

Hamilton County Public Hospital

Accountants' Report and Financial Statements

June 30, 2005 and 2004



Hamilton County Public Hospital
June 30, 2005 and 2004

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the accompanying balance sheets of Hamilton County Public 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 Hamilton County Public 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 11, 2005 on our consideration of Hamilton County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 as listed in the table of contents 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 Trustees
Hamilton County Public 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. 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 11, 2005

Hamilton County Public 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 Hamilton County Public 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 and short-term deposits increased in 2005 by \$544,542 or 10% and increased in 2004 by \$1,443,446 or 26%.
- The Hospital's net assets increased in 2005 by \$1,480,726 or 10% and increased in 2004 by \$771,618 or 5%.
- The Hospital reported an operating income in 2005 of \$594,010 and operating loss of \$152,637 in 2004.
- Net nonoperating revenues decreased by \$37,539 or 4% in 2005 compared to an increase of \$53,814 or 6% in 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 and contributors. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,480,726 or 10% in 2005 over 2004 and increased by \$771,618 or 5% in 2004 over 2003 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2005	2004	2003
Assets			*
Patient accounts receivable, net	\$ 2,941,150	\$ 2,595,147	\$ 2,872,327
Other current assets	8,932,690	8,402,082	6,952,931
Other investments	70,742	50,000	50,000
Capital assets, net	5,213,772	4,785,662	5,236,928
Noncurrent cash and deposits	<u>744,290</u>	<u>677,820</u>	<u>575,876</u>
Total assets	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>	<u>\$ 15,688,062</u>
 Total Liabilities	 <u>\$ 1,814,564</u>	 <u>\$ 1,903,357</u>	 <u>\$ 1,852,326</u>
 Net Assets			
Invested in capital assets	5,213,772	4,785,662	5,236,928
Unrestricted	<u>10,874,308</u>	<u>9,821,692</u>	<u>8,598,808</u>
Total net assets	<u>16,088,080</u>	<u>14,607,354</u>	<u>13,835,736</u>
Total liabilities and net assets	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>	<u>\$ 15,688,062</u>

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

Net patient accounts receivable increased by \$346,003 or 13% in 2005 over 2004 due to net patient revenue increasing by \$825,305 or 6%. Also 75% of the billing/collections staff left the Hospital for various reasons. These positions were replaced. However, a backlog of billing follow up and collections was the result.

Other investments increased by \$20,742 or 41% in 2005 over 2004. This amount is all an investment in a PHO (Physician Hospital Organization) through Mercy Hospital in Des Moines.

Noncurrent cash and deposits increased \$66,470 or 9.8% in 2005 over 2004 due to several donations to the Hospital Foundation by individuals and an estate.

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

Operating Results

In 2005, the Hospital's Increase in Net Assets was \$1,480,726, compared to the Increase in Net Assets of \$771,618 in 2004 as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2005	2004	2003
Operating Revenues			*
Net patient service revenue	\$ 14,027,439	\$ 13,202,134	\$ 11,549,257
Other operating revenues	<u>120,146</u>	<u>112,909</u>	<u>156,101</u>
Total operating revenues	<u>14,147,585</u>	<u>13,315,043</u>	<u>11,705,358</u>
Operating Expenses			
Salaries and wages and employee benefits	7,510,045	7,724,286	7,567,672
Medical supplies, professional fees and other	3,301,936	3,155,401	2,910,415
Depreciation	909,522	868,169	962,832
Other operating expenses	<u>1,832,072</u>	<u>1,719,824</u>	<u>1,772,409</u>
Total operating expenses	<u>13,553,575</u>	<u>13,467,680</u>	<u>13,213,328</u>
Operating Income/(Loss)	<u>594,010</u>	<u>(152,637)</u>	<u>(1,507,970)</u>
Nonoperating Revenues			
Property taxes	688,684	730,974	749,581
Interest income	127,209	80,713	104,571
Other	<u>70,823</u>	<u>112,568</u>	<u>16,289</u>
Total nonoperating revenues	<u>886,716</u>	<u>924,255</u>	<u>870,441</u>
Increase (Decrease) in Net Assets	<u>\$ 1,480,726</u>	<u>\$ 771,618</u>	<u>\$ (637,529)</u>

