002, which was \$348,781. The operating loss in fiscal year 2003 was a result of the reduction of 943 inpatient days and a reduction of 1,141 outpatient visits when compared to fiscal year 2002.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income, all of which remained relatively constant in 2004 as compared to 2003. However, the Foundation received a major contribution from an estate, which contributed to the \$98,055 increase in contributions and changes in Foundation net assets. In response to the increase in net patient service revenue discussed above, the Board of Trustees approved a 5% decrease in the Hospital's property tax levy for 2005.

Nonoperating revenues and expenses remained relatively unchanged between 2003 and 2002.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses. It is also noted that cash provided by operating activities increased in 2004 due to the decrease in the Hospital's patient accounts receivable of \$277,180 from 2003 to 2004.

Capital Asset and Debt Administration

Capital Assets

At the end of 2004, the Hospital had \$4,785,662 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2004, the Hospital purchased new equipment costing \$423,151. No new equipment was acquired through incursion of capital lease obligations. The Hospital purchased new equipment in 2003 costing \$901,608. The Hospital has recently found it more economical to lease certain equipment on a usage basis, principally due to incentives provided by equipment vendors. This allows the Hospital to obtain more favorable maintenance contracts on such equipment and to avoid some of the costs of obsolescence caused by technological changes.

Debt

At June 30, 2004 and 2003, the Hospital had no outstanding debt. The Hospital issued no new debt in 2004, 2003 or 2002.

Factors Bearing on Hamilton County Public Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of several existing circumstances that could significantly affect its financial health in the future:

- During the year ended June 30, 2003, the Hospital applied for and was deemed a necessary provider by the State of Iowa. This designation enabled the Hospital to seek critical access provider status for the purposes of Medicare reimbursement, if so desired. The Hospital applied for critical access hospital status, was surveyed by the State of Iowa, and has been granted critical access hospital status as of September 1, 2004. Designation as a critical access provider will allow the Hospital to receive reimbursement based on cost for Medicare program beneficiaries.

- Employee Contract Settlement
 - ✓ During the year ended June 30, 2004, the Hospital settled its labor contract with the Iowa Nurses Association.

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 Business Administration by telephoning (515) 832-9400.

Hamilton County Public Hospital
Balance Sheets
June 30, 2004 and 2003

Assets

| | 2004 | 2003 |
|--|---------------|--------------------------------|
| | | (Restated- Note 11) |
| Current Assets | | |
| Cash and cash equivalents | \$ 5,366,974 | \$ 3,521,546 |
| Short-term certificates of deposit | 1,663,135 | 2,065,117 |
| Patient accounts receivable, net of allowance; 2004 - \$531,000, 2003 - \$215,207 | 2,595,147 | 2,872,327 |
| Property taxes receivable | 695,892 | 733,387 |
| Estimated amounts due from third-party payers | 84,290 | — |
| Other receivables | 28,550 | 14,835 |
| Supplies | 500,831 | 554,556 |
| Prepaid expenses | 62,410 | 63,490 |
| Total current assets | 10,997,229 | 9,825,258 |
| Certificate of Deposit | 50,000 | 50,000 |
| Noncurrent Cash and Deposits | | |
| Internally designated | 677,820 | 575,876 |
| Capital Assets, Net of Accumulated Depreciation | 4,785,662 | 5,236,928 |
| Total Assets | \$ 16,510,711 | \$ 15,688,062 |

Liabilities and Net Assets

| | | |
|---|---------------|---------------|
| Current Liabilities | | |
| Accounts payable | \$ 398,299 | \$ 372,712 |
| Accrued expenses | 816,068 | 726,994 |
| Estimated amounts due to third-party payers | — | 27,367 |
| Deferred property tax revenue | 688,990 | 725,253 |
| Total current liabilities | 1,903,357 | 1,852,326 |
| Net Assets | | |
| Invested in capital assets | 4,785,662 | 5,236,928 |
| Unrestricted | 9,821,692 | 8,598,808 |
| Total net assets | 14,607,354 | 13,835,736 |
| Total Liabilities and Net Assets | \$ 16,510,711 | \$ 15,688,062 |

