

**Floyd County Memorial Hospital**  
Accountants' Reports and Financial Statements  
June 30, 2005 and 2004



**Floyd County Memorial Hospital**  
**June 30, 2005 and 2004**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

We have audited the accompanying balance sheets of Floyd County Memorial Hospital as of June 30, 2005 and 2004 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd County Memorial Hospital as of June 30, 2005 and 2004, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2005 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Commissioners  
Floyd County Memorial Hospital  
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Our audits were 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. The consolidating information is presented for purposes of additional analysis of the governmental financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. 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  
August 18, 2005

# **Floyd County Memorial Hospital**

## **Management's Discussion and Analysis**

### **Years Ended June 30, 2005 and 2004**

#### ***Introduction***

This management's discussion and analysis of the financial performance of Floyd County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2005 and 2004. It should be read in conjunction with the accompanying financial statements of the Hospital.

#### ***Financial Highlights***

- Cash increased in each of the past two years with a \$244,046 or 7% increase in 2005 and a \$1,431,252 or 73% increase in 2004.
- The Hospital's net assets increased in each of the past two years with a \$1,337,026 or 13% increase in 2005 and a \$1,069,878 or 11% increase in 2004.
- The Hospital reported operating income in both 2005 and 2004 of \$1,345,379 and \$1,168,926, respectively.
- Net nonoperating revenues increased by \$90,695 in 2005 compared to 2004.

#### ***Using This Annual Report***

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

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

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

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

### ***The Statement of Cash Flows***

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

### ***The Hospital's Net Assets***

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,337,026 or 13% in 2005 over 2004 as shown in Table 1.

**Table 1: Assets, Liabilities and Net Assets**

	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 2,296,115	\$ 2,437,661	\$ 2,438,821
Other current assets	3,633,242	2,562,489	1,457,140
Capital assets, net	6,978,981	6,568,689	6,763,178
Other noncurrent assets	<u>1,292,299</u>	<u>1,672,094</u>	<u>1,362,122</u>
Total assets	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>
<b>Liabilities</b>			
Long-term debt, including current maturities	\$ 722,348	\$ 930,339	\$ 1,127,223
Other current and noncurrent liabilities	<u>1,604,120</u>	<u>1,773,451</u>	<u>1,426,773</u>
Total liabilities	<u>2,326,468</u>	<u>2,703,790</u>	<u>2,553,996</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	6,270,766	5,598,946	5,659,014
Unrestricted	<u>5,603,403</u>	<u>4,938,197</u>	<u>3,808,251</u>
Total net assets	<u>11,874,169</u>	<u>10,537,143</u>	<u>9,467,265</u>
Total liabilities and net assets	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>	<u>\$ 12,021,261</u>

In 2005, there was an increase of \$1,070,753 in other current assets as a result of an increase in operating cash on hand of \$625,257 and an estimated receivable from third-party payers of \$415,000. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This capital expenditures account decreased 26%, or \$381,211, and is included in other noncurrent assets. This account decreased due to the capital asset expenditures that occurred this year.

In 2005, an excess of net revenues over expenses was noted of \$1,337,026, and is included in the total net assets, which resulted in an increase of 13%.

The decrease in long-term debt of \$207,991, or 22%, is reflective of monthly payments of principal on the long-term revenue bonds.

In 2004, there was an increase of \$1,105,349, or 76% in other current assets as a result of an increase in operating cash on hand of \$1,114,296, due to excess revenues over expenses for the fiscal year. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This capital expenditures account increased 28%, or \$316,956, and is included in other noncurrent assets.

### ***Operating Results and Changes in the Hospital's Net Assets***

In 2005, the Hospital's net assets increased by \$1,337,026 or 13% as shown in Table 2. This increase is made up of several different components and represents an increase of \$267,148 compared with the increase in net assets for 2004 of \$1,069,878.

**Table 2: Operating Results and Changes in Net Assets**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 16,019,237	\$ 14,983,319	\$ 13,458,915
Other operating revenues	<u>476,071</u>	<u>574,852</u>	<u>504,334</u>
Total operating revenues	<u>16,495,308</u>	<u>15,558,171</u>	<u>13,963,249</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	8,479,936	8,169,714	7,621,101
Medical professional fees	2,387,882	2,326,615	2,458,600
Depreciation	635,295	617,482	623,933
Other operating expenses	<u>3,646,816</u>	<u>3,275,434</u>	<u>3,234,706</u>
Total operating expenses	<u>15,149,929</u>	<u>14,389,245</u>	<u>13,938,340</u>
<b>Operating Income</b>	<u>1,345,379</u>	<u>1,168,926</u>	<u>24,909</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	76,089	16,576	42,121
Contributions	7,406	9,189	8,632
Interest expense	(49,361)	(62,621)	(71,004)
Income taxes – Aesculapuis	(44,260)	(28,424)	(23,672)
Minority interest - Aesculapuis	1,773	(33,768)	(20,000)
County assistance	<u>—</u>	<u>—</u>	<u>40,353</u>
Total nonoperating revenues (expenses)	<u>(8,353)</u>	<u>(99,048)</u>	<u>(23,570)</u>
<b>Contributions to Purchase Capital Assets</b>	<u>—</u>	<u>—</u>	<u>5,000</u>
<b>Increase in Net Assets</b>	<u>\$ 1,337,026</u>	<u>\$ 1,069,878</u>	<u>\$ 6,339</u>

**Operating Income**

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past two years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors give the Hospital an amount annually as the County's budget allows. The Hospital received no amounts from the county in 2004 and 2005.