*Restated presentation related to GASB 34

Operating Income/Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2004 and 2003, the Hospital has reported an operating loss. In 2005, the Hospital reported an operating income. The Hospital was formed and is operated primarily to serve residents of Hamilton County and the surrounding area. In 2005, the Hospital became a critical access hospital (CAH), which allows the Hospital to receive reimbursement based on cost for Medicare and Medicaid program beneficiaries. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2005 was \$594,010 compared to the loss in 2004 of \$152,637. The primary components resulting in an operating income for 2005 are:

- An increase in net patient service revenue of \$825,305 or 6%. This increase was the result of a 12% increase in Outpatient revenues and a decrease of 10% for Inpatient revenues with an overall increase of about 2% in gross patient revenues. This is due to a decrease in inpatient days from 5,838 in 2004 to 5,104 in 2005. There was a slight decrease in outpatient visits from 14,544 in 2004 to 14,408 in 2005; however, the hospital's charges were increased an average of 5% from 2004 to 2005.
- Operating expenses increased \$85,895 or .6%. Salaries and wages for the Hospital's employees decreased \$70,536 or 1% from 2004 to 2005 due to a management restructuring and staff employee turnover. A decrease in employee benefits of \$143,705 or 9% was experienced, also due to the management restructuring and to staff turnover. Medical professional fees increased \$126,193 or 9.9% due to more contracted staffing services being used to cover staff shortages in several clinical departments. Insurance increased \$58,720 or 33% due in part to the addition of business interruption insurance.

The operating loss for fiscal year 2004 was \$152,637 compared to a loss for fiscal year 2003 of \$1,507,970 was a result of an increase in outpatient visits from 13,996 in 2003 to 14,544 in 2004. Also, Hospital charges were increased an average of 10% on the inpatient side and an average of 5% on the outpatient side from 2003 to 2004.

In 2004, operating expenses increased \$254,352 or 1.9%. Salaries and wages for the Hospital's employees increased \$201,789 or 3.3%, due to increases to employee wages as per union contract. A decrease in employee benefits of \$45,175 or 2.8% was experienced, due to several high health risk employees leaving employment and a decrease in the number of highly paid administrative staff. Supplies and professional fees expense increased \$244,986 or 8.4% due to supplies needed to set up the provider-based clinic in Jewell, Iowa and an increase in CRNA professional fees due to the increase in surgeries. Professional services also increased due to contracting out services to cover a shortage of clinical staff in pharmacy and the emergency department.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income, all of which remained relatively constant in 2005 as compared to 2004. The Hospital did receive \$46,496 or 58% more in investment income due to more investing in Certificates of Deposit by the Hospital. The Property tax income decreased \$42,290 due to the Board of Trustees approving a 5% decrease in the Hospital's property tax levy for 2005.

The Foundation received a major contribution from an estate in 2004, which contributed to the \$98,055 increase in contributions and changes in Foundation net assets between 2003 and 2004.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating and nonoperating revenues and expenses. It is also noted that cash provided by operating activities in 2005 was \$1,084,801 compared to \$1,041,156 in 2004.

Capital Asset and Debt Administration

Capital Assets

At the end of 2005, the Hospital had \$5,213,772 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$4,785,662 in 2004.

In 2005, the Hospital purchased new capital assets costing \$1,344,264. No new equipment was acquired through incursion of capital lease obligations. The Hospital purchased new capital assets in 2004 costing \$423,151. The Hospital capitalization policy was changed from an amount of \$1,000 in 2004 to \$2,500 in 2005.

Debt

At June 30, 2005 and 2004, the Hospital had no outstanding debt. The Hospital issued no new debt in 2005, 2004 or 2003.

Factors Bearing on Hamilton County Public Hospital's Future

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

- Employee Contract settlement

During the year ended June 30, 2005, the Hospital settled its labor contract with the Iowa Nurses Association and with the Public, Professional and Maintenance Employees Local 2003 organization. The agreement will expire in 2006 for patient care employees and 2007 for non-patient care employees.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning (515) 832-9400.

