

**Jefferson County Hospital
Fairfield, Iowa**

FINANCIAL REPORT

June 30, 2004

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Jefferson County Hospital
OFFICIALS
June 30, 2004

(Before January 2004)

BOARD OF TRUSTEES

Expiration of term

Officers

Dorian Atwood, Chair

December 31, 2008

Doug Johnson, Vice Chair

December 31, 2008

Grace Bogaards, Secretary/Treasurer

December 31, 2008

Members

Dick Hunt

December 31, 2006

Dave Fredericks

December 31, 2006

Bob Keller

December 31, 2004

Laurel Woody

December 31, 2004

CHIEF EXECUTIVE OFFICER

Ralph Paulding III

CHIEF FINANCIAL OFFICER

Eugene Irwin

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

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

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards 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 Jefferson County Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The management's discussion and analysis on pages 5-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 29, 2004

JEFFERSON COUNTY HOSPITAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

REQUIRED FINANCIAL STATEMENTS

The financial statements of Jefferson County Hospital report information of the hospital using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The balance sheet includes all of Jefferson County Hospital's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Jefferson County Hospital's creditors (liabilities). It also provides the basis for evaluating the capital structure of Jefferson County Hospital and assessing the liquidity and financial flexibility of the hospital.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in fund equity. This statement measures the success of Jefferson County Hospital's operations over the past year and can be used to determine whether Jefferson County Hospital has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

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

FINANCIAL HIGHLIGHTS

- Total assets decreased by \$253,354 from FY 2003 to \$17,081,595.
- Property and equipment increased from FY 2003 by \$18,028.
- Total debt increased from FY 2003 by \$90,723.
- Fund equity decreased from FY 2003 by \$446,857.
- Net patient service revenue increased from FY 2003 by \$916,550 primarily due to increased outpatient utilization.
- Expenses increased from FY 2003 by \$1,509,383 or 11%.
- Total margin for FY 2004 was (3.3%), compared to 2.3% for FY 2003.

FINANCIAL ANALYSIS OF THE HOSPITAL

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

NET ASSETS

A summary of the Hospital's balance sheets at June 30, 2004, 2003 and 2002, are presented in Table 1 below.

Table 1
Condensed Balance Sheets

	<u>June 30, 2004</u>	<u>June 30, 2003</u>	<u>Dollar Change</u>	<u>Total % Change</u>	<u>June 30, 2002</u>
Current and other assets	\$8,397,797	\$8,669,179	(\$271,382)	(3.1%)	\$8,949,657
Capital assets	\$8,683,798	\$8,665,770	\$18,028	.2%	\$9,009,798
Total Assets	<u>\$17,081,595</u>	<u>\$17,334,949</u>	<u>(\$253,354)</u>	<u>(1.5%)</u>	<u>\$17,959,455</u>
Long-term debt outstanding	\$583,087	\$635,344	(\$52,257)	(8%)	\$1,546,515
Other liabilities	\$2,718,603	\$2,472,843	\$245,760	9.9%	\$2,415,019
Total liabilities	<u>\$3,301,690</u>	<u>\$3,108,187</u>	<u>\$193,503</u>	<u>6.2%</u>	<u>\$3,961,534</u>
Total net assets	<u>\$13,858,766</u>	<u>\$14,226,762</u>	<u>(\$446,857)</u>	<u>(3.1%)</u>	<u>\$13,997,921</u>

As can be seen by Table 1, net assets decreased by \$446,857 to \$13,858,766 in fiscal year 2004, down from \$14,226,762 in fiscal year 2003. The change in net assets results primarily from the loss the hospital experienced this year.

REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

The following table presents a summary of the Jefferson County Hospital's historical revenues and expenses for each of the fiscal years ended June 30, 2004, 2003 and 2002.

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

	Year ended June 30,		
	2004	2003	2003
Total revenue	\$13,443,191	\$12,534,372	\$12,388,935
Expenses	14,644,391	13,135,008	12,764,027
Operating (loss)	(1,201,200)	(600,636)	(375,092)
Non-operating gains	724,642	802,844	846,921
Excess of revenues over expenses	(476,558)	202,208	471,829
Other changes in fund equity-contributions	29,701	26,633	28,392
Total fund equity, beginning	14,226,762	13,997,921	13,497,700
Total fund equity, ending	\$13,779,905	\$14,226,762	\$13,997,921

Operating and Financial Performance

Volume: Acute inpatient admissions for fiscal year 2004 were 741 compared to 819 in fiscal year 2003. Acute patient days declined by 10% compared to FY 2003 because of the decreased admissions. Swing bed admissions increased by 10% for FY 2004 to a total of 347 admissions. Swing bed patient days increased by 34% due to an increase of 1.3 days in average length of stay and the increase in admissions mentioned above. Outpatient visits increased by 1% to 24,004 visits in FY 2004. The following departments are responsible for a majority of the increase in outpatient visits: Radiology, CT Scanning, MRI, Physical Therapy and Cardiac Rehab. Operating room procedures were 4% below FY 2003's level due to a reduction in outpatient surgical procedures. Total operating room procedures in FY 2004 were 520 surgeries compared to 542 in FY 2003 with 73% of the surgeries being outpatient procedures.

Net Patient Service Revenue: Due to an average rate increase of 5.4% effective July 1, 2004, and the increase in outpatient volumes discussed above, net patient service revenues climbed by \$916,550, or 7.5% compared to fiscal year 2003. During the fiscal year, Jefferson County Hospital's contractual allowances (the difference between billed charges and paid charges from third party payers) increased by 40%. The majority of the increase (35%) came from Medicare payment reductions; however Wellmark contractual allowances increased by 60% over last year's Wellmark contractual allowance.

The following table presents the relative percentages of gross charges for patient services by payer for the years ended June 30, 2004, 2003 and 2002.

Table 3
Payor Mix by Percentage

	Year Ended June 30,		
	2004	2003	2002
Medicare	49%	48%	48%
Wellmark	18%	15%	14%
Other Commercial Insurance	12%	15%	17%
Medicaid	6%	6%	6%
All other	15%	16%	15%
Total	100.0%	100.0%	100.0%

Significant changes in operations from FY 2003:

Other Operating Revenue: FY 2004 showed a 2.6%, or \$7,731, decrease in other operating revenue compared to FY 2003. The primary reason for this decrease was a \$7,700 decrease in clinic revenue caused by a slight decrease in activity.