The operating income for 2005 increased as compared to 2004. The primary components of the increase in operating income are:

- An increase in net patient service revenues of \$1,035,918 or 7%.
- An increase in salaries and wages and employee benefits of \$310,222 or 4%.
- An increase in other operating expenses of \$371,382 or 11%.
- An increase in nonoperating revenues/expenses of \$90,695 or 92%.

Gross patient service revenue increased in 2005 over 2004 because of an increase in gross charges of \$928,921 or 4.33%.

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

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

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

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

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Investment income increased in 2005 as compared to 2004 while interest expense decreased in 2005 as compared to 2004. Principal payments were made in 2004 and 2005 that account for the decrease in interest expense for 2005. Also, between 2004 and 2005, investment income is up due to higher interest rates and an increase in cash balances.

### ***The Hospital's Cash Flows***

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

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At June 30, 2005, the Hospital had \$6,978,981 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2005, the Hospital expended \$624,760 on a capital project to renovate the operating rooms as well as purchased other new property and equipment costing \$420,827. In 2004, the Hospital purchased other new property and equipment costing \$422,993. In 2003, new property and equipment purchases totaled \$188,077. The Hospital has no capital leases and one major operating lease.

#### **Debt**

At June 30, 2005 and 2004, the Hospital had \$722,348 and \$930,339, respectively, in revenue capital loan notes outstanding. The Hospital issued no new debt in 2005 or 2004. The Hospital's formal debt issuances are subject to limitations imposed by state law.

### ***Factors Bearing on Floyd County Memorial Hospital's Future***

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

- The Hospital is in the process of obtaining a new information technology system. Total cost for the project is expected to be about \$1,300,000. It is anticipated implementation of the new system will begin in 2006 and be completed in 2008. The Hospital intends to fund the project internally and with a short-term loan, if needed.
- The Hospital is also pursuing a construction renovation project for the acute patient care center. This project is expected to cost \$1,500,000 and will be funded internally and with a short-term loan, if needed.
- On July 1, 2005, the Hospital ceased to provide home health services. The home health services were taken over by the Floyd County Government.

### ***Contacting the Hospital's Financial Management***

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

# Floyd County Memorial Hospital

## Balance Sheets

June 30, 2005 and 2004

### Assets

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash	\$ 2,564,281	\$ 1,939,024
Patient accounts receivable, net of allowance; 2005 – \$1,031,000, 2004 – \$910,400	2,296,115	2,437,661
Other receivables	48,473	64,904
Supplies	510,886	485,863
Prepaid expenses	94,602	72,698
Estimated amounts due from third-party payers	<u>415,000</u>	<u>—</u>
Total current assets	<u>5,929,357</u>	<u>5,000,150</u>
<b>Noncurrent Cash</b>		
Internally designated for capital and other expenditures	<u>1,067,195</u>	<u>1,448,406</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>6,978,981</u>	<u>6,568,689</u>
<b>Other Assets</b>		
Deferred financing costs	14,133	18,596
Investments	<u>210,971</u>	<u>205,092</u>
Total other assets	<u>225,104</u>	<u>223,688</u>
<b>Total Assets</b>	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>

## Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 219,723	\$ 207,991
Accounts payable	382,085	539,429
Accrued expenses		
Vacation pay	363,470	336,945
Payroll and related deductions	392,629	325,200
Health insurance	266,000	215,000
Estimated amounts due to third-party payers	<u>—</u>	<u>147,183</u>
Total current liabilities	1,623,907	1,771,748
<b>Minority Interest</b>	199,936	209,694
<b>Long-term Debt</b>	<u>502,625</u>	<u>722,348</u>
Total liabilities	<u>2,326,468</u>	<u>2,703,790</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	6,270,766	5,598,946
Unrestricted	<u>5,603,403</u>	<u>4,938,197</u>
Total net assets	<u>11,874,169</u>	<u>10,537,143</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 14,200,637</u>	<u>\$ 13,240,933</u>

**Floyd County Memorial Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 16,614,367	\$ 15,587,935
Less provision for uncollectible accounts	<u>595,130</u>	<u>604,616</u>
Net patient service revenue	16,019,237	14,983,319
Other	<u>476,071</u>	<u>574,852</u>
Total operating revenues	<u>16,495,308</u>	<u>15,558,171</u>
<b>Operating Expenses</b>		
Salaries and wages	6,157,049	5,920,028
Employee benefits	2,322,887	2,249,686
Medical professional fees	2,387,882	2,326,615
Supplies and expenses	2,002,688	1,903,300
General services	823,915	692,986
Administrative services	820,213	679,148
Depreciation	<u>635,295</u>	<u>617,482</u>
Total operating expenses	<u>15,149,929</u>	<u>14,389,245</u>
<b>Operating Income</b>	<u>1,345,379</u>	<u>1,168,926</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	76,089	16,576
Contributions	7,406	9,189
Interest expense	(49,361)	(62,621)
Income taxes – Aesculapuis	(44,260)	(28,424)
Minority interest – Aesculapuis	<u>1,773</u>	<u>(33,768)</u>
Total nonoperating revenues (expenses)	<u>(8,353)</u>	<u>(99,048)</u>
<b>Increase in Net Assets</b>	1,337,026	1,069,878
<b>Net Assets, Beginning of the Year</b>	<u>10,537,143</u>	<u>9,467,265</u>
<b>Net Assets, End of the Year</b>	<u>\$ 11,874,169</u>	<u>\$ 10,537,143</u>