Hamilton County Public Hospital
Balance Sheets
June 30, 2005 and 2004

Assets

	2005	2004
Current Assets		
Cash and cash equivalents	\$ 5,911,516	\$ 5,366,974
Short-term certificates of deposit	1,663,135	1,663,135
Patient accounts receivable, net of allowance; 2005 – \$484,958, 2004 – \$531,000	2,941,150	2,595,147
Property taxes receivable	600,667	695,892
Estimated amounts due from third-party payers	—	84,290
Other receivables	47,040	28,550
Supplies	554,671	500,831
Prepaid expenses	<u>155,661</u>	<u>62,410</u>
Total current assets	11,873,840	10,997,229
Other Investments	70,742	50,000
Noncurrent Cash and Deposits		
Internally designated	744,290	677,820
Capital Assets, Net of Accumulated Depreciation	<u>5,213,772</u>	<u>4,785,662</u>
Total Assets	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>

Liabilities and Net Assets

Current Liabilities		
Accounts payable	\$ 406,856	\$ 398,299
Accrued expenses	695,178	816,068
Estimated amounts due to third-party payers	119,000	—
Deferred property tax revenue	<u>593,530</u>	<u>688,990</u>
Total current liabilities	<u>1,814,564</u>	<u>1,903,357</u>
Net Assets		
Invested in capital assets	5,213,772	4,785,662
Unrestricted	<u>10,874,308</u>	<u>9,821,692</u>
Total net assets	<u>16,088,080</u>	<u>14,607,354</u>
Total Liabilities and Net Assets	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>

Hamilton County Public Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Revenues		
Net patient service revenue, before provision for uncollectible accounts	\$ 14,450,230	\$ 13,809,780
Provision for uncollectible accounts	<u>(422,791)</u>	<u>(607,646)</u>
Net patient service revenue	14,027,439	13,202,134
Other	<u>120,146</u>	<u>112,909</u>
Total operating revenues	<u>14,147,585</u>	<u>13,315,043</u>
Operating Expenses		
Salaries and wages	6,095,490	6,166,026
Employee benefits	1,414,555	1,558,260
Medical professional fees	1,391,960	1,265,767
Supplies and other	1,909,976	1,889,634
Administrative services	698,098	633,393
General services	899,897	911,074
Depreciation	909,522	868,169
Insurance	<u>234,077</u>	<u>175,357</u>
Total operating expenses	<u>13,553,575</u>	<u>13,467,680</u>
Operating Income (Loss)	<u>594,010</u>	<u>(152,637)</u>
Nonoperating Revenues		
Property taxes	688,684	730,974
Investment income	127,209	80,713
Other	15,800	17,779
Contributions and changes in Foundation net assets	<u>55,023</u>	<u>94,789</u>
Total nonoperating revenues	<u>886,716</u>	<u>924,255</u>
Increase in Net Assets	1,480,726	771,618
Net Assets, Beginning of Year	<u>14,607,354</u>	<u>13,835,736</u>
Net Assets, End of Year	<u>\$ 16,088,080</u>	<u>\$ 14,607,354</u>

Hamilton County Public Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Operating Activities		
Receipts from and on behalf of patients	\$ 13,884,726	\$ 13,367,657
Payments to suppliers and contractors	(5,272,543)	(4,794,833)
Payments to employees	(7,630,935)	(7,635,212)
Other receipts and payments, net	<u>103,553</u>	<u>103,544</u>
Net cash provided by operating activities	<u>1,084,801</u>	<u>1,041,156</u>
Noncapital Financing Activities		
Property taxes supporting operations	688,684	730,974
Other	15,800	17,779
Gifts and grants for other than capital purposes	<u>55,023</u>	<u>94,789</u>
Net cash provided by noncapital financing activities	<u>759,507</u>	<u>843,542</u>
Capital and Related Financing Activities		
Proceeds from sale of capital assets	4,500	3,130
Purchase of capital assets	<u>(1,344,264)</u>	<u>(423,151)</u>
Net cash used in capital and related financing activities	<u>(1,339,764)</u>	<u>(420,021)</u>
Investing Activities		
Interest on deposits	127,209	80,713
Net change in deposits	<u>(33,400)</u>	<u>389,328</u>
Net cash provided by investing activities	<u>93,809</u>	<u>470,041</u>
Increase in Cash and Cash Equivalents	598,353	1,934,718
Cash and Cash Equivalents, Beginning of Year	<u>5,460,820</u>	<u>3,526,102</u>
Cash and Cash Equivalents, End of Year	<u>\$ 6,059,173</u>	<u>\$ 5,460,820</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 5,911,516	\$ 5,366,974
Cash in noncurrent cash and deposits		
Internally designated	<u>147,657</u>	<u>93,846</u>
	<u>\$ 6,059,173</u>	<u>\$ 5,460,820</u>