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

| | 2004 | 2003 |
|--|----------------------|--------------------------------|
| | | (Restated– Note 11) |
| Operating Revenues | | |
| Net patient service revenue, before provision for uncollectible accounts | \$ 13,809,780 | \$ 12,147,733 |
| Provision for uncollectible accounts | <u>(607,646)</u> | <u>(598,476)</u> |
| Net patient service revenue | 13,202,134 | 11,549,257 |
| Other | <u>112,909</u> | <u>156,101</u> |
| Total operating revenues | <u>13,315,043</u> | <u>11,705,358</u> |
| Operating Expenses | | |
| Salaries and wages | 6,166,026 | 5,964,237 |
| Employee benefits | 1,558,260 | 1,603,435 |
| Medical professional fees | 1,265,767 | 1,210,861 |
| Supplies and other | 1,889,634 | 1,699,554 |
| Administrative services | 633,393 | 724,258 |
| General services | 911,074 | 888,281 |
| Depreciation | 868,169 | 962,832 |
| Insurance | <u>175,357</u> | <u>159,870</u> |
| Total operating expenses | <u>13,467,680</u> | <u>13,213,328</u> |
| Operating Loss | <u>(152,637)</u> | <u>(1,507,970)</u> |
| Nonoperating Revenues (Expenses) | | |
| Property taxes | 730,974 | 749,581 |
| Investment income | 80,713 | 104,571 |
| Other | 17,779 | 19,555 |
| Contributions and changes in Foundation net assets | <u>94,789</u> | <u>(3,266)</u> |
| Total nonoperating revenues (expenses) | <u>924,255</u> | <u>870,441</u> |
| Increase (Decrease) in Net Assets | 771,618 | (637,529) |
| Net Assets, Beginning of Year | <u>13,835,736</u> | <u>14,473,265</u> |
| Net Assets, End of Year | <u>\$ 14,607,354</u> | <u>\$ 13,835,736</u> |

Hamilton County Public Hospital
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

| | 2004 | 2003 |
|---|---------------------|--------------------------------|
| | | (Restated- Note 11) |
| Operating Activities | | |
| Receipts from and on behalf of patients | \$ 13,367,657 | \$ 12,008,727 |
| Payments to suppliers and contractors | (4,794,833) | (4,642,557) |
| Payments to employees | (7,635,212) | (7,487,631) |
| Other receipts and payments, net | <u>103,544</u> | <u>116,014</u> |
| Net cash provided by (used in) operating activities | <u>1,041,156</u> | <u>(5,447)</u> |
| Noncapital Financing Activities | | |
| Property taxes supporting operations | 730,974 | 749,581 |
| Other | 17,779 | 19,555 |
| Gifts and grants for other than capital purposes | <u>94,789</u> | <u>(3,266)</u> |
| Net cash provided by noncapital financing activities | <u>843,542</u> | <u>765,870</u> |
| Capital and Related Financing Activities | | |
| Proceeds from sale of capital assets | 3,130 | 27,250 |
| Purchase of capital assets | <u>(423,151)</u> | <u>(901,608)</u> |
| Net cash used in capital and related financing activities | <u>(420,021)</u> | <u>(874,358)</u> |
| Investing Activities | | |
| Interest on deposits | 80,713 | 104,571 |
| Net change in deposits | <u>389,328</u> | <u>(445,949)</u> |
| Net cash provided by (used in) investing activities | <u>470,041</u> | <u>(341,378)</u> |
| Increase (Decrease) in Cash and Cash Equivalents | 1,934,718 | (455,313) |
| Cash and Cash Equivalents, Beginning of Year | <u>3,526,102</u> | <u>3,981,415</u> |
| Cash and Cash Equivalents, End of Year | <u>\$ 5,460,820</u> | <u>\$ 3,526,102</u> |
| Reconciliation of Cash to the Balance Sheets | | |
| Cash and cash equivalents | \$ 5,366,974 | \$ 3,521,546 |
| Cash in noncurrent cash and deposits | | |
| Internally designated | <u>93,846</u> | <u>4,556</u> |
| | <u>\$ 5,460,820</u> | <u>\$ 3,526,102</u> |

(Continued)

Hamilton County Public Hospital
Statements of Cash Flows
Years Ended June 30, 2004 and 2003

| | 2004 | 2003 |
|---|---------------------|--------------------------------|
| | | (Restated- Note 11) |
| Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by (Used in) Operating Activities | | |
| Operating loss | \$ (152,637) | \$ (1,507,970) |
| Depreciation | 868,169 | 962,832 |
| (Gain) loss on sale of capital assets | 3,118 | (24,894) |
| Changes in operating assets and liabilities | | |
| Patient accounts receivable, net | 277,180 | 159,559 |
| Estimated amounts due from and to third-party payers | (111,657) | 299,911 |
| Accounts payable and accrued expenses | 79,564 | 183,355 |
| Supplies | 53,725 | (111,553) |
| Prepaid expenses | 1,080 | 33,313 |
| Other assets and liabilities | 22,614 | — |
| Net cash provided by (used in) operating activities | \$ <u>1,041,156</u> | \$ <u>(5,447)</u> |

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2004 and 2003

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

Nature of Operations and Reporting Entity

Hamilton County Public Hospital is a county public hospital under Chapter 347 of the Code of Iowa, located in Webster City, Iowa. Board members are elected by voters of Hamilton County. The Hospital primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Hamilton County area.

The Hospital is the beneficiary of Hamilton County Hospital Foundation (Foundation), a separate legal entity with its own board of trustees. The Hospital is the sole member of the Foundation. The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

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), property taxes, and investment income 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.

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.

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2004 and 2003

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of certificates of deposit.