**Floyd County Memorial Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 15,598,600	\$ 15,120,329
Payments to suppliers	(6,159,065)	(5,502,619)
Payments to employees	(8,334,982)	(8,124,167)
Other receipts and payments, net	<u>470,598</u>	<u>603,727</u>
Net cash provided by operating activities	<u>1,575,151</u>	<u>2,097,270</u>
<b>Noncapital Financing Activities</b>		
Unrestricted contributions	<u>7,406</u>	<u>9,189</u>
Net cash provided by noncapital financing activities	<u>7,406</u>	<u>9,189</u>
<b>Capital and Related Financing Activities</b>		
Purchase of capital assets	(1,103,587)	(364,993)
Principal payments on long-term debt	(207,991)	(196,884)
Interest paid on long-term debt	<u>(44,898)</u>	<u>(58,157)</u>
Net cash used in capital and related financing activities	<u>(1,356,476)</u>	<u>(620,034)</u>
<b>Investing Activities</b>		
Income on investments	17,965	(5,173)
Purchase of investments	<u>—</u>	<u>(50,000)</u>
Net cash provided by (used in) investing activities	<u>17,965</u>	<u>(55,173)</u>
<b>Increase in Cash</b>	244,046	1,431,252
<b>Cash, Beginning of Year</b>	<u>3,387,430</u>	<u>1,956,178</u>
<b>Cash, End of Year</b>	<u>\$ 3,631,476</u>	<u>\$ 3,387,430</u>

(Continued)

**Floyd County Memorial Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 2,564,281	\$ 1,939,024
Noncurrent cash		
Internally designated	1,067,195	1,448,406
Total cash	\$ 3,631,476	\$ 3,387,430
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 1,345,379	\$ 1,168,926
Items not requiring cash		
Depreciation	635,295	617,482
Amortization	20,877	20,878
Changes in		
Patient and other accounts receivable, net	157,977	23,011
Supplies	(25,023)	(19,928)
Prepaid expenses	(42,781)	(13,854)
Accounts payable and accrued expenses	45,610	164,905
Estimated amounts due to third-party payers	(562,183)	135,850
Net cash provided by operating activities	\$ 1,575,151	\$ 2,097,270
 <b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ —	\$ 58,000

# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2005 and 2004**

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

##### ***Nature of Operations***

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

##### ***Basis of Accounting and Presentation***

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

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

##### ***Reporting Entity***

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

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

# **Floyd County Memorial Hospital**

## **Notes to Financial Statements**

### **June 30, 2005 and 2004**

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

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

#### ***Use of Estimates***

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

#### ***Net Patient Service Revenue***

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

#### ***Supplies***

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

#### ***Deposits, Investments and Investment Income***

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

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

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2005 and 2004

### ***Patient Accounts Receivable***

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

### ***Noncurrent Cash***

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

### ***Capital Assets***

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

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

### ***Medical Malpractice Coverage and Claims***

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

### ***County Assistance***

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. The Hospital received no support in 2004 or 2005. Such proceeds when received would be considered unrestricted as to use by the Hospital and would be used to support operations.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2005 and 2004

### ***Deferred Financing Costs***

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

### ***Risk Management***

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

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

### ***Compensated Absences***

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

### ***Net Assets***

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

**Floyd County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 2: Net Patient Service Revenue**

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

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

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

Approximately 52% and 48% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2005 and 2004, respectively.

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

**Note 3: Deposits, Investments and Investment Income**

***Deposits***

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of State law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2005 and 2004. The Hospital's deposits in banks at June 30, 2005 and 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.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2005 and 2004

### **Investments**

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 had limited investments in partnerships holding mobile medical equipment at June 30, 2005 and 2004.

### **Summary of Carrying Value**

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

	<u>2005</u>	<u>2004</u>
Deposits	\$ <u>3,631,476</u>	\$ <u>3,387,430</u>
Included in the following balance sheet captions		
Cash	\$ 2,564,281	\$ 1,939,024
Noncurrent cash	<u>1,067,195</u>	<u>1,448,406</u>
	\$ <u>3,631,476</u>	\$ <u>3,387,430</u>

### **Investment Income**

Investment income for the years ended June 30, 2005 and 2004 consisted of:

	<u>2005</u>	<u>2004</u>
Interest	\$ 104,472	\$ 45,292
Return on other investments	<u>(28,383)</u>	<u>(28,716)</u>
Total investment income	\$ <u>76,089</u>	\$ <u>16,576</u>

**Floyd County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 4: Capital Assets**

Consolidated capital assets activity for the years ended June 30, 2005 and 2004 was:

<b>2005</b>	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2005</b>
Land and improvements	\$ 428,569	\$ 20,833	\$ —	\$ 449,402
Building and improvements	8,550,731	26,486	62,518	8,514,699
Fixed equipment	1,482,156	71,496	—	1,553,652
Major moveable equipment	4,336,639	302,012	245,728	4,392,923
Construction in progress	<u>—</u>	<u>624,760</u>	<u>—</u>	<u>624,760</u>
	<u>14,798,095</u>	<u>1,045,587</u>	<u>308,246</u>	<u>15,535,436</u>
Less accumulated depreciation				
Land improvements	229,262	—	—	229,262
Building and improvements	3,846,258	256,642	62,518	4,040,382
Fixed equipment	767,511	93,803	—	861,314
Major moveable equipment	<u>3,386,375</u>	<u>284,850</u>	<u>245,728</u>	<u>3,425,497</u>
Total accumulated depreciation	<u>8,229,406</u>	<u>635,295</u>	<u>308,246</u>	<u>8,556,455</u>
Capital assets, net	<u>\$ 6,568,689</u>	<u>\$ 410,292</u>	<u>\$ 0</u>	<u>\$ 6,978,981</u>
<b>2004</b>	<b>Balance June 30, 2003</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance June 30, 2004</b>
Land and improvements	\$ 428,569	\$ —	\$ —	\$ 428,569
Building and improvements	8,497,856	52,875	—	8,550,731
Fixed equipment	1,467,039	15,117	—	1,482,156
Major moveable equipment	<u>4,533,769</u>	<u>355,001</u>	<u>552,131</u>	<u>4,336,639</u>
	<u>14,927,233</u>	<u>422,993</u>	<u>552,131</u>	<u>14,798,095</u>
Less accumulated depreciation				
Land improvements	206,466	22,796	—	229,262
Building and improvements	3,602,264	243,994	—	3,846,258
Fixed equipment	677,767	89,744	—	767,511
Major moveable equipment	<u>3,677,558</u>	<u>260,948</u>	<u>552,131</u>	<u>3,386,375</u>
Total accumulated depreciation	<u>8,164,055</u>	<u>617,482</u>	<u>552,131</u>	<u>8,229,406</u>
Capital assets, net	<u>\$ 6,763,178</u>	<u>\$ (194,489)</u>	<u>\$ 0</u>	<u>\$ 6,568,689</u>

**Floyd County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 5: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2005 and 2004 follows:

<b>2005</b>	<b>Balance June 30, 2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2005</b>	<b>Amounts Due Within One Year</b>
Hospital Revenue Capital Loan Notes (A)	\$ <u>930,339</u>	\$ <u>0</u>	\$ <u>207,991</u>	\$ <u>722,348</u>	\$ <u>219,723</u>

  

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

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

The debt service requirements as of June 30, 2005 are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 219,723	\$ 34,245	\$ 253,968
2007	232,117	21,851	253,968
2008	245,210	8,758	253,968
2009	<u>25,298</u>	<u>136</u>	<u>25,434</u>
	<u>\$ 722,348</u>	<u>\$ 64,990</u>	<u>\$ 787,338</u>

**Floyd County Memorial Hospital**  
**Notes to Financial Statements**  
**June 30, 2005 and 2004**

**Note 6: Operating Leases**

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

Future minimum lease payments at June 30, 2005, were:

2006	\$	239,112
2007		239,112
2008		<u>144,188</u>
Future minimum lease payments	\$	<u>622,412</u>

Rental expense for all operating leases totaled \$247,537 and \$215,632 for 2005 and 2004, respectively.

**Note 7: Defined Benefit Pension Plan**

***Plan Description***

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

***Funding Policy***

Each plan member is required to contribute 3.70% of his or her annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2005, 2004 and 2003 were \$350,759, \$337,412 and \$315,809, respectively, which equaled the required contributions for each year.

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2005 and 2004

### Note 8: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2005 and 2004 consisted of:

	2005	2004
Medicare	\$ 648,490	\$ 699,630
Medicaid	186,337	136,469
Third-party payers	756,199	946,741
Patients	1,657,601	1,463,331
Clinics	<u>78,488</u>	<u>101,890</u>
Total	3,327,115	3,348,061
Less allowance for uncollectible accounts	<u>1,031,000</u>	<u>910,400</u>
Patient accounts receivable, net	<u>\$ 2,296,115</u>	<u>\$ 2,437,661</u>

### Note 9: Employee Health Insurance Claims

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2005 and 2004 is summarized as follows:

	2005	2004
Balance, beginning of year	\$ 215,000	\$ 240,000
Current year claims and changes in estimates	1,318,727	1,121,970
Claim payments	<u>(1,267,727)</u>	<u>(1,146,970)</u>
Balance, end of year	<u>\$ 266,000</u>	<u>\$ 215,000</u>

# Floyd County Memorial Hospital

## Notes to Financial Statements

June 30, 2005 and 2004

### Note 10: Significant Estimates and Concentrations

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

- Estimates of allowances for adjustments included in net patient service revenue are described in Note 2. Estimates related to the accrual for self-insured health benefits are described in Notes 1 and 9.
- Five physicians serve the Hospital whose patients comprise approximately 85% of the Hospital's net patient service revenue for the year ended June 30, 2005.

### Note 11: Construction in Progress

The Hospital has recorded \$624,760 in construction in progress related to a remodeling project of the operating rooms. The estimated cost of the project is \$833,000 to be funded by assets of the Hospital.