Employee Benefits: FY 2004 showed a \$71,727 increase in Employee Benefit expense when compared to FY 2003. This is a 5% increase in cost. The primary reason for the increase is due to an increase in workers compensation premiums.

Interest Expense: There was a \$28,966 decrease in interest expense during FY 2004. This is attributed to the early payoff of a loan and the decreasing principal balance of our 1993 construction note.

CAPITAL ASSETS

At the end of fiscal year 2004, the Jefferson County Hospital has invested \$1,065,936 in capital assets. The increase in capital assets is primarily a result of increases in equipment and building improvements. Equipment purchases were \$874,261 due to the purchase of phase 1 of a new information technology system. Phase 2 of the new information technology system will occur in fiscal year 2005. The hospital deleted \$972,730 of assets no longer in service from its depreciation records in fiscal year 2004.

The following table summarizes Jefferson County Hospital's capital assets as of June 30, 2004, 2003 and 2002.

Table 4
Capital Assets
(in Thousands)

	June 30,			
	2004	2003	Change	2002
Land	\$424.0	\$416.5	\$7.5	\$359.3
Land improvements	522.6	522.6	0	520.7
Buildings	12,505.2	12,556.3	(51.1)	12,406.4
Major moveable equipment	6,923.2	6,842.4	80.8	6,410.3
Construction in progress	65.3	9.3	56.0	.7
Subtotal	20,440.3	20,347.1	93.2	19,697.4
Less accumulated depreciation	(11,756.5)	(11,681.3)	(75.2)	(10,687.6)
Property, plant and equipment, net	<u>\$8,683.8</u>	<u>\$8,665.8</u>	<u>(\$18.0)</u>	<u>\$9,009.8</u>

DEBT ADMINISTRATION

Long-Term Debt

At year-end, Jefferson County Hospital had \$1,251,016 in short- and long-term debt related to Hospital Revenue Bonds and financing for phase 1 of an information technology upgrade. This has increased from \$1,160,293 in fiscal year 2003 due to new debt related to an information technology upgrade. More detailed information about Jefferson County Hospital's outstanding debt is presented in the Notes to the Financial Statements. Note that total debt represents 9% of Jefferson County Hospital's equity as of year-end.

PERFORMANCE COMPARED TO BUDGET

Net patient revenues were \$13,152,850 or 7% under budget for the fiscal year ended June 30, 2004. This was primarily due to lower utilization of acute services than budgeted. Acute patient days were 24% below budget.

As mentioned above, Medicare contractual allowances continue to be a larger percentage of gross revenue. In addition to this our Wellmark contractual allowance has increased at a faster rate than other commercial insurance.

Operating expenses were \$302,000 or 2% under budget for the year with salaries and benefits being slightly below budget. The rest of the operating expenses reflect reduced expense due to reduced activity.

Income from investments was \$123,000 under budget during fiscal year 2004, which is linked to the lower CD interest and some poor investment returns from our joint ventures.

The following table compares fiscal year 2004 actual to budget information.

Table 5
Budget vs. Actual
(In Thousands)

	<u>FY 2004</u> <u>Budget</u>	<u>FY 2004</u> <u>Actual</u>	<u>Dollar</u> <u>Variance</u>	<u>Percent</u> <u>Variance</u>
Gross patient service revenue	\$21,318.0	\$21,152.6	(\$165.4)	(1%)
Contractual adjustments	(7,033.8)	(7,899.0)	(865.2)	(13%)
Net patient service revenue	14,284.2	13,152.9	(1,131.3)	(7%)
Other operating revenue	297.3	290.3	7.0	2%
Total operating revenue	14,581.5	13,443.2	(1,138.3)	(7%)
Operating expenses	14,946.5	14,644.4	(302.1)	(2%)
Operating income	(365.0)	(1,201.2)	(836.2)	(229%)
Income from investments	113.4	(10.0)	(123.4)	(109%)
Other non-operating gains	776.8	734.6	(42.2)	(5%)
Excess of revenues over expenses	\$525.2	(\$476.6)	(\$1,001.8)	(190%)

ECONOMIC AND OTHER FACTORS AND NEXT YEAR'S BUDGET

Jefferson County Hospital's Board and management considered many factors when setting the fiscal year 2004 budget. Of primary importance in setting the 2004 budget is the status of the economy, which takes into account market forces and environmental factors such as:

- Medicare and Medicaid reimbursement rates
- Privacy legislation (HIPAA)
- Increased expectations for quality at a lower price
- Workforce shortages
- Cost of supplies
- Surging drug costs

Contacting the Hospital's Finance Department

The Hospital's financial statements are designed to present users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about the report or need additional financial information, please contact the finance department at Jefferson County Hospital; 400 Highland; Fairfield, Iowa 52556. Phone number 641-472-4111.

**Jefferson County Hospital
BALANCE SHEETS**

	June 30	
ASSETS	2004	2003
CURRENT ASSETS		
Cash	\$ 969,731	\$ 1,412,218
Patient receivables, less allowance for contractual adjustments and uncollectibles 2004 \$1,194,788; 2003 \$810,700	2,219,698	2,050,443
Other receivables	176,865	252,975
Inventories	142,118	142,280
Prepaid expenses	<u>294,258</u>	<u>217,424</u>
Total current assets	<u>3,802,670</u>	<u>4,075,340</u>
 ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	365,707	363,532
Certificates of deposit	3,200,423	3,123,116
Interest receivable	<u>11,849</u>	<u>14,538</u>
	<u>3,577,979</u>	<u>3,501,186</u>
Restricted by donors for specific purpose		
Cash and cash equivalents	37,320	33,555
Certificates of deposit	<u>154,047</u>	<u>154,047</u>
	<u>191,367</u>	<u>187,602</u>
Total assets whose use is limited	<u>3,769,346</u>	<u>3,688,788</u>
 PROPERTY AND EQUIPMENT	20,440,307	20,347,101
Less accumulated depreciation	<u>11,756,509</u>	<u>11,681,331</u>
Total property and equipment	<u>8,683,798</u>	<u>8,665,770</u>
 OTHER ASSETS		
Unamortized financing costs	10,668	25,094
Succeeding year property tax receivable	738,795	742,206
Investment in joint ventures	<u>76,318</u>	<u>137,751</u>
Total other assets	<u>825,781</u>	<u>905,051</u>
 Totals	<u>\$17,081,595</u>	<u>\$17,334,949</u>