Property Taxes

The Hospital received approximately 5% and 6% of its financial support from property tax revenues in the years ended June 30, 2004 and 2003, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 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.

Risk Management

The Hospital is exposed to various risks of loss from 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 employee health claims. 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.

Hamilton County Public 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.

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

| | |
|--------------------------------------|--------------|
| Land improvements | 8 – 20 years |
| Buildings and leasehold improvements | 5 – 40 years |
| Equipment | 3 – 20 years |

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates 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 consist of capital assets net of accumulated depreciation. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted expendable.

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2004 and 2003

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 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 estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$88,000 and \$32,000 for 2004 and 2003, respectively.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 presentation. The reclassifications had no effect on the changes in financial position.

Hamilton County Public 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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient swingbed services are paid at prospectively determined per diem rates that are based on a patient's acuity. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under prospectively determined rates.

Effective September 1, 2004, the Hospital has been designated as a critical access hospital (CAH). As a CAH, it will receive reimbursement for Medicare and Medicaid services based on cost.

Approximately 45% and 47% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2004 and 2003, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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 Deposit 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 risk requires compliance with the provisions of state law. 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.

Hamilton County Public 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 no investments at June 30, 2004 and 2003.

Summary of Carrying Value

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

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Deposits | \$ <u>7,757,929</u> | \$ <u>6,212,539</u> |
| Included in the following balance sheet captions | | |
| Cash and cash equivalents | \$ 5,366,974 | \$ 3,521,546 |
| Short-term deposits | 1,663,135 | 2,065,117 |
| Certificate of deposit | 50,000 | 50,000 |
| Noncurrent cash and deposits | <u>677,820</u> | <u>575,876</u> |
| | <u>\$ 7,757,929</u> | <u>\$ 6,212,539</u> |

Deposit Income

Income on deposits for the years ended June 30, 2004 and 2003, consisted of:

| | 2004 | 2003 |
|-----------------|------------------|-------------------|
| Interest income | \$ <u>80,713</u> | \$ <u>104,571</u> |

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2004 and 2003 was:

| | 2004 | 2003 |
|--|--------------|--------------|
| Medicare and Medicaid | \$ 780,120 | \$ 916,667 |
| Other third-party payers | 983,318 | 958,131 |
| Patients | 1,285,102 | 1,113,547 |
| Home care | 68,860 | 90,248 |
| ER physicians | 8,747 | 8,941 |
| | 3,126,147 | 3,087,534 |
| Less allowances for uncollectible accounts | 531,000 | 215,207 |
| | \$ 2,595,147 | \$ 2,872,327 |

Note 5: Capital Assets

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

| | Beginning | 2004 | | | Ending |
|-------------------------------|------------------|------------------|------------------|------------------|----------------|
| | Balance | Additions | Disposals | Transfers | Balance |
| Land | \$ 224,092 | \$ — | \$ — | \$ — | \$ 224,092 |
| Land improvements | 262,977 | 12,640 | — | — | 275,617 |
| Buildings | 4,858,167 | 36,600 | 208 | — | 4,894,559 |
| Fixed equipment | 3,284,887 | 100,390 | 15,655 | — | 3,369,622 |
| Major movable equipment | 7,129,381 | 273,521 | 260,352 | \$ 152,856 | 7,295,406 |
| Construction in progress | 183,153 | — | — | (152,856) | 30,297 |
| | 15,942,657 | 423,151 | 276,215 | 0 | 16,089,593 |
| Less accumulated depreciation | | | | | |
| Land improvements | 175,335 | 15,372 | — | | 190,707 |
| Buildings | 3,012,775 | 151,426 | 208 | | 3,163,993 |
| Fixed equipment | 2,284,808 | 124,569 | 11,350 | | 2,398,027 |
| Major movable equipment | 5,232,811 | 576,802 | 258,409 | | 5,551,204 |
| | 10,705,729 | 868,169 | 269,967 | | 11,303,931 |
| Capital assets, net | \$ 5,236,928 | \$ (445,018) | \$ 6,248 | \$ 0 | \$ 4,785,662 |

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2004 and 2003

| | Beginning Balance | 2003 | | | Ending Balance |
|-------------------------------|----------------------|--------------------|-----------------|-------------|---------------------|
| | | Additions | Disposals | Transfers | |
| Land | \$ 224,092 | \$ — | \$ — | | \$ 224,092 |
| Land improvements | 261,825 | 1,152 | — | | 262,977 |
| Buildings | 4,863,067 | 13,966 | 18,866 | | 4,858,167 |
| Fixed equipment | 3,262,866 | 26,555 | 4,534 | | 3,284,887 |
| Major movable equipment | 6,693,398 | 707,079 | 271,095 | | 7,129,382 |
| Construction in progress | <u>30,297</u> | <u>152,856</u> | <u>—</u> | | <u>183,153</u> |
| | <u>15,335,545</u> | <u>901,608</u> | <u>294,495</u> | | <u>15,942,658</u> |
| Less accumulated depreciation | | | | | |
| Land improvements | 160,458 | 14,876 | — | | 175,334 |
| Buildings | 2,877,105 | 152,757 | 17,086 | | 3,012,776 |
| Fixed equipment | 2,172,671 | 116,667 | 4,533 | | 2,284,805 |
| Major movable equipment | <u>4,824,803</u> | <u>678,532</u> | <u>270,520</u> | | <u>5,232,815</u> |
| | <u>10,035,037</u> | <u>962,832</u> | <u>292,139</u> | | <u>10,705,730</u> |
| Capital assets, net | \$ <u>5,300,508</u> | \$ <u>(61,224)</u> | \$ <u>2,356</u> | \$ <u>0</u> | \$ <u>5,236,928</u> |