(Continued)

Hamilton County Public Hospital
Statements of Cash Flows
Years Ended June 30, 2005 and 2004

	2005	2004
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ 594,010	\$ (152,637)
Depreciation	909,522	868,169
Loss on sale of capital assets	2,132	3,118
Changes in operating assets and liabilities		
Patient accounts receivable, net	(346,003)	277,180
Estimated amounts due from and to third-party payers	203,290	(111,657)
Accounts payable and accrued expenses	(130,824)	79,564
Supplies	(53,840)	53,725
Prepaid expenses	(93,251)	1,080
Other assets and liabilities	(235)	22,614
Net cash provided by operating activities	\$ 1,084,801	\$ 1,041,156

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2005 and 2004

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

Nature of Operations and Reporting Entity

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

The Hospital is the beneficiary of Hamilton County Hospital Foundation (Foundation), a separate legal entity with its own board of trustees. The Hospital is the sole member of the Foundation and approves appointments to the Foundation Board of Trustees. Thus, the Hospital is financially accountable for the Foundation. As a result, the Foundation is a component unit of the Hospital and is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2005 and 2004

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2005 and 2004, cash equivalents consisted primarily of certificates of deposit.

Property Taxes

The Hospital received approximately 5% of its financial support from property tax revenues in each of the years ended June 30, 2005 and 2004, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

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

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 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.

Supplies

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

Capital Assets

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

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

Compensated Absences

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

Net Assets

Net assets of the Hospital are classified in two components. Net assets invested in capital assets consist of capital assets net of accumulated depreciation. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets or restricted expendable.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$70,000 and \$88,000 for 2005 and 2004, respectively.

Income Taxes

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

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

Hamilton County Public 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. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries were paid at prospectively determined rates. These rates varied according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient swing-bed services were paid at prospectively determined per diem rates that were based on a patient's acuity. Effective September 1, 2004, the Hospital was designated as a critical access hospital (CAH). 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 tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

Medicaid. Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed under prospectively determined rates. Effective September 1, 2004, when the Hospital became a CAH, inpatient and outpatient services rendered to Medicaid Program beneficiaries were 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 55% and 48% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2005 and 2004, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits, Investments and Deposit Income

Deposits

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

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

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.

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 a limited investment in a physician hospital organization at June 30, 2005 and had no investments at June 30, 2005 and 2004.

Summary of Carrying Value

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

	2005	2004
Deposits	\$ <u>8,368,941</u>	\$ <u>7,757,929</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,911,516	\$ 5,366,974
Short-term certificates of deposit	1,663,135	1,663,135
Other investments	50,000	50,000
Noncurrent cash and deposits	<u>744,290</u>	<u>677,820</u>
	<u>\$ 8,368,941</u>	<u>\$ 7,757,929</u>

Deposit Income

Income on deposits for the years ended June 30, 2005 and 2004, consisted of:

	2005	2004
Interest income	\$ <u>127,209</u>	\$ <u>80,713</u>

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2005 and 2004 was:

	2005	2004
Medicare and Medicaid	\$ 1,094,790	\$ 780,120
Other third-party payers	980,383	983,318
Patients	1,306,625	1,285,102
Home care	35,753	68,860
ER physicians	8,557	8,747
	3,426,108	3,126,147
Less allowances for uncollectible accounts	484,958	531,000
	<u>\$ 2,941,150</u>	<u>\$ 2,595,147</u>