		June 30	
LIABILITIES AND FUND EQUITY		2004	2003
CURRENT LIABILITIES			
Current maturities of long-term debt		\$ 667,929	\$ 524,949
Accounts payable		666,884	639,948
Accrued employee compensation		516,610	427,733
Payroll taxes and withholdings		53,385	113,007
Estimated third-party payor settlements		75,000	25,000
	Total current liabilities	<u>1,979,808</u>	<u>1,730,637</u>
 LONG-TERM DEBT			
		1,251,016	1,160,293
	Less current maturities	<u>667,929</u>	<u>524,949</u>
	Total long-term debt	<u>583,087</u>	<u>635,344</u>
 DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE			
		<u>738,795</u>	<u>742,206</u>
 COMMITMENTS AND CONTINGENCIES			
 FUND EQUITY			
	Invested in capital assets, net of related debt	7,432,782	7,505,477
	Restricted		
	For specific purpose by donors	191,367	187,602
	Unrestricted	<u>6,155,756</u>	<u>6,533,683</u>
	Total fund equity	<u>13,779,905</u>	<u>14,226,762</u>
	Totals	<u>\$17,081,595</u>	<u>\$17,334,949</u>

Jefferson County Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2004	2003
NET PATIENT SERVICE REVENUE , net of provisions for bad debts 2004 \$527,912; 2003 \$381,172	\$13,152,850	\$12,236,300
OTHER REVENUE	<u>290,341</u>	<u>298,072</u>
Total revenue	<u>13,443,191</u>	<u>12,534,372</u>
EXPENSES		
Nursing service	3,965,758	3,543,203
Other professional service	4,794,992	4,098,591
General service	1,740,951	1,629,064
Fiscal and administrative service and unassigned expenses	3,094,782	2,864,252
Provision for depreciation	<u>1,047,908</u>	<u>999,898</u>
Total expenses	<u>14,644,391</u>	<u>13,135,008</u>
Operating (loss)	<u>(1,201,200)</u>	<u>(600,636)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	766,405	786,854
Investment income	91,127	141,078
Interest expense	(52,775)	(81,741)
Equity in (losses) of joint venture investments	(101,046)	(45,786)
Unrestricted contributions	15,393	634
Gain on disposal of equipment	<u>5,538</u>	<u>1,805</u>
Total nonoperating gains (losses)	<u>724,642</u>	<u>802,844</u>
Excess (deficiency) of revenues over expenses before contributions	<u>(476,558)</u>	<u>202,208</u>
CONTRIBUTIONS		
Change in fund equity	<u>29,701</u>	<u>26,633</u>
	(446,857)	228,841
TOTAL FUND EQUITY		
Beginning	<u>14,226,762</u>	<u>13,997,921</u>
Ending	<u>\$13,779,905</u>	<u>\$14,226,762</u>

**Jefferson County Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$13,033,595	\$12,422,319
Cash paid to suppliers for goods and services	(7,724,190)	(6,878,520)
Cash paid to employees for services	(5,878,349)	(5,217,930)
Other operating revenue received	<u>363,636</u>	<u>174,261</u>
Net cash provided by (used in) operating activities	<u>(205,308)</u>	<u>500,130</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	769,220	784,874
Unrestricted contributions received	15,393	634
Scholarships awarded	<u>(2,000)</u>	<u>—</u>
Net cash provided by noncapital financing activities	<u>782,613</u>	<u>785,508</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment and construction in progress	(1,065,935)	(655,870)
Principal payments on long-term debt	(551,276)	(989,597)
Proceeds on issuance of debt	641,999	—
Proceeds from sale of equipment	5,538	1,805
Interest paid on long-term debt	(52,775)	(81,741)
Contributions restricted for purchase of property and equipment	<u>25,937</u>	<u>31,795</u>
Net cash (used in) capital and related financing activities	<u>(996,512)</u>	<u>(1,693,608)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(77,307)	(100,843)
Contributions to investments in joint ventures	(55,000)	—
Investment income received	<u>114,967</u>	<u>170,602</u>
Net cash provided by (used in) investing activities	<u>(17,340)</u>	<u>69,759</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(436,547)	(338,211)
CASH AND CASH EQUIVALENTS		
Beginning	<u>1,809,305</u>	<u>2,147,516</u>
Ending	<u>\$ 1,372,758</u>	<u>\$ 1,809,305</u>

Jefferson County Hospital
STATEMENTS OF CASH FLOWS (continued)

	Year ended June 30	
	2004	2003
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating (loss)	\$ (1,201,200)	\$ (600,636)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities		
Provision for depreciation	1,047,908	999,898
Amortization of financing costs	14,425	14,425
Change in assets and liabilities		
(Increase) decrease in patient receivables	(169,255)	111,019
(Increase) decrease in other receivables, net of noncapital financing activities	73,295	(123,811)
(Increase) decrease in inventories	162	(24,059)
(Increase) in prepaid expenses	(76,834)	(69,550)
Increase in accounts payable	26,936	76,369
Increase in accrued employee compensation	88,877	28,119
Increase (decrease) in payroll taxes and withholdings	(59,622)	13,356
Increase in net estimated third-party payor settlements	<u>50,000</u>	<u>75,000</u>
Net cash provided by (used in) operating activities	<u>\$ (205,308)</u>	<u>\$ 500,130</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets	\$ 969,731	\$ 1,412,218
Assets whose use is limited		
Board-designated for plant replacement and expansion	365,707	363,532
Restricted by donors for specific purpose	<u>37,320</u>	<u>33,555</u>
Total per statement of cash flows	<u>\$ 1,372,758</u>	<u>\$ 1,809,305</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Jefferson County.