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$25,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Activity in the Hospital's accrued employee health claims liability during 2004 and 2003 is summarized as follows:

| | 2004 | 2003 |
|---|-------------|-------------|
| Balance, beginning of year | \$ 143,643 | \$ 113,152 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | 689,483 | 680,179 |
| Claims and expenses paid | (701,568) | (649,688) |
| Balance, end of year | \$ 131,558 | \$ 143,643 |

Note 8: 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 P. O. Box 9117, Des Moines, Iowa 50306-9117.

Funding Policy

Plan members are required to contribute 3.7% of their 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 \$346,055, \$337,386 and \$339,742, respectively, which equaled the required contributions for each year.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 9: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees 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 a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

| | Book Basis | Actual Accrual Adjustments | Cash Basis | Budget |
|---------------------------------|----------------------|---|----------------------|----------------------|
| Amount to be raised by taxation | \$ 730,974 | \$ — | \$ 730,974 | \$ 725,253 |
| Other revenues/receipts | <u>13,508,324</u> | <u>165,523</u> | <u>13,673,847</u> | <u>13,721,428</u> |
| | 14,239,298 | 165,523 | 14,404,821 | 14,446,681 |
| Expenses/disbursements | <u>13,467,680</u> | <u>(77,419)</u> | <u>13,390,261</u> | <u>15,153,422</u> |
| | 771,618 | 242,942 | 1,014,560 | (706,741) |
| Balance, beginning of year | <u>13,835,736</u> | <u>(2,378,135)</u> | <u>11,457,601</u> | <u>11,457,601</u> |
| Balance, end of year | \$ <u>14,607,354</u> | \$ <u>(2,135,193)</u> | \$ <u>12,472,161</u> | \$ <u>10,750,860</u> |

Note 10: Significant Estimates and Concentrations

Certain 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 7.
- The Hospital is served by two admitting physicians, whose patients comprise approximately 37% of the Hospital's net patient service revenue during the year ended June 30, 2004.
- The Hospital has 87% of its work force covered by collective bargaining agreements, all of which expire in 2004.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2004 and 2003

Note 11: Restatements of Prior Year Financial Statements

During 2004, the Hospital retroactively changed its method of financial statement presentation and disclosure to conform fully to the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended. The presentation of certain items was changed, including presenting the change in cash for operating activities to a direct presentation, the provision for uncollectible accounts was removed from operating expenses and shown as a reduction to net patient service revenue, all items referred to as “fund balance” were replaced with the term “net assets,” the term “property and equipment” was replaced with the term “capital assets” and, finally, the previously reported Statements of Fund Balance is now a part of the Statements of Changes in Revenues, Expenses and Changes in Net Assets. The retroactive application of the new method had no effect on previously reported total net assets at the beginning of 2003 and change in net assets for 2003.

In prior years, the Hospital had not recorded a receivable and deferred revenue for property taxes in accordance with the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting for Voluntary Nonexchange Transactions*. The financial statements have been restated for the year ended June 30, 2003 by recognizing a receivable and deferred revenue for property taxes levied in fiscal 2003 for use in fiscal 2004, aggregating \$725,253 as of year-end. The restatement had no effect on previously reported 2003 beginning or ending net assets and change in net assets.

Supplementary Information

Hamilton County Public Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2004 and 2003