Note 5: Capital Assets

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

	2005			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 224,092	\$ —	\$ —	\$ 224,092
Land improvements	275,617	16,183	—	291,800
Buildings	4,894,559	21,814	—	4,916,373
Fixed equipment	3,369,622	10,636	—	3,380,258
Major movable equipment	7,295,406	1,180,371	422,101	8,053,676
Construction in progress	30,297	115,260	—	145,557
	<u>16,089,593</u>	<u>1,344,264</u>	<u>422,101</u>	<u>17,011,756</u>
Less accumulated depreciation				
Land improvements	190,707	12,171	—	202,878
Buildings	3,163,993	142,675	—	3,306,668
Fixed equipment	2,398,027	131,604	—	2,529,631
Major movable equipment	5,551,204	623,072	415,469	5,758,807
	<u>11,303,931</u>	<u>909,522</u>	<u>415,469</u>	<u>11,797,984</u>
Capital assets, net	<u>\$ 4,785,662</u>	<u>\$ 434,742</u>	<u>\$ 6,632</u>	<u>\$ 5,213,772</u>

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

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

Note 6: Medical Malpractice Claims

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

Note 7: Employee Health Claims

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

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Activity in the Hospital's accrued employee health claims liability during 2005 and 2004 is summarized as follows:

	2005	2004
Balance, beginning of year	\$ 131,558	\$ 143,643
Current year claims incurred and changes in estimates for claims incurred in prior years	466,498	689,483
Claims and expenses paid	(535,551)	(701,568)
Balance, end of year	\$ 62,505	\$ 131,558

Note 8: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2005 and 2004. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2005, 2004 and 2003 were \$330,072, \$346,055 and \$337,386, respectively, which equaled the required contributions for each year.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2005 and 2004

Note 9: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 688,684	\$ —	\$ 688,684	\$ 688,990
Other revenues/receipts	<u>14,345,617</u>	<u>(142,713)</u>	<u>14,202,904</u>	<u>15,388,593</u>
	15,034,301	(142,713)	14,891,588	16,077,583
Expenses/disbursements	<u>13,553,575</u>	<u>278,150</u>	<u>13,831,725</u>	<u>14,720,148</u>
	1,480,726	(420,863)	1,059,863	1,357,435
Balance, beginning of year	<u>14,607,354</u>	<u>(1,972,571)</u>	<u>12,634,783</u>	<u>12,634,783</u>
Balance, end of year	<u>\$ 16,088,080</u>	<u>\$ (2,393,434)</u>	<u>\$ 13,694,646</u>	<u>\$ 13,992,218</u>

Note 10: Significant Estimates and Concentrations

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

- Estimates of allowances for adjustments included in net patient service revenue are described in Note 2. Estimates related to the accrual for self-insured health benefits are described in Notes 1 and 7.
- The Hospital is served by two admitting physicians, whose patients comprise approximately 37% of the Hospital's net patient service revenue during the year ended June 30, 2005.
- The Hospital has 87% of its work force covered by collective bargaining agreements, which expire in 2006 for patient care employees (65% of work force) and in 2007 for non-patient care employees.

Supplementary Information

Hamilton County Public Hospital
Schedules of Patient Service Revenues
Years Ended June 30, 2005 and 2004