Reporting Entity

For financial reporting purposes, Jefferson County Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Jefferson County Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts, mutual funds and the Iowa Public Agency Investment Trust (IPAIT) amount to be cash equivalents.

Investments and Investment Income

The Hospital's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Open-end mutual funds Iowa Public Agency Investment Trust IPAIT (governmental external investment pool registered as an investment company) American Funds	Fair value determined by current share price Fair value determined by current share price

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Investments in certain partnerships are accounted for using the equity method under which the net income of the partnerships is recognized as investment income and added to the investment account.

Investment income is reported as nonoperating gains.

Inventories

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

Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method using these asset lives:

Land improvements	10 to 25 years
Buildings	5 to 40 years
Equipment	3 to 20 years

Property Tax Receivable

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

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following components:

Invested in capital assets, net of related debt

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and amortization and reduced by the outstanding balances of the long-term debt obligations that are attributable to the acquisition, construction, or improvement of those assets.

Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity (continued)

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by grantors or contributors.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Statements of Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Costs of Borrowing

Unamortized financing costs are amortized over the period the obligation is outstanding using the straight-line method.

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS (continued)

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Hospital's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. At June 30, 2004, all of the Hospital's investments subject to categorization are in a category characterized as investments that are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name.

The Hospital's investments at June 30, 2004 are as follows:

	<u>Fair value</u>
Iowa Public Agency Investment Trust	\$ <u>365,707</u>
Mutual fund	\$ <u>37,320</u>

The Hospital's investment in the Iowa Public Agency Investment Trust is not subject to risk categorization.

NOTE 3 PATIENT RECEIVABLES

Patient accounts receivable reported as current assets consisted of these amounts:

	<u>June 30</u>	
	<u>2004</u>	<u>2003</u>
Receivable from patients	\$ 570,006	\$ 554,412
Receivable from insurance carriers	1,520,003	999,868
Receivable from Medicare	1,172,033	1,178,658
Receivable from Medicaid	<u>152,444</u>	<u>128,205</u>
Total patient receivables	3,414,486	2,861,143
Less allowances for contractual and other adjustments	<u>(1,194,788)</u>	<u>(810,700)</u>
Totals	<u>\$2,219,698</u>	<u>\$2,050,443</u>

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Under a provision of the Balanced Budget Refinement Act (as amended by the Medicare Prescription Drug, Improvement and Modernization Act of 2003) for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 NET PATIENT SERVICE REVENUE (continued)

Medicaid

Inpatient services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per outpatient ambulatory patient group.

Other

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

NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2004 and 2003 follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2004</u>
Land	\$ 416,505	\$ 7,500	\$ -	\$ -	\$ 424,005
Land improvements	522,596	-	-	-	522,596
Buildings	12,556,283	47,405	(98,469)	-	12,505,219
Equipment	6,842,420	955,045	(874,261)	-	6,923,204
Equipment installations in progress	<u>9,297</u>	<u>55,986</u>	<u>-</u>	<u>-</u>	<u>65,283</u>
Totals	20,347,101	1,065,936	(972,730)	-	20,440,307
Less accumulated depreciation and amortization	<u>(11,681,331)</u>	<u>(1,047,908)</u>	<u>972,730</u>	<u>-</u>	<u>(11,756,509)</u>
Net property and equipment	<u>\$ 8,665,770</u>	<u>\$ 18,028</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,683,798</u>

	<u>Balance July 1, 2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Balance June 30, 2003</u>
Land	\$ 359,307	\$ 13,210	\$ -	\$ 43,988	\$ 416,505
Land improvements	520,682	1,914	-	-	522,596
Buildings	12,406,448	200,012	-	(50,177)	12,556,283
Equipment	6,410,304	432,116	-	-	6,842,420
Equipment installations in progress	<u>679</u>	<u>8,618</u>	<u>-</u>	<u>-</u>	<u>9,297</u>
Totals	19,697,420	655,870	-	(6,189)	20,347,101
Less accumulated depreciation and amortization	<u>(10,687,622)</u>	<u>(999,898)</u>	<u>-</u>	<u>6,189</u>	<u>(11,681,331)</u>
Net property and equipment	<u>\$ 9,009,798</u>	<u>\$ (344,028)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,665,770</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG TERM DEBT

The Board of Supervisors of Jefferson County adopted a resolution authorizing the issuance of a County Public Hospital Revenue Note. The agreement provided for the principal amount of the note not to exceed \$5,000,000, with the eventual amount borrowed being \$4,994,381. The note is due in monthly installments of \$47,345 including interest at 4.868%. On September 1, 2001, and at the end of each five year period thereafter, the interest rate will be adjusted to equal 101% of U.S. Treasury Constant Maturity averaged for the sixty day period immediately preceding the interest adjustment date. Principal and interest are payable solely from the net revenues of the Hospital. In addition, the Hospital has agreed to certain covenants regarding the limiting of capital expenditures, debt service coverage and tax levying limitations. The resolution requires the establishment of a Sinking Fund into which monthly payments are to be made in amounts sufficient to make the monthly installment payments under the Note.

The Hospital entered into a Governmental Lease-Purchase Agreement with a bank for the purchase of equipment in March, 2004. The agreement commenced on April 1, 2004. The original amount of obligations due under the agreement was \$641,999 with an interest rate of 4.5%. Monthly payments of \$11,970 are due until April 1, 2009, the termination date of the agreement. The agreement is secured by equipment.