| | 2004 | | | 2003 | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| | Total | Inpatient | Outpatient | Total | Inpatient | Outpatient |
| Routine Services | | | | | | |
| Acute nursing care | \$ 3,499,637 | \$ 3,168,264 | \$ 331,373 | \$ 3,224,073 | \$ 3,005,435 | \$ 218,638 |
| Nursing Services | | | | | | |
| Operating and recovery | 2,686,543 | 372,694 | 2,313,849 | 2,116,417 | 364,206 | 1,752,211 |
| Swing Bed | 415,710 | 415,710 | | 413,919 | 413,919 | |
| Emergency | 1,699,105 | 303,255 | 1,395,850 | 1,513,760 | 295,103 | 1,218,657 |
| Delivery | 105,122 | 102,131 | 2,991 | 96,049 | 94,112 | 1,937 |
| Nursery | 164,050 | 164,050 | | 132,825 | 132,825 | |
| Obstetrics | 343,331 | 270,776 | 72,555 | 308,685 | 245,029 | 63,656 |
| Pediatric | 139,105 | 139,105 | | 94,668 | 94,668 | |
| Home Care and Hospice | <u>453,954</u> | <u>453,954</u> | | <u>384,412</u> | <u>384,412</u> | |
| | <u>6,006,920</u> | <u>2,221,675</u> | <u>3,785,245</u> | <u>5,060,735</u> | <u>2,024,274</u> | <u>3,036,461</u> |
| Other Professional Services | | | | | | |
| Central service and supply | 761,285 | 384,544 | 376,741 | 718,352 | 390,217 | 328,135 |
| Ambulance | 524,022 | 50,090 | 473,932 | 447,151 | 41,588 | 405,563 |
| Blood | 115,218 | 74,416 | 40,802 | 77,409 | 50,782 | 26,627 |
| Electrocardiology | 183,208 | 95,228 | 87,980 | 146,743 | 86,586 | 60,157 |
| Radiology | 2,617,816 | 580,575 | 2,037,241 | 2,262,025 | 562,901 | 1,699,124 |
| Cardiac rehabilitation | 160,016 | 550 | 159,466 | 155,331 | 691 | 154,640 |
| Pharmacy | 2,459,624 | 1,819,893 | 639,731 | 1,968,726 | 1,501,757 | 466,969 |
| Chemistry | 1,432,501 | 688,179 | 744,322 | 1,292,808 | 646,708 | 646,100 |
| Echocardiography | 105,589 | 42,501 | 63,088 | 92,047 | 46,682 | 45,365 |
| Diabetes education | 8,548 | 80 | 8,468 | 1,082 | | 1,082 |
| Histology | 25,317 | 10,191 | 15,126 | 20,551 | 7,496 | 13,055 |
| Microbiology | 349,289 | 199,584 | 149,705 | 321,388 | 181,370 | 140,018 |
| Jewell clinic | 97,070 | 573 | 96,497 | | | |
| Anesthesiology | 396,720 | 100,167 | 296,553 | 373,381 | 119,067 | 254,314 |
| Respiratory therapy | 1,360,149 | 1,148,884 | 211,265 | 1,013,581 | 851,181 | 162,400 |
| Physical therapy | 423,527 | 72,666 | 350,861 | 505,940 | 90,618 | 415,322 |
| Occupational therapy | 142,861 | 29,772 | 113,089 | 136,466 | 35,042 | 101,424 |
| Speech therapy | 53,945 | 16,881 | 37,064 | 29,999 | 12,493 | 17,506 |
| Corporate health | 28,326 | | 28,326 | 22,096 | | 22,096 |
| Dietary counseling | 1,350 | | 1,350 | 124 | | 124 |
| Wound clinic | 256 | | 256 | 382 | | 382 |
| Specialty clinic | | | | <u>15,982</u> | | <u>15,982</u> |
| | <u>11,246,637</u> | <u>5,314,774</u> | <u>5,931,863</u> | <u>9,601,564</u> | <u>4,625,179</u> | <u>4,976,385</u> |
| Patient Service Revenue | 20,753,194 | <u>\$10,704,713</u> | <u>\$10,048,481</u> | 17,886,372 | <u>\$ 9,654,888</u> | <u>\$ 8,231,484</u> |
| Contractual Allowances | <u>6,943,414</u> | | | <u>5,738,639</u> | | |
| Net Patient Service Revenue, before Provision for Uncollectible Accounts | 13,809,780 | | | 12,147,733 | | |
| Provision for Uncollectible Accounts | <u>(607,646)</u> | | | <u>(598,476)</u> | | |
| Net Patient Service Revenue | <u>\$13,202,134</u> | | | <u>\$11,549,257</u> | | |

Hamilton County Public Hospital
Schedules of Other Revenues
Years Ended June 30, 2004 and 2003

| | 2004 | 2003 |
|---|-------------|-------------|
| Meals on Wheels | \$ 27,727 | \$ 35,976 |
| Cafeteria revenue | 63,638 | 64,002 |
| Vending machine commissions | 8,726 | 14,740 |
| Services provided to other entities | 5,375 | 6,697 |
| Sale of scrap | 43 | 53 |
| Medical records transcripts | 1,673 | 3,904 |
| Sale of supplies | 95 | 1,713 |
| Gain (loss) on disposal of property and equipment | (3,118) | 24,894 |
| Miscellaneous | 8,750 | 4,122 |
| | \$ 112,909 | \$ 156,101 |