### Note 12: Budget and Budgetary Accounting

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

The following is reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2005:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Other revenues/receipts	\$ 16,497,150	\$ (612,197)	\$ 15,884,953	\$ 15,853,968
Expenses/disbursements	<u>15,160,124</u>	<u>500,706</u>	<u>15,660,830</u>	<u>17,709,936</u>
Balance, beginning of year	1,337,026	(1,112,903)	224,123	(1,855,968)
	<u>10,537,143</u>	<u>(6,311,559)</u>	<u>4,225,584</u>	<u>4,225,584</u>
Balance, end of year	<u>\$ 11,874,169</u>	<u>\$ (7,424,462)</u>	<u>\$ 4,449,707</u>	<u>\$ 2,369,616</u>

## **Supplementary Information**

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets**  
**June 30, 2005**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,557,599	\$ 6,682		\$ 2,564,281
Patient accounts receivable, net of allowance of \$1,031,000	2,296,115			2,296,115
Other receivables	48,473			48,473
Supplies	510,886			510,886
Prepaid expenses	94,602			94,602
Estimated amounts due from third-party payers	<u>415,000</u>			<u>415,000</u>
Total current assets	<u>5,922,675</u>	<u>6,682</u>		<u>5,929,357</u>
<b>Noncurrent Cash</b>				
Internally designated for capital and other expenditures	<u>1,067,195</u>			<u>1,067,195</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>				
	<u>6,385,854</u>	<u>593,127</u>		<u>6,978,981</u>
<b>Other Assets</b>				
Deferred financing costs	14,133			14,133
Investments	<u>810,780</u>		\$ <u>(599,809)</u>	<u>210,971</u>
Total other assets	<u>824,913</u>		<u>(599,809)</u>	<u>225,104</u>
<b>Total Assets</b>	<u>\$14,200,637</u>	<u>\$ 599,809</u>	<u>\$ (599,809)</u>	<u>\$14,200,637</u>

**Floyd County Memorial Hospital**  
**Consolidating Balance Sheets (Continued)**  
**June 30, 2005**

**Liabilities and Net Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 219,723			\$ 219,723
Accounts payable	382,085			382,085
Accrued expenses				
Vacation pay	363,470			363,470
Payroll and related deductions	392,629			392,629
Health insurance	<u>266,000</u>			<u>266,000</u>
Total current liabilities	1,623,907			1,623,907
<b>Minority Interest</b>	199,936			199,936
<b>Long-term Debt</b>	<u>502,625</u>			<u>502,625</u>
Total liabilities	<u>2,326,468</u>			<u>2,326,468</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	5,677,639	\$ 593,127		6,270,766
Unrestricted	<u>6,196,530</u>	<u>6,682</u>	\$ (599,809)	<u>5,603,403</u>
Total net assets	<u>11,874,169</u>	<u>599,809</u>	<u>(599,809)</u>	<u>11,874,169</u>
<b>Total Liabilities and Net Assets</b>	<u>\$14,200,637</u>	<u>\$ 599,809</u>	<u>\$ (599,809)</u>	<u>\$14,200,637</u>

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

**Assets**

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

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

**Liabilities and Net Assets**

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

**Floyd County Memorial Hospital**  
**Consolidating Statement of Revenues, Expenses**  
**and Changes in Net Assets**  
**Year Ended June 30, 2005**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 16,614,367			\$ 16,614,367
Less provision for uncollectible accounts	<u>595,130</u>			<u>595,130</u>
Net patient service revenue	16,019,237			16,019,237
Other	<u>339,634</u>	\$ <u>210,333</u>	\$ <u>(73,896)</u>	<u>476,071</u>
Total operating revenues	<u>16,358,871</u>	<u>210,333</u>	<u>(73,896)</u>	<u>16,495,308</u>
<b>Operating Expenses</b>				
Salaries and wages	6,157,049			6,157,049
Employee benefits	2,322,887			2,322,887
Medical professional fees	2,387,882			2,387,882
Supplies and expenses	2,002,688			2,002,688
General services	828,157	69,654	(73,896)	823,915
Administrative services	798,144	22,069		820,213
Depreciation	<u>613,956</u>	<u>21,339</u>		<u>635,295</u>
Total operating expenses	<u>15,110,763</u>	<u>113,062</u>	<u>(73,896)</u>	<u>15,149,929</u>
<b>Operating Income</b>	<u>1,248,108</u>	<u>97,271</u>	<u>0</u>	<u>1,345,379</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	75,873	216		76,089
Contributions	7,406			7,406
Interest expense	(49,361)			(49,361)
Income taxes – Aesculapuis		(44,260)		(44,260)
Dividends paid – Aesculapuis	55,000		(55,000)	0
Minority interest – Aesculapuis	<u>          </u>		<u>1,773</u>	<u>1,773</u>
Total nonoperating revenues (expenses)	<u>88,918</u>	<u>(44,044)</u>	<u>(53,227)</u>	<u>(8,353)</u>
<b>Increase in Net Assets</b>	1,337,026	53,227	(53,227)	1,337,026
<b>Net Assets, Beginning of the Year</b>	10,537,143	629,082	(629,082)	10,537,143
<b>Dividends Paid</b>	<u>          </u>	<u>(82,500)</u>	<u>82,500</u>	<u>0</u>
<b>Net Assets, End of the Year</b>	\$ <u>11,874,169</u>	\$ <u>599,809</u>	\$ <u>(599,809)</u>	\$ <u>11,874,169</u>

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

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

**Floyd County Memorial Hospital**  
**Schedules of Patient Service Revenues – Hospital**  
**Years Ended June 30, 2005 and 2004**