	<u>2005</u>			<u>2004</u>		
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>
Routine Services						
Acute nursing care	\$ 3,359,935	\$ 2,768,297	\$ 591,638	\$ 3,318,971	\$ 2,987,598	\$ 331,373
Nursing Services						
Operating and recovery	2,730,462	339,763	2,390,699	2,686,543	372,694	2,313,849
Swing-bed	419,685	419,685		415,710	415,710	
CCU	141,814	141,814		180,666	180,666	
Emergency	1,872,440	117,969	1,754,471	1,699,105	303,255	1,395,850
Delivery	225,367	167,692	57,675	105,122	102,131	2,991
Nursery	150,376	150,376		164,050	164,050	
Obstetrics	281,353	223,785	57,568	343,331	270,776	72,555
Pediatric	72,653	72,653		139,105	139,105	
Home Care and Hospice	337,123	7,264	329,859	453,954	2,105	451,849
	<u>6,231,273</u>	<u>1,641,001</u>	<u>4,590,272</u>	<u>6,187,586</u>	<u>1,950,492</u>	<u>4,237,094</u>
Other Professional Services						
Central Supply	776,350	359,121	417,229	761,285	384,544	376,741
Ambulance	593,753	52,950	540,803	524,022	50,090	473,932
Blood	105,742	53,577	52,165	115,218	74,416	40,802
Electrocardiology	189,692	53,462	136,230	183,208	95,228	87,980
Radiology	2,592,956	468,333	2,124,623	2,617,816	580,575	2,037,241
Cardiac rehabilitation	167,334		167,334	160,016	550	159,466
Pharmacy	2,264,188	1,693,658	570,530	2,459,624	1,819,893	639,731
Chemistry	1,619,928	537,706	1,082,222	1,432,501	688,179	744,322
Echocardiography	103,380	50,939	52,441	105,589	42,501	63,088
Diabetes education	4,336		4,336	8,548	80	8,468
Histology	35,766	10,956	24,810	25,317	10,191	15,126
Microbiology	359,467	145,344	214,123	349,289	199,584	149,705
Jewell Clinic	158,954		158,954	97,070	573	96,497
Anesthesiology	368,839	90,160	278,679	396,720	100,167	296,553
Respiratory therapy	1,394,033	1,144,067	249,966	1,360,149	1,148,884	211,265
Physical therapy	489,014	71,125	417,889	423,527	72,666	350,861
Occupational therapy	98,838	32,517	66,321	142,861	29,772	113,089
Speech therapy	57,086	20,618	36,468	53,945	16,881	37,064
Corporate health	20,572		20,572	28,326		28,326
Dietary counseling	200		200	1,350		1,350
Wound clinic				256		256
	<u>11,400,428</u>	<u>4,784,533</u>	<u>6,615,895</u>	<u>11,246,637</u>	<u>5,314,774</u>	<u>5,931,863</u>
Patient Service Revenue	20,991,636	\$ 9,193,831	\$11,797,805	20,753,194	\$ 10,252,864	\$ 10,500,330
Contractual Allowances	<u>6,541,406</u>			<u>6,943,414</u>		
Net Patient Service Revenue, before Provision for Uncollectible Accounts	14,450,230			13,809,780		
Provision for Uncollectible Accounts	<u>(422,791)</u>			<u>(607,646)</u>		
Net Patient Service Revenue	\$ 14,027,439			\$13,202,134		

Hamilton County Public Hospital
Schedules of Other Revenues
Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Meals on Wheels	\$ 2,750	\$ 27,727
Cafeteria revenue	66,701	63,638
Vending machine commissions	2,900	8,726
Rebates	8,026	—
Services provided to other entities	3,802	5,375
Sale of scrap	—	43
Medical records transcripts	1,268	1,673
Sale of supplies	53	95
Loss on disposal of property and equipment	(2,132)	(3,118)
Grants	6,779	—
Miscellaneous	<u>29,999</u>	<u>8,750</u>
	<u>\$ 120,146</u>	<u>\$ 112,909</u>

Hamilton County Public Hospital
Schedules of Operating Expenses
Years Ended June 30, 2005 and 2004