Hamilton County Public Hospital
Schedules of Operating Expenses
Years Ended June 30, 2004 and 2003

| | 2004 | | | 2003 | | |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|---------------------|---------------------|
| | Total | Salaries | Other | Total | Salaries | Other |
| Nursing Services | | | | | | |
| Nursing | \$ 1,611,937 | \$ 1,465,296 | \$ 146,641 | \$ 1,624,271 | \$ 1,512,522 | \$ 111,749 |
| Maternity | 313,357 | 287,392 | 25,965 | 308,648 | 278,657 | 29,991 |
| Coronary care unit | 63,632 | 49,220 | 14,412 | 82,647 | 64,599 | 18,048 |
| Operating | 604,705 | 347,198 | 257,507 | 587,561 | 337,799 | 249,762 |
| Emergency | 891,064 | 431,181 | 459,883 | 927,664 | 464,498 | 463,166 |
| | <u>3,484,695</u> | <u>2,580,287</u> | <u>904,408</u> | <u>3,530,791</u> | <u>2,658,075</u> | <u>872,716</u> |
| Other Professional Services | | | | | | |
| Anesthesia | 207,929 | | 207,929 | 199,220 | | 199,220 |
| Central supply | 221,199 | 66,432 | 154,767 | 257,620 | 67,093 | 190,527 |
| Ambulance | 227,187 | 189,961 | 37,226 | 192,716 | 167,767 | 24,949 |
| Laboratory | 666,232 | 327,748 | 338,484 | 638,592 | 317,977 | 320,615 |
| Blood | 84,584 | | 84,584 | 47,221 | | 47,221 |
| Electrocardiology | 10,219 | | 10,219 | 9,729 | | 9,729 |
| Radiology | 638,920 | 195,765 | 443,155 | 526,434 | 192,155 | 334,279 |
| Pharmacy | 682,108 | 228,233 | 453,875 | 531,581 | 190,052 | 341,529 |
| Cardiac rehabilitation | 91,759 | 87,177 | 4,582 | 91,402 | 84,789 | 6,613 |
| Diabetes education | 6,629 | 4,807 | 1,822 | 9,012 | 4,233 | 4,779 |
| Physical therapy | 222,644 | 45,859 | 176,785 | 256,423 | 43,312 | 213,111 |
| Social services | 32,859 | 31,875 | 984 | 34,329 | 32,625 | 1,704 |
| Durable medical equipment | 149,398 | 64,424 | 84,974 | 164,557 | 67,732 | 96,825 |
| Specialty clinics | 17,900 | 7,673 | 10,227 | 67,271 | 30,153 | 37,118 |
| Inhalation therapy | 344,751 | 275,397 | 69,354 | 320,165 | 210,031 | 110,134 |
| Corporate health | 3,980 | 172 | 3,808 | 1,000 | | 1,000 |
| Wound clinic | | | | 157 | 11 | 146 |
| Jewell clinic | 198,389 | 127,980 | 70,409 | 14,883 | | 14,883 |
| Occupational therapy | 72,379 | | 72,379 | 69,925 | | 69,925 |
| Speech therapy | 25,431 | | 25,431 | 13,392 | | 13,392 |
| | <u>3,904,497</u> | <u>1,653,503</u> | <u>2,250,994</u> | <u>3,445,629</u> | <u>1,407,930</u> | <u>2,037,699</u> |
| General Services | | | | | | |
| Dietary | 407,707 | 242,185 | 165,522 | 411,012 | 243,017 | 167,995 |
| Operation of plant | 733,963 | 223,054 | 510,909 | 701,836 | 219,137 | 482,699 |
| Housekeeping | 337,976 | 179,487 | 158,489 | 333,449 | 173,243 | 160,206 |
| Laundry | 76,154 | | 76,154 | 77,381 | | 77,381 |
| | <u>1,555,800</u> | <u>644,726</u> | <u>911,074</u> | <u>1,523,678</u> | <u>635,397</u> | <u>888,281</u> |
| Administrative Services | | | | | | |
| Public relations/Marketing | 44,046 | | 44,046 | 50,886 | | 50,886 |
| Medical records | 212,631 | 194,729 | 17,902 | 205,632 | 189,259 | 16,373 |
| Patient accounts | 326,521 | 267,509 | 59,012 | 310,531 | 252,932 | 57,599 |
| Admitting | 227,234 | 221,481 | 5,753 | 214,259 | 207,643 | 6,616 |
| Administration | 545,985 | 323,925 | 222,060 | 639,334 | 348,182 | 291,152 |
| Data processing | 327,167 | 100,137 | 227,030 | 297,556 | 97,962 | 199,594 |
| Human resources | 119,088 | 75,270 | 43,818 | 154,878 | 70,356 | 84,522 |
| Quality management | 118,230 | 104,458 | 13,772 | 114,017 | 96,501 | 17,516 |
| | <u>1,920,902</u> | <u>1,287,509</u> | <u>633,393</u> | <u>1,987,093</u> | <u>1,262,835</u> | <u>724,258</u> |
| Insurance | <u>175,357</u> | | <u>175,357</u> | <u>159,870</u> | | <u>159,870</u> |
| Employee Benefits | <u>1,558,260</u> | | <u>1,558,260</u> | <u>1,603,435</u> | | <u>1,603,435</u> |
| Depreciation | <u>868,169</u> | | <u>868,169</u> | <u>962,832</u> | | <u>962,832</u> |
| | <u>\$ 13,467,680</u> | <u>\$ 6,166,025</u> | <u>\$ 7,301,655</u> | <u>\$ 13,213,328</u> | <u>\$ 5,964,237</u> | <u>\$ 7,249,091</u> |