	2005			2004		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 2,574,180	\$ 2,574,180		\$ 2,746,338	\$ 2,746,338	
Nursery	<u>78,365</u>	<u>78,365</u>		<u>81,519</u>	<u>81,519</u>	
	<u>2,652,545</u>	<u>2,652,545</u>		<u>2,827,857</u>	<u>2,827,857</u>	
<b>Other Nursing Services</b>						
Operating room	1,729,579	528,169	\$ 1,201,410	1,434,573	402,955	\$ 1,031,618
Recovery room	177,120	32,670	144,450	164,500	34,000	130,500
Delivery room	95,878	95,878		99,573	99,573	
Emergency room	2,214,154	76,528	2,137,626	2,252,686	89,818	2,162,868
Home Health Agency	<u>622,972</u>		<u>622,972</u>	<u>627,115</u>		<u>627,115</u>
	<u>4,839,703</u>	<u>733,245</u>	<u>4,106,458</u>	<u>4,578,447</u>	<u>626,346</u>	<u>3,952,101</u>
<b>Other Professional Services</b>						
Central service and supply	203,757	75,050	128,707	224,248	87,704	136,544
Laboratory	3,563,475	594,258	2,969,217	3,319,413	607,229	2,712,184
Blood	172,590	54,634	117,956	155,896	62,386	93,510
Radiology	1,111,147	70,261	1,040,886	962,681	73,164	889,517
Electrocardiology	353,283	42,864	310,419	313,542	45,086	268,456
Ultrasound	264,958	18,965	245,993	235,575	14,500	221,075
Nuclear medicine	160,202	5,306	154,896	164,950	16,572	148,378
CT Scan	1,717,476	319,706	1,397,770	1,606,456	323,082	1,283,374
MRI	968,752	76,004	892,748	841,507	49,356	792,151
Pharmacy	1,518,027	698,575	819,452	1,396,477	750,299	646,178
Intravenous therapy	401,174	222,826	178,348	538,659	311,833	226,826
Respiratory therapy	1,131,446	414,228	717,218	1,180,903	481,054	699,849
Physical therapy	1,821,800	418,136	1,403,664	1,686,864	464,540	1,222,324
Occupational therapy	214,557	76,677	137,880	198,327	96,853	101,474
Speech pathology	311,977	9,111	302,866	223,456	9,218	214,238
Anesthesia	228,225	40,894	187,331	214,712	42,251	172,461
Clinics	<u>742,651</u>		<u>742,651</u>	<u>778,854</u>		<u>778,854</u>
	<u>14,885,497</u>	<u>3,137,495</u>	<u>11,748,002</u>	<u>14,042,520</u>	<u>3,435,127</u>	<u>10,607,393</u>
<b>Patient Service Revenue</b>	22,377,745	\$ 6,523,285	\$ 15,854,460	21,448,824	\$ 6,889,330	\$ 14,559,494
<b>Contractual Allowance</b>	<u>(5,763,378)</u>			<u>(5,860,889)</u>		
<b>Net Patient Service Revenue before Provision for Uncollectible Accounts</b>	16,614,367			15,587,935		
<b>Provision for Uncollectible Accounts</b>	<u>(595,130)</u>			<u>(604,616)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 16,019,237</u>			<u>\$ 14,983,319</u>		

**Floyd County Memorial Hospital**  
**Schedules of Other Operating Revenues – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
Cafeteria	\$ 169,310	\$ 165,015
Specialty clinics	87,739	79,921
Office rental	30,146	26,579
Registration fees	7,838	4,432
Medical records transcripts	11,604	11,733
Other	32,997	55,992
	\$ 339,634	\$ 343,672

**Floyd County Memorial Hospital**  
**Schedules of Operating Expenses – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>			<b>2004</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>Nursing Services</b>						
Nursing administration	\$ 731,133	\$ 555,618	\$ 175,515	\$ 655,619	\$ 500,524	\$ 155,095
Routine care	1,903,175	1,309,734	593,441	1,886,564	1,315,189	571,375
Nursery	33,878	28,605	5,273	37,622	31,591	6,031
Operating room	762,796	292,082	470,714	635,522	237,902	397,620
Delivery room	16,791	13,448	3,343	17,167	13,786	3,381
Emergency room	946,371	386,648	559,723	952,233	402,478	549,755
Home Health Agency	<u>476,760</u>	<u>294,777</u>	<u>181,983</u>	<u>510,842</u>	<u>317,782</u>	<u>193,060</u>
	<u>4,870,904</u>	<u>2,880,912</u>	<u>1,989,992</u>	<u>4,695,569</u>	<u>2,819,252</u>	<u>1,876,317</u>
<b>Other Professional Services</b>						
Central service and supply	186,790	57,264	129,526	220,108	53,730	166,378
Laboratory	919,498	364,640	554,858	872,624	337,628	534,996
Blood	56,207		56,207	52,280		52,280
Radiology	687,911	390,622	297,289	586,547	311,380	275,167
Electrocardiology	102,459	44,097	58,362	95,105	41,657	53,448
Ultrasound	84,667		84,667	130,314	30,803	99,511
Nuclear medicine	58,661		58,661	51,071		51,071
Pharmacy	680,271	74,784	605,487	529,117	58,806	470,311
Intravenous therapy	60,643		60,643	92,374	22,719	69,655
Respiratory therapy	349,565		349,565	390,838		390,838
Physical therapy	663,577		663,577	627,855		627,855
Occupational therapy	71,299		71,299	66,955		66,955
Speech pathology	161,534	124,506	37,028	131,498	108,782	22,716
CT Scan	442,849		442,849	427,249		427,249
Medical clinic	177,855	52,896	124,959	926,491	383,225	543,266
Rural health clinic	775,777	334,478	441,299			
Sleep studies	<u>9,600</u>		<u>9,600</u>			
	<u>5,489,163</u>	<u>1,443,287</u>	<u>4,045,876</u>	<u>5,200,426</u>	<u>1,348,730</u>	<u>3,851,696</u>