Principal and interest maturities of long-term debt at June 30, 2004 are summarized as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30			
2005	\$ 667,929	\$ 43,851	\$ 711,780
2006	212,261	20,241	232,502
2007	129,588	14,049	143,637
2008	135,521	8,116	143,637
2009	<u>105,717</u>	<u>2,004</u>	<u>107,721</u>
Totals	<u>\$1,251,016</u>	<u>\$ 88,261</u>	<u>\$1,339,277</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
County Revenue Note	\$1,160,293	\$ -	\$ (522,455)	\$ 637,838	\$ 549,474
Equipment note	<u>-</u>	<u>641,999</u>	<u>(28,821)</u>	<u>613,178</u>	<u>118,455</u>
Totals	<u>\$1,160,293</u>	<u>\$ 641,999</u>	<u>\$ (551,276)</u>	<u>\$1,251,016</u>	<u>\$ 667,929</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
County Revenue Note	\$1,657,783	\$ -	\$ (497,490)	\$1,160,293	\$ 524,949
Equipment note	<u>492,107</u>	<u>-</u>	<u>(492,107)</u>	<u>-</u>	<u>-</u>
Totals	<u>\$2,149,890</u>	<u>\$ -</u>	<u>\$ (989,597)</u>	<u>\$1,160,293</u>	<u>\$ 524,949</u>

**Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 MALPRACTICE CLAIMS

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

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

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$319,431, \$296,959 and \$295,091, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

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

	2004	2003
Charges foregone, based on established rates	\$ <u>100,741</u>	\$ <u>84,653</u>
Equivalent percentage of charity care patients to all patients served	<u>.5%</u>	<u>.5%</u>

NOTE 10 EMPLOYEE BENEFITS

The Hospital has developed a self-insured health insurance program for all employees. Claims for health care services for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$50,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$955,000. Total expense, which includes claims, administration fees, and stop-loss insurance, under this self-insurance program for the years ended June 30, 2004 and 2003 was \$561,600 and \$583,619, respectively.

Jefferson County Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 11 HOSPITAL RISK MANAGEMENT

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

NOTE 12 ROBERT A. RYAN, M.D. ENDOWED SCHOLARSHIP FUND

This fund was established through a donation received from Robert A. Ryan, M.D. The investment is to be maintained in perpetuity and the income only to be used for a nursing scholarship for a member of the senior class graduating from Fairfield High School, Fairfield, Iowa or from another high school in the area. At June 30, 2004, the balance of the fund was being maintained in mutual funds with a total balance of \$37,320.

NOTE 13 INVESTMENT IN JOINT VENTURES

The Hospital has varying interests in several joint ventures engaged in providing various health care services. The investments are accounted for using the equity method. The Hospital has recorded its share of the joint ventures' income (losses) of \$(101,046) in 2004 and \$(45,786) in 2003.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

The Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

Our report on our audits of the basic financial statements of Jefferson County Hospital as of and for the years ended June 30, 2004 and 2003 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 29, 2004

Jefferson County Hospital
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS, BUDGET AND ACTUAL
Year ended June 30, 2004

The following is a comparison of actual expenditures to budget:

	<u>Reported amounts (GAAP basis)</u>			<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>Budget</u>
	<u>*General funds</u>	<u>Donor-restricted funds</u>	<u>Total (memorandum only)</u>			
Amount to be raised by taxation	\$ 766,405	\$ -	\$ 766,405	\$ -	\$ 766,405	\$ 742,206
Other revenue/ receipts	<u>14,008,051</u>	<u>31,702</u>	<u>14,039,753</u>	<u>(553,849)</u>	<u>13,485,904</u>	<u>14,026,714</u>
	14,774,456	31,702	14,806,158	(553,849)	14,252,309	14,768,920
Expenses/ expenditures	<u>15,225,078</u>	<u>27,937</u>	<u>15,253,015</u>	<u>(626,544)</u>	<u>14,626,471</u>	<u>15,809,000</u>
Net	(450,622)	3,765	(446,857)	72,695	(374,162)	(1,040,080)
Balance, beginning	<u>14,039,160</u>	<u>187,602</u>	<u>14,226,762</u>	<u>(7,505,477)</u>	<u>6,721,285</u>	<u>6,801,328</u>
Balance, ending	<u>\$13,588,538</u>	<u>\$ 191,367</u>	<u>\$13,779,905</u>	<u>\$(7,432,782)</u>	<u>\$ 6,347,123</u>	<u>\$ 5,761,248</u>

*Includes unrestricted fund equity and fund equity invested in capital assets, net of related debt.

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

**Jefferson County Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0 – 30 days (includes patients in Hospital at end of year)	\$1,558,176	\$1,443,790	47.63%	52.20%
31 – 60 days	600,589	714,709	18.36	25.84
61 – 90 days	315,195	183,571	9.64	6.64
Over 90 days	<u>797,163</u>	<u>424,063</u>	<u>24.37</u>	<u>15.32</u>
	<u>3,271,123</u>	<u>2,766,133</u>	<u>100.00%</u>	<u>100.00%</u>
Physician Clinic	<u>143,363</u>	<u>95,010</u>		
Total receivables	<u>3,414,486</u>	<u>2,861,143</u>		
Allowances				
Contractual				
Medicare	595,100	522,000		
Medicaid and Blue Cross	200,900	121,000		
Uncollectibles	338,788	124,000		
Physician Clinic	<u>60,000</u>	<u>43,700</u>		
Total allowances	<u>1,194,788</u>	<u>810,700</u>		
Totals	<u>\$2,219,698</u>	<u>\$2,050,443</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
BALANCE , beginning	\$ 124,000	\$ 101,000		
ADD				
Provision for bad debts	527,912	381,172	4.01%	3.12%
DEDUCT				
Accounts written off	<u>(313,124)</u>	<u>(358,172)</u>	2.38	2.93
BALANCE , ending	<u>\$ 338,788</u>	<u>\$ 124,000</u>		

**Jefferson County Hospital
INVENTORIES**

	<u>June 30</u>		<u>Increase (decrease)</u>
	<u>2004</u>	<u>2003</u>	
Storeroom	\$ 45,695	\$ 52,454	\$ (6,759)
Uniforms and linen	76,184	76,655	(471)
Dietary	<u>20,239</u>	<u>13,171</u>	<u>7,068</u>
Totals	<u>\$ 142,118</u>	<u>\$ 142,280</u>	<u>\$ (162)</u>