Hamilton County Public Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2004 and 2003

Schedules of Patient Receivables

| Days Since Discharge | 2004 | | 2003 | |
|---|---------------------|------------------|---------------------|------------------|
| | Amounts | Percent to Total | Amounts | Percent to Total |
| 0-30 days | \$ 1,706,686 | 47.4% | \$ 1,627,592 | 46.4% |
| 31-60 days | 445,335 | 12.7 | 820,998 | 23.4 |
| 61-90 days | 248,588 | 7.1 | 207,334 | 5.9 |
| 91-120 days | 196,705 | 5.5 | 137,905 | 3.9 |
| Over 4 months | 963,221 | 27.3 | 710,972 | 20.4 |
| Total | 3,560,535 | <u>100.0%</u> | 3,504,801 | <u>100.0%</u> |
| Home care, net of allowance | 68,860 | | 90,248 | |
| ER Physicians, net of allowance | 8,747 | | 8,941 | |
| Bad debt accounts, net of allowance | 229,926 | | 216,754 | |
| Less contractual allowances | 741,921 | | 733,210 | |
| Less allowance for uncollectible accounts | 531,000 | | 215,207 | |
| Net patient receivables | \$ <u>2,595,147</u> | | \$ <u>2,872,327</u> | |

Allowance for Uncollectible Accounts

| | 2004 | 2003 |
|---|-------------------|-------------------|
| Balance, beginning of year | \$ 215,207 | \$ 269,550 |
| Provision for year | 607,646 | 598,476 |
| Recoveries of accounts previously written off | 126,404 | 122,374 |
| | 949,257 | 990,400 |
| Accounts written off | 418,257 | 775,193 |
| Balance, end of year | \$ <u>531,000</u> | \$ <u>215,207</u> |

Hamilton County Public Hospital
Schedule of Officials
June 30, 2004

| Name | Title | Term Expires |
|---------------------------|-------------------------|---------------------|
| Board of Trustees | | |
| Wilfred Groves, III | Chairman | 2006 |
| Kim Stoakes | Vice Chairperson | 2004 |
| Stephen Mourlam | Treasurer | 2008 |
| Nancy Dermand | Secretary | 2004 |
| Don Bottorff | Member | 2006 |
| Henry Witt | Member | 2008 |
| John Hemingway | Member | 2008 |
| Hospital Officials | | |
| Palmer Schneider | Chief Executive Officer | |
| Susan Wright | Chief Operating Officer | |
| Alice Heinrichs | Chief Financial Officer | |

Hamilton County Public Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2004 and 2003

Supplies

| | <u>2004</u> | <u>2003</u> |
|---------------------------------|-------------------|-------------------|
| General | \$ 62,463 | \$ 65,010 |
| Pharmacy | 133,416 | 186,442 |
| Central Supply | 61,697 | 58,844 |
| Dietary | 10,347 | 8,418 |
| Plant operation and maintenance | 34,416 | 37,032 |
| Laboratory | 56,849 | 59,427 |
| Surgical Services | 128,507 | 128,678 |
| Radiology | 8,708 | 10,705 |
| Jewell Clinic | <u>4,428</u> | <u> </u> |
| | <u>\$ 500,831</u> | <u>\$ 554,556</u> |

Prepaid Expenses

| | <u>2004</u> | <u>2003</u> |
|-----------|------------------|------------------|
| Insurance | <u>\$ 62,410</u> | <u>\$ 63,490</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 Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the financial statements of Hamilton County Public Hospital, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 17, 2004, which contained an explanatory paragraph regarding two changes in accounting principles. 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 Hospital'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 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 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 Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs as item No. 04-1.

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 period 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, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting and its operation that we have reported to the Hospital's management in a separate letter dated September 17, 2004.

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 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 Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were exceeded at one institution 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. However, the Hospital does not have policies that cover all such expenditures.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

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
September 17, 2004

Hamilton County Public 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 | The Hospital has certain individuals in the purchases and payroll functions who perform duties that are not fully segregated from an internal control perspective. The Hospital also has one individual who has handled Information Technology management functions and major accounting functions. Hospital management should periodically reconsider whether further segregation of duties is warranted. | None |

Hamilton County Public Hospital
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2004

Findings Required to be Reported by *Government Auditing Standards*

| Reference Number | Summary of Finding | Status |
|-----------------------------|----------------------------------|---------------|
| 03-1 | Pharmaceutical inventory issues. | Resolved |



Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

As part of our audit of the financial statements of Hamilton County Public Hospital for the year ended June 30, 2004, we studied and evaluated the Hospital'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 Hospital'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.