(Continued)

**Floyd County Memorial Hospital**  
**Schedules of Operating Expenses – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>			<b>2004</b>		
	<b>Total</b>	<b>Salaries</b>	<b>Other</b>	<b>Total</b>	<b>Salaries</b>	<b>Other</b>
<b>General Services</b>						
Dietary	\$ 771,636	\$ 351,193	\$ 420,443	\$ 724,239	\$ 332,751	\$ 391,488
Operation of plant	499,632	102,289	397,343	425,196	93,358	331,838
Housekeeping	417,036	281,915	135,121	418,176	271,765	146,411
Laundry	<u>88,914</u>	<u>11,338</u>	<u>77,576</u>	<u>87,911</u>	<u>12,643</u>	<u>75,268</u>
	<u>1,777,218</u>	<u>746,735</u>	<u>1,030,483</u>	<u>1,655,522</u>	<u>710,517</u>	<u>945,005</u>
<b>Administrative Services</b>						
Medical records	348,153	206,026	142,127	330,668	200,953	129,715
Administration	1,731,096	755,778	975,318	1,558,796	711,953	846,843
Purchasing	96,613	69,299	27,314	104,964	76,478	28,486
Personnel	76,181	55,012	21,169	73,275	52,145	21,130
Insurance	<u>107,479</u>	<u>          </u>	<u>107,479</u>	<u>83,755</u>	<u>          </u>	<u>83,755</u>
	<u>2,359,522</u>	<u>1,086,115</u>	<u>1,273,407</u>	<u>2,151,458</u>	<u>1,041,529</u>	<u>1,109,929</u>
<b>Depreciation</b>	<u>613,956</u>		<u>613,956</u>	<u>596,937</u>		<u>596,937</u>
	<u>\$ 15,110,763</u>	<u>\$ 6,157,049</u>	<u>\$ 8,953,714</u>	<u>\$ 14,299,912</u>	<u>\$ 5,920,028</u>	<u>\$ 8,379,884</u>

**Floyd County Memorial Hospital**  
**Schedules of Patient Receivables and Allowance for**  
**Uncollectible Accounts – Hospital**  
**Years Ended June 30, 2005 and 2004**

**Schedules of Patient Receivables**

<u>Days Since Discharge</u>	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
0-30	\$ 1,844,451	\$ 1,852,368	47.15%	47.65%
31-60	518,878	558,818	13.27	14.38
61-90	207,308	208,543	5.30	5.36
91-120	144,344	156,834	3.69	4.03
121-150	121,919	130,143	3.12	3.35
151 and over	<u>1,074,726</u>	<u>980,485</u>	<u>27.47</u>	<u>25.23</u>
	3,911,626	3,887,191	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>178,056</u>	<u>194,178</u>		
	<u>4,089,682</u>	<u>4,081,369</u>		
Less				
Contractual allow- ances	762,567	733,308		
Allowance for uncol- lectible accounts	<u>1,031,000</u>	<u>910,400</u>		
	<u>1,793,567</u>	<u>1,643,708</u>		
	<u>\$ 2,296,115</u>	<u>\$ 2,437,661</u>		

**Allowance for Uncollectible Accounts**

	<u>2005</u>	<u>2004</u>
Balance, beginning of year	\$ 910,400	\$ 839,700
Provision for year	595,130	604,616
Recoveries of accounts previously written off	<u>174,312</u>	<u>152,232</u>
	1,679,842	1,596,548
Less accounts written off	<u>648,842</u>	<u>686,148</u>
Balance, end of year	<u>\$ 1,031,000</u>	<u>\$ 910,400</u>

**Floyd County Memorial Hospital**  
**Schedules of Noncurrent Cash Transactions – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>Total</b>
<b>Balance, July 1, 2003</b>	\$ 1,131,450
Deposits	710,840
Withdrawals	(393,884)
<b>Balance, June 30, 2004</b>	1,448,406
Deposits	722,376
Withdrawals	(1,103,587)
<b>Balance, June 30, 2005</b>	\$ 1,067,195

**Floyd County Memorial Hospital**  
**Schedule of Officials – Hospital**  
**Year Ended June 30, 2005**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Commissioners</b>		
Larry Richards	Chairman	2007
Betty Held	Secretary	2006
Gene Jamtgaard	Treasurer	2005
Ross Enabnit	Member	2006
Kenneth Carr	Member	2005
<b>Hospital Officials</b>		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	

**Floyd County Memorial Hospital**  
**Schedules of Financial and Statistical Data – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Patient Days (Exclusive of Swing-Bed)</b>		
Medicare	1,944	2,135
Medicaid	237	249
Private and other	612	711
	<u>2,793</u>	<u>3,095</u>
<b>Medicare and Medicaid Percent</b>	78%	77%
<b>Percent of Occupancy*</b>	31%	42%
<b>Discharges (Exclusive of swing-bed)</b>		
Medicare	583	617
Medicaid	84	89
Private and other	235	253
	<u>902</u>	<u>959</u>
<b>Average Length of Stay in Days</b>	<u>3.1</u>	<u>3.2</u>

\* As of January 1, 2004, the Hospital can use 25 beds for acute care.