	2005			2004		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing	\$ 1,617,725	\$ 1,465,051	\$ 152,674	\$ 1,611,937	\$ 1,465,297	\$ 146,640
Nursery	46,954	44,031	2,923			
Labor and Delivery	38,935	35,500	3,435			
Maternity	230,835	193,332	37,503	313,357	287,392	25,965
Coronary care unit	64,814	43,433	21,381	63,632	49,220	14,412
Operating	612,825	348,672	264,153	604,705	347,198	257,507
Emergency	912,639	442,460	470,179	891,064	431,181	459,883
	<u>3,524,727</u>	<u>2,572,479</u>	<u>952,248</u>	<u>3,484,695</u>	<u>2,580,288</u>	<u>904,407</u>
Other Professional Services						
Anesthesia	251,284		251,284	207,929		207,929
Central Supply	271,930	73,998	197,932	221,199	66,432	154,767
Ambulance	291,307	164,272	127,035	227,187	189,961	37,226
Laboratory	720,735	321,040	399,695	666,232	327,748	338,484
Blood	68,484		68,484	84,584		84,584
Electrocardiology	8,337		8,337	10,219		10,219
Radiology	528,448	209,037	319,411	638,920	195,765	443,155
Pharmacy	670,067	228,712	441,355	682,108	228,233	453,875
Cardiac rehabilitation	92,640	87,438	5,202	91,759	87,177	4,582
Diabetes education	4,307	3,106	1,201	6,629	4,807	1,822
Physical therapy	249,383	43,851	205,532	222,644	45,859	176,785
Social services	15,573	14,956	617	32,859	31,875	984
Durable medical equipment	170,720	67,998	102,722	149,398	64,424	84,974
Specialty clinics	7,263	6,837	426	17,900	7,673	10,227
Inhalation therapy	338,390	253,750	84,640	344,751	275,397	69,354
Corporate health	2,638	1,926	712	3,980	172	3,808
Jewell Clinic	193,199	137,172	56,027	198,389	127,980	70,409
Occupational therapy	50,525		50,525	72,379		72,379
Speech therapy	28,551		28,551	25,431		25,431
	<u>3,963,781</u>	<u>1,614,093</u>	<u>2,349,688</u>	<u>3,904,497</u>	<u>1,653,503</u>	<u>2,250,994</u>
General Services						
Dietary	419,037	252,771	166,266	407,707	242,185	165,522
Operation of plant	724,931	222,639	502,292	733,963	223,054	510,909
Housekeeping	346,412	192,341	154,071	337,976	179,487	158,489
Laundry	77,268		77,268	76,154		76,154
	<u>1,567,648</u>	<u>667,751</u>	<u>899,897</u>	<u>1,555,800</u>	<u>644,726</u>	<u>911,074</u>
Administrative Services						
Public relations/Marketing	31,904	2,121	29,783	44,046		44,046
Medical records	226,177	203,203	22,974	212,631	194,729	17,902
Patient accounts	286,317	215,587	70,730	326,521	267,509	59,012
Admitting	243,117	235,378	7,739	227,234	221,481	5,753
Administration	534,157	281,039	253,118	545,985	323,925	222,060
Data processing	359,093	116,998	242,095	327,167	100,137	227,030
Human resources	135,492	78,856	56,636	119,088	75,270	43,818
Quality management	123,008	107,985	15,023	118,230	104,458	13,772
	<u>1,939,265</u>	<u>1,241,167</u>	<u>698,098</u>	<u>1,920,902</u>	<u>1,287,509</u>	<u>633,393</u>
Insurance	<u>234,077</u>		<u>234,077</u>	<u>175,357</u>		<u>175,357</u>
Employee Benefits	<u>1,414,555</u>		<u>1,414,555</u>	<u>1,558,260</u>		<u>1,558,260</u>
Depreciation	<u>909,522</u>		<u>909,522</u>	<u>868,169</u>		<u>868,169</u>
	<u>\$ 13,553,575</u>	<u>\$ 6,095,490</u>	<u>\$ 7,458,085</u>	<u>\$ 13,467,680</u>	<u>\$ 6,166,026</u>	<u>\$ 7,301,654</u>

Hamilton County Public Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2005 and 2004

Schedules of Patient Receivables

	2005		2004	
	Amounts	Percent to Total	Amounts	Percent to Total
Days Since Discharge				
0-30 days	\$ 2,014,236	54.2%	\$ 1,706,686	47.4%
31-60 days	649,916	17.5	445,335	12.7
61-90 days	205,687	5.5	248,588	7.1
91-120 days	160,957	4.3	196,705	5.5
Over 4 months	682,471	18.5	963,221	27.3
Total	3,713,267	<u>100.0%</u>	3,560,535	<u>100.0%</u>
Home care, net of allowance	35,753		68,860	
ER Physicians, net of allowance	8,557		8,747	
Bad debt accounts, net of allowance	260,439		229,926	
Less contractual allowances	591,908		741,921	
Less allowance for uncollectible accounts	484,958		531,000	
Net patient receivables	\$ <u>2,941,150</u>		\$ <u>2,595,147</u>	