Documentation of Accounting Policies and Procedures

The Hospital currently has some formal accounting policies and procedures. We recommend documenting all accounting procedures to help make any unexpected employee turnover or replacement more efficient.

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.

We noted the Chief Financial Officer is also the Information Technology (IT) Manager, which is a conflict of duties. The IT function should be separate from financial reporting. We understand management is in the process of hiring an IT Manager.

Segregation of duties conflicts also exist in the duties performed by the Chief Financial Officer and Financial Analyst in the Payroll and Purchasing cycles. In Payroll, both positions have access to the payroll records, can make changes to payroll information, record payroll in the general ledger and the Financial Analyst reconciles the payroll reports to the payroll bank account. Regarding the Purchasing cycle, both the Chief Financial Officer and Financial Analyst can issue a check, have access to signed checks and record accounts payable through the computer system. The Financial Analyst also reconciles the accounts payable and bank accounts.

We recommend the Hospital consider implementing the following changes to improve controls:

- Perform an independent review/approval of the payroll register and of the payroll reconciliation to the general ledger.
- Where review procedures have been implemented to reduce the risk from lack of segregation (i.e., having the CFO and the Financial Analyst review each other's work), demonstrate written evidence of this review process, either directly on the item being reviewed or on a daily review log.
- Consider reassigning some of the duties requiring access to signed checks and recordkeeping between the Chief Financial Officer and Financial Analyst.

Insurance Coverage

The Hospital does not currently carry insurance coverage for business interruption, disaster recovery, or loss of data for information systems. The Hospital is taking on a risk should an information system catastrophe occur. We recommend obtaining insurance coverage to mitigate the risk of a business interruption.

Corporate Compliance Plan

The Hospital currently does not have a Corporate Compliance audit work plan to monitor areas of risk. We recommend Hospital management create a plan and audit the areas on a regular basis for compliance with laws and regulations. The Hospital should also consider having an outside review of the compliance plan. This review is an independent assessment to determine if the Hospital is following its compliance plan. We would also encourage the Hospital to implement the following:

- Management should evaluate employees on the corporate compliance plan and ensure annual updates are provided.
- Periodic reports should be made to the Board of Trustees regarding the plan.

Billing/Medical Records Audits

The Hospital performed some billing/medical records audits during the year. We recommend the Hospital formally document procedures used, any findings and resolutions, as well as a report to the Compliance Committee to support the Hospital's position in its compliance efforts.

Accounts Receivable Aging

The Hospital's aging of accounts receivable by discharge date deteriorated over the prior year. To improve the collection efforts of accounts receivable, the Hospital should consider developing and implementing specific, written collection policies for the business office staff, such as:

Self-Pay Accounts

- Agree to payment arrangements prior to the patient being discharged (many times this can be done prior to admission). These should be in writing and signed by the responsible party. In many cases, a portion of the bill could be collected before the services are performed.
- Send an initial detailed bill to the patient or responsible party within five days of discharge.
- Document all collection efforts to prevent duplicating efforts and to provide information to determine when specific accounts should be written off. We understand management is in the process of implementing a system that will help ensure documentation is maintained.
- If patients are unresponsive or fail to comply with agreed-upon payment arrangements, the accounts should be turned over to collection agencies on a timely basis.

Non-Self Pay Accounts

- Billing processes should be reviewed and goals set to reduce billing time after discharge.
- All billings not paid within a specified time should have appropriate follow-up. The timing and nature of the follow-up will vary depending upon the insurance company or government agency billed. Amounts due from the patient for deductibles and coinsurance must be pursued timely. We understand management is in the process of implementing a system to assist in monitoring the follow up of accounts.
- The Hospital should evaluate the feasibility of co-pays being collected and payment arrangements for deductibles made prior to any services being performed.

Bad Debt Analysis

The Hospital's bad debt allowance is calculated using a percentage applied to an aging of accounts receivable. This method requires determining the allowance rate or percentage of each aging category of accounts receivable that will be uncollectible. We recommend the Hospital re-evaluate these percentages used periodically to determine their validity and reasonableness in view of actual collections and write-offs of each accounts receivable aging category.

Accounting Treatment for Capital Leases

We noted one lease entered into in 2004 that would meet the definition of a lease that should be treated as a capital lease, in which the lease is recorded as a debt and the equipment as a fixed asset. Payments made are accounted for as decreases of the debt payable and interest expense and depreciation expense are recorded. The lease is currently being treated as operating where the payments are all being expensed. We recommend reviewing all leases to determine proper recording in the financial statements.

Signed Board Minutes

We noted Board minutes have not been signed after approval during the year. As the minutes are an official document of the discussions and actions approved by the Board, signing these minutes once approved by the Secretary of the Board is recommended. These signed minutes should be kept as a permanent record of the Hospital.

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 in which 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, which management has represented to be completed. The Hospital is in the remediation process at this time. 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 Hospital'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 Trustees 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
September 17, 2004