**Jefferson County Hospital
PATIENT SERVICE REVENUE**

	Total		Increase (decrease)
	Year ended June 30		
	2004	2003	
DAILY PATIENT SERVICES			
Medical and surgical	\$1,536,793	\$ 1,515,365	\$ 21,428
Critical care unit	48,230	51,816	(3,586)
Swing bed	837,596	558,691	278,905
Long term care	<u>1,205,503</u>	<u>1,244,111</u>	<u>(38,608)</u>
	<u>3,628,122</u>	<u>3,369,983</u>	<u>258,139</u>
OTHER NURSING SERVICES			
Operating and recovery rooms	2,862,201	2,465,176	397,025
Central supply	352,788	343,226	9,562
Emergency services	<u>2,641,567</u>	<u>1,938,439</u>	<u>703,128</u>
	<u>5,856,556</u>	<u>4,746,841</u>	<u>1,109,715</u>
OTHER PROFESSIONAL SERVICES			
Laboratory and blood bank	1,696,462	1,495,103	201,359
Electrocardiology	346,920	273,249	73,671
Radiology	1,890,332	1,681,779	208,553
CT scans	1,420,340	1,287,265	133,075
Magnetic resonance imaging	1,032,149	888,686	143,463
Pharmacy	1,784,072	1,740,404	43,668
Anesthesiology	445,020	447,000	(1,980)
Respiratory therapy	630,532	499,857	130,675
Physical therapy	1,140,233	1,079,768	60,465
Speech therapy	59,855	58,689	1,166
Occupational therapy	303,104	221,476	81,628
Physician clinic	<u>918,861</u>	<u>165,453</u>	<u>753,408</u>
	<u>11,667,880</u>	<u>9,838,729</u>	<u>1,829,151</u>
	21,152,558	17,955,553	3,197,005
Charity care charges foregone, based on established rates	<u>(100,741)</u>	<u>(84,653)</u>	<u>(16,088)</u>
Total gross patient service revenue	21,051,817	17,870,900	3,180,917
Provisions for contractual adjustments and bad debts	<u>(7,878,967)</u>	<u>(5,634,600)</u>	<u>(2,264,367)</u>
Net patient service revenue	<u>\$13,152,850</u>	<u>\$12,236,300</u>	<u>\$ 916,550</u>

Inpatient			Outpatient		
Year ended June 30		Increase (decrease)	Year ended June 30		Increase (decrease)
2004	2003		2004	2003	
\$1,536,793	\$1,515,365	\$ 21,428			
48,230	51,816	(3,586)			
837,596	558,691	278,905			
<u>1,205,503</u>	<u>1,244,111</u>	<u>(38,608)</u>			
<u>3,628,122</u>	<u>3,369,983</u>	<u>258,139</u>			
1,165,251	809,298	355,953	\$1,696,950	\$ 1,655,878	\$ 41,072
319,312	308,760	10,552	33,476	34,466	(990)
<u>239,319</u>	<u>232,184</u>	<u>7,135</u>	<u>2,402,248</u>	<u>1,706,255</u>	<u>695,993</u>
<u>1,723,882</u>	<u>1,350,242</u>	<u>373,640</u>	<u>4,132,674</u>	<u>3,396,599</u>	<u>736,075</u>
565,264	515,358	49,906	1,131,198	979,745	151,453
45,364	53,173	(7,809)	301,556	220,076	81,480
205,829	193,250	12,579	1,684,503	1,488,529	195,974
242,887	256,633	(13,746)	1,177,453	1,030,632	146,821
39,263	29,082	10,181	992,886	859,604	133,282
977,581	1,037,098	(59,517)	806,491	703,306	103,185
139,560	100,495	39,065	305,460	346,505	(41,045)
551,878	461,172	90,706	78,654	38,685	39,969
294,784	232,862	61,922	845,449	846,906	(1,457)
26,408	13,732	12,676	33,447	44,957	(11,510)
97,155	75,381	21,774	205,949	146,095	59,854
-	-	-	<u>918,861</u>	<u>165,453</u>	<u>753,408</u>
<u>3,185,973</u>	<u>2,968,236</u>	<u>217,737</u>	<u>8,481,907</u>	<u>6,870,493</u>	<u>1,611,414</u>
<u>\$8,537,977</u>	<u>\$7,688,461</u>	<u>\$ 849,516</u>	<u>\$12,614,581</u>	<u>\$10,267,092</u>	<u>\$2,347,489</u>

Jefferson County Hospital
PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2004</u>	<u>2003</u>	
Contractual adjustments			
Medicare	\$5,462,534	\$4,041,678	\$1,420,856
Medicaid	693,311	582,777	110,534
Blue Cross	756,144	472,970	283,174
Provision for bad debts	527,912	381,172	146,740
Discounts and other adjustments	<u>459,066</u>	<u>156,003</u>	<u>303,063</u>
 Totals	 <u>\$7,898,967</u>	 <u>\$5,634,600</u>	 <u>\$2,264,367</u>

OTHER REVENUE

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2004</u>	<u>2003</u>	
Employee and guest meals	\$ 149,093	\$ 149,208	\$ (115)
Lifeline	58,219	57,216	1,003
Clinic, echocardiology	44,345	52,090	(7,745)
Rental income, net	8,320	8,119	201
Miscellaneous, net	<u>30,364</u>	<u>31,439</u>	<u>(1,075)</u>
 Totals	 <u>\$ 290,341</u>	 <u>\$ 298,072</u>	 <u>\$ (7,731)</u>

**Jefferson County Hospital
NURSING SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2004</u>	<u>2003</u>	<u>(decrease)</u>
ADMINISTRATIVE			
Salaries	\$ 190,350	\$ 177,721	\$ 12,629
Supplies and expense	14,154	11,802	2,352
	<u>204,504</u>	<u>189,523</u>	<u>14,981</u>
MEDICAL AND SURGICAL AND OBSTETRIC			
Salaries	932,649	891,817	40,832
Supplies and expense	94,141	59,894	34,247
	<u>1,026,790</u>	<u>951,711</u>	<u>75,079</u>
CRITICAL CARE UNIT			
Salaries	22,145	22,568	(423)
Supplies and expense	2,413	2,803	(390)
	<u>24,558</u>	<u>25,371</u>	<u>(813)</u>
LONG TERM CARE			
Salaries	651,509	633,091	18,418
Supplies and expense	27,384	20,596	6,788
	<u>678,893</u>	<u>653,687</u>	<u>25,206</u>
OPERATING AND RECOVERY ROOMS			
Salaries	181,095	158,752	22,343
Supplies and expense	479,882	399,885	79,997
	<u>660,977</u>	<u>558,637</u>	<u>102,340</u>
CENTRAL SUPPLY			
Salaries	-	16,731	(16,731)
Supplies and expense	43,238	107,165	(63,927)
	<u>43,238</u>	<u>123,896</u>	<u>(80,658)</u>
EMERGENCY SERVICES			
Salaries	586,451	570,404	16,047
Professional fees	656,143	406,923	249,220
Supplies and expense	84,204	63,051	21,153
	<u>1,326,798</u>	<u>1,040,378</u>	<u>286,420</u>
Totals	<u>\$3,965,758</u>	<u>\$3,543,203</u>	<u>\$ 422,555</u>