**Floyd County Memorial Hospital**  
**Schedules of Supplies and Prepaid Expense – Hospital**  
**Years Ended June 30, 2005 and 2004**

	<b>2005</b>	<b>2004</b>
<b>Supplies</b>		
Storeroom	\$ 184,761	\$ 171,831
Pharmacy	124,038	133,092
Surgery	193,596	173,285
Dietary	<u>8,491</u>	<u>7,655</u>
	<u>\$ 510,886</u>	<u>\$ 485,863</u>
 <b>Prepaid Expense</b>		
Insurance	\$ 30,852	\$ 14,003
Maintenance contracts	51,213	46,932
Memberships and dues	7,162	6,388
Workers' compensation insurance	<u>5,375</u>	<u>5,375</u>
	<u>\$ 94,602</u>	<u>\$ 72,698</u>



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

Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital as of and for the year ended June 30, 2005 and have issued our report thereon dated August 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control 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 operation that we consider to be material weaknesses.

***Compliance and Other Matters***

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

### ***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, 2005 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, 2005. 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 not exceeded during the year ended June 30, 2005.

### ***Certified Budget***

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures during the year ended June 30, 2005 did not exceed amounts budgeted.

### ***Questionable Expenditures***

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979.

### ***Travel Expense***

No expenditures of Hospital money for travel expenses of spouses of Hospital officials were noted. Mileage reimbursement was approved for employees not in excess of the IRS allowable 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 Commission.

### ***Commission Minutes***

No transactions were found that we believe should have been approved in the Commission 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.

### ***Unclaimed Property***

Prior to November 1, 2004, the Hospital filed the annual unclaimed property report with the State Treasurer in accordance with Chapter 556.11.

### ***Disbursements for Equipment and Supplies***

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for having a policy for procuring equipment under bidding and contracting requirements.

Condition – The Board of Commissioners has not adopted a policy for procuring equipment under bidding and contracting requirements.

Context – A written policy is not in effect.

Effect – Requirements were not met under Chapter 347.13 of the Code of Iowa.

Cause – A written policy is not in place.

Recommendation – Management should establish a policy to set forth the requirements for procuring equipment under bidding and contracting requirements.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will perform suggested action to conform to this requirement.

### ***Compensation of Hospital Administrator, Assistants and Employees***

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

### ***Internal Revenue Service Information Returns and Outside Services***

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

***Publication of Bills Allowed and Salaries***

Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category ...” One exception was noted below:

Criteria or Specific Requirement – Hospital management is responsible for publishing the quarterly bills allowed and salaries paid as required by the Code of Iowa.

Condition – Bills allowed and salaries paid were not published during the year ended June 30, 2005.

Context – The necessary publications were not published.

Effect – Requirements were not met under Chapter 347.13(14) of the Code of Iowa.

Cause – Necessary publications were not made in the current fiscal year.

Recommendation – The Hospital should publish the schedule of bills allowed and salaries by job classification in accordance with Chapter 347.13(14) of the Code of Iowa and a Supreme Court decision dated September 18, 1996.

Views of Responsible Officials and Planned Corrective Actions – Management believes that they are not required to publish the information. However, management will consider this recommendation.

We also noted certain additional matters that we reported to the Hospital’s management in a separate letter dated August 18, 2005.

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 18, 2005

**Floyd County Memorial Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2005**

**Reference  
Number**

**Finding**

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None

# Floyd County Memorial Hospital



Board of Commissioners  
Floyd County Memorial Hospital  
Charles City, Iowa

As part of our audit of the financial statements of Floyd County Memorial Hospital for the year ended June 30, 2005, 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 opportunities for improvement. In addition to the matters discussed in the Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters included in the financial statements, we observed the following matters and offer these comments and suggestions. Previously we made observations as a result of our 2004 audit engagement in a letter dated August 19, 2004.

### ***Standard Accounting Policies and Procedures***

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

### ***Charity Care Policy***

Issues surrounding providing charity care or discounted care to the uninsured has been at the forefront of the health care industry and, as the Hospital is a governmental hospital that exists for the benefit of the community, we recommend adopting a charity care policy for those patients unable to pay for services. The utilization of such a policy will enable the Hospital to apply consistent application of discounts or write-offs to patients who fall within specific income guidelines.

### ***Corporate Compliance Program***

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

- Provide education to all management, Board of Commissioners and medical staff on the importance of the plan.
- Management should train affected employees on the corporate compliance plan and maintain documentation of the training.

- An audit work plan should be developed to ensure areas of greatest risk are audited on a regular basis.
- Periodic reports should be made to the Board of Commissioners regarding the plan.

The plan should be reviewed annually for any necessary updates and a review of the effectiveness of the plan should be completed on the plan once it has been fully implemented.

\* \* \*

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 Commissioners and management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 18, 2005