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2004</u>	<u>2003</u>	
LABORATORY AND BLOOD BANK			
Salaries	\$ 268,377	\$ 253,522	\$ 14,855
Professional fees	84,545	103,245	(18,700)
Supplies and expense	<u>246,198</u>	<u>223,968</u>	<u>22,230</u>
	<u>599,120</u>	<u>580,735</u>	<u>18,385</u>
ELECTROCARDIOLOGY			
Salaries	44,014	20,668	23,346
Professional fees	3,456	2,880	576
Supplies and expense	<u>5,683</u>	<u>5,818</u>	<u>(135)</u>
	<u>53,153</u>	<u>29,366</u>	<u>23,787</u>
RADIOLOGY			
Salaries	333,146	309,368	23,778
Professional fees	201,019	203,938	(2,919)
Supplies and expense	<u>237,353</u>	<u>197,986</u>	<u>39,367</u>
	<u>771,518</u>	<u>711,292</u>	<u>60,226</u>
CT SCANS			
Supplies and expense	<u>27,802</u>	<u>28,237</u>	<u>(435)</u>
MAGNETIC RESONANCE IMAGING			
Professional fees	346,950	358,650	(11,700)
Supplies and expenses	<u>9,854</u>	<u>12,538</u>	<u>(2,684)</u>
	<u>356,804</u>	<u>371,188</u>	<u>(14,384)</u>
PHARMACY			
Salaries	31,230	29,922	1,308
Professional fees	266,694	262,997	3,697
Drugs	593,351	604,297	(10,946)
Supplies and expense	<u>3,727</u>	<u>463</u>	<u>3,264</u>
	<u>895,002</u>	<u>897,679</u>	<u>(2,677)</u>
ANESTHESIOLOGY			
Professional fees	287,689	265,975	21,714
Supplies and expense	<u>21,659</u>	<u>19,493</u>	<u>2,166</u>
	<u>309,348</u>	<u>285,468</u>	<u>23,880</u>
RESPIRATORY THERAPY			
Salaries	30,343	25,198	5,145
Oxygen	18,595	15,492	3,103
Supplies and expense	<u>12,137</u>	<u>6,339</u>	<u>5,798</u>
	<u>61,075</u>	<u>47,029</u>	<u>14,046</u>
PHYSICAL THERAPY			
Salaries	22,897	34,189	(11,292)
Professional fees	428,721	399,947	28,774
Supplies and expense	<u>14,326</u>	<u>19,548</u>	<u>(5,222)</u>
	<u>465,944</u>	<u>453,684</u>	<u>12,260</u>
SPEECH THERAPY			
Professional fees	<u>43,611</u>	<u>34,600</u>	<u>9,011</u>

Jefferson County Hospital
OTHER PROFESSIONAL SERVICE EXPENSES (continued)

	<u>Year ended June 30</u>		<u>Increase (decrease)</u>
	<u>2004</u>	<u>2003</u>	
OCCUPATIONAL THERAPY			
Salaries	\$ —	\$ 2,283	\$ (2,283)
Professional fees	125,279	86,347	38,932
Supplies and expense	<u>2,101</u>	<u>2,486</u>	<u>(385)</u>
	<u>127,380</u>	<u>91,116</u>	<u>36,264</u>
PHYSICIANS CLINIC			
Salaries	545,226	164,232	380,994
Supplies and expense	<u>60,058</u>	<u>12,930</u>	<u>47,128</u>
	<u>605,284</u>	<u>177,162</u>	<u>428,122</u>
SOCIAL SERVICES			
Salaries	22,952	16,130	6,822
Supplies and expense	<u>—</u>	<u>412</u>	<u>(412)</u>
	<u>22,952</u>	<u>16,542</u>	<u>6,410</u>
MEDICAL RECORDS			
Salaries	236,894	252,768	15,874
Supplies and expense	<u>27,077</u>	<u>48,521</u>	<u>(21,444)</u>
	<u>263,971</u>	<u>301,289</u>	<u>(37,318)</u>
QUALITY ASSURANCE			
Salaries	132,938	66,086	66,852
Supplies and expense	<u>7,024</u>	<u>7,118</u>	<u>(94)</u>
	<u>139,962</u>	<u>73,204</u>	<u>66,758</u>
CROSSROADS			
Salaries	50,129	—	50,129
Supplies and expense	<u>1,937</u>	<u>—</u>	<u>1,937</u>
	<u>52,066</u>	<u>—</u>	<u>52,066</u>
Totals	<u>\$4,794,992</u>	<u>\$4,098,591</u>	<u>\$ 696,401</u>

**Jefferson County Hospital
GENERAL SERVICE EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2004</u>	<u>2003</u>	<u>(decrease)</u>
DIETARY			
Salaries	\$ 347,102	\$ 302,918	\$ 44,184
Food	238,216	225,731	12,485
Professional fees	34,109	52,016	(17,907)
Supplies and expense	<u>93,420</u>	<u>71,233</u>	<u>22,187</u>
	<u>712,847</u>	<u>651,898</u>	<u>60,949</u>
PLANT OPERATION AND MAINTENANCE			
Salaries	243,276	232,539	10,737
Utilities	304,954	289,095	15,859
Supplies and expense	<u>86,292</u>	<u>87,268</u>	<u>(976)</u>
	<u>634,522</u>	<u>608,902</u>	<u>25,620</u>
HOUSEKEEPING			
Salaries	268,091	261,869	6,222
Supplies and expense	<u>45,250</u>	<u>43,581</u>	<u>1,669</u>
	<u>313,341</u>	<u>305,450</u>	<u>7,891</u>
LAUNDRY AND LINEN			
Salaries	58,496	62,655	(4,159)
Supplies and expense	<u>21,745</u>	<u>159</u>	<u>21,586</u>
	<u>80,241</u>	<u>62,814</u>	<u>17,427</u>
Totals	<u>\$1,740,951</u>	<u>\$1,629,064</u>	<u>\$ 111,887</u>

**Jefferson County Hospital
FISCAL AND ADMINISTRATIVE SERVICE
AND UNASSIGNED EXPENSES**

	<u>Year ended June 30</u>		<u>Increase</u>
	<u>2004</u>	<u>2003</u>	<u>(decrease)</u>
FISCAL AND ADMINISTRATIVE SERVICE			
Salaries			
Administrative	\$ 284,934	\$ 248,435	\$ 36,499
Fiscal and accounting	279,240	288,503	(9,263)
Purchasing and stores	56,255	53,843	2,412
Public relations	38,527	37,304	1,223
Data processing	108,960	112,533	(3,573)
Data processing expense	142,926	116,592	26,334
Professional fees	68,331	87,567	(19,236)
Office supplies and expenses	267,958	225,878	42,080
Telephone	46,838	49,739	(2,901)
Collection fees	57,875	56,493	1,382
Purchasing and stores expense	12,789	13,970	(1,181)
Public relations expense	15,550	11,688	3,862
UNASSIGNED EXPENSES			
Physician recruiting	51,995	49,816	2,179
Insurance	181,812	102,826	78,986
Employee benefits			
FICA	432,300	389,912	42,388
IPERS	319,431	296,959	22,472
Group health insurance	561,600	583,619	(22,019)
Group disability insurance	49,756	54,977	(5,221)
Workers' compensation	89,198	57,794	31,404
Unemployment compensation	8,194	7,364	830
Other employee benefits	5,888	4,015	1,873
Amortization of financing costs	<u>14,425</u>	<u>14,425</u>	<u>-</u>
Totals	<u>\$3,094,782</u>	<u>\$2,864,252</u>	<u>\$ 230,530</u>

Jefferson County Hospital
COMPARATIVE REVENUES AND EXPENSES

	Year ended June 30			
	2004	2003	2002	2001
NET PATIENT SERVICE REVENUE	\$13,152,850	\$12,236,300	\$12,166,333	\$11,021,477
OTHER REVENUE	<u>290,341</u>	<u>298,072</u>	<u>222,602</u>	<u>230,643</u>
Total revenue	<u>13,443,191</u>	<u>12,534,372</u>	<u>12,388,935</u>	<u>11,252,120</u>
EXPENSES				
Salaries	5,967,226	5,246,049	5,114,748	4,978,138
Supplies, professional fees and other expenses	7,629,257	6,889,061	6,705,061	6,226,196
Provision for depreciation	<u>1,047,908</u>	<u>999,898</u>	<u>944,218</u>	<u>917,898</u>
Total expenses	<u>14,644,391</u>	<u>13,135,008</u>	<u>12,764,027</u>	<u>12,122,232</u>
Operating (loss)	<u>(1,201,200)</u>	<u>(600,636)</u>	<u>(375,092)</u>	<u>(870,112)</u>
NONOPERATING GAINS (LOSSES)				
County taxes	766,405	786,854	799,170	691,551
Investment income and equity in net income (losses) of joint venture investments	(9,919)	95,292	163,717	349,716
Unrestricted contributions	15,393	634	100	849
Interest expense	(52,775)	(81,741)	(121,087)	(161,267)
Gain (loss) on sale of property and equipment	<u>5,538</u>	<u>1,805</u>	<u>5,021</u>	<u>6,278</u>
Total nonoperating gains (losses)	<u>724,642</u>	<u>802,844</u>	<u>846,921</u>	<u>887,127</u>
Excess (deficiency) of revenues over expenses before contributions	(476,558)	202,208	471,829	17,015
CONTRIBUTIONS	<u>29,701</u>	<u>26,633</u>	<u>28,392</u>	<u>52,191</u>
Change in fund equity	<u>\$ (446,857)</u>	<u>\$ 228,841</u>	<u>\$ 500,221</u>	<u>\$ 69,206</u>

**Jefferson County Hospital
COMPARATIVE STATISTICS**

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
PATIENT DAYS		
Adult and pediatric	<u>2,240</u>	<u>2,486</u>
Swing bed		
Skilled nursing care	2,509	1,872
Intermediate nursing care	<u>6,782</u>	<u>7,001</u>
	<u>9,291</u>	<u>8,873</u>
Long term care	<u>5,330</u>	<u>5,538</u>
Total patient days	<u>16,861</u>	<u>16,897</u>
ADMISSIONS		
Adult and pediatric	741	819
Swing bed	347	317
Long term care	<u>40</u>	<u>37</u>
Total admissions	<u>1,128</u>	<u>1,173</u>
DISCHARGES		
Adult and pediatric	744	836
Swing bed—skilled	344	314
Long term care	<u>41</u>	<u>41</u>
Total discharges	<u>1,129</u>	<u>1,191</u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.02	2.97
Swing bed	7.23	5.91
BEDS		
Adult and pediatric	51	51
Long term care	16	16
OCCUPANCY PERCENT		
Adult and pediatric	12.00%	13.35%
Swing bed	49.77%	47.67%
Long term care	91.02%	94.83%
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	\$35,937	\$33,524
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES AT END OF YEAR	62	61

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Jefferson County Hospital
Fairfield, Iowa

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

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

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

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 29, 2004

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

Part I—Findings Related to the Financial Statements

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

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

Part II—Findings Related to Required Statutory Reporting

04-II-A OFFICIAL DEPOSITORIES

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

04-II-B CERTIFIED BUDGET

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

04-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

04-II-D TRAVEL EXPENSES

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

04-II-E BUSINESS TRANSACTIONS

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

04-II-F BOARD MINUTES

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

04-II-G DEPOSITS AND INVESTMENTS

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