Allowance for Uncollectible Accounts

	2005	2004
Balance, beginning of year	\$ 531,000	\$ 215,207
Provision for year	422,791	607,646
Recoveries of accounts previously written off	102,625	126,404
	1,056,416	949,257
Accounts written off	571,458	418,257
Balance, end of year	\$ <u>484,958</u>	\$ <u>531,000</u>

Hamilton County Public Hospital
Schedule of Officials
June 30, 2005

Name	Title	Term Expires
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Board of Trustees

Kim Stoakes	Chairperson	2010
Henry Witt	Vice Chairman	2008
Stephen Mourlam	Treasurer	2008
Nancy Dermand	Secretary	2010
Don Bottorff	Member	2006
John Hemingway	Member	2008

Hospital Officials

Palmer Schneider	Chief Executive Officer
Alice Heinrichs	Chief Financial Officer

Hamilton County Public Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2005 and 2004

Supplies

	<u>2005</u>	<u>2004</u>
General	\$ 69,194	\$ 62,463
Pharmacy	165,196	133,416
Central Supply	55,212	61,697
Dietary	9,976	10,347
Plant operation and maintenance	47,874	34,416
Laboratory	71,189	56,849
Surgical Services	122,434	128,507
Radiology	8,448	8,708
Jewell Clinic	<u>5,148</u>	<u>4,428</u>
	<u>\$ 554,671</u>	<u>\$ 500,831</u>

Prepaid Expenses

	<u>2005</u>	<u>2004</u>
Insurance	\$ 84,471	\$ 62,410
Maintenance	35,478	—
Surgery Call Pay	<u>35,712</u>	<u>—</u>
	<u>\$ 155,661</u>	<u>\$ 62,410</u>



**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 Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the financial statements of Hamilton County Public Hospital as of and for the year ended June 30, 2005 and have issued our report thereon dated August 11, 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 05-1.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated August 11, 2005.

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 disbursements 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. However, the following was noted:

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees’ has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

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

Travel Expense

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

Criteria or Specific Requirement – Management is responsible for establishing and paying proper mileage reimbursements.

Condition – One reimbursement was paid in excess of the IRS mileage reimbursement amount.

Context – Transaction was approved to pay employee for mileage reimbursement over the IRS limit.

Effect – Overpayment of one mileage reimbursement.

Cause – Review of mileage reimbursements prior to payment did not identify the overpayment.

Recommendation – Management should ensure employees are aware of the IRS mileage reimbursement limit and complete review of such request for reimbursement to ensure it is not over the limit.

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

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

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.

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.

Unclaimed Property

Prior to November 1, 2004, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted the following exception:

Criteria or Specific Requirement – Hospital management is responsible for filing a report of unclaimed property or a negative report if no unclaimed property is on hand.

Condition – A report noting no unclaimed property was not filed in 2005 for the year ended June 30, 2004.

Context – The Hospital had no unclaimed property, but no report was filed.

Effect – Requirements were not met under Chapter 556.11 of the Code of Iowa.

Cause – Necessary reporting was not made in the current fiscal year.

Recommendation – Management should ensure necessary reporting is completed each year.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all reporting is made in accordance with the Code of Iowa.

Publication of Bills Allowed

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 ...” One exception was noted below:

Criteria or Specific Requirement – Hospital management is responsible for publishing the quarterly bills allowed.

Condition – Bills allowed were not published for one quarter during the year ended June 30, 2005.

Context – The necessary publications were given to the newspaper editors, but the items were not published as requested.

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 – Management should verify necessary publications are made by monitoring the local newspaper to ensure items were properly published or obtain certification of publication.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to ensure all publications are made in accordance with the Code of Iowa.

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 11, 2005

Hamilton County Public Hospital
Schedule of Findings and Responses
Year Ended June 30, 2005

Reference Number	Finding
05-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Two individuals have incompatible duties in the purchases and payroll cycles.</p> <p>Context—Individuals responsible for processing cash disbursements and recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>

Hamilton County Public Hospital
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005



Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

As part of our audit of the financial statements of Hamilton County Public Hospital for the year ended June 30, 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 reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously, we made observations as a result of our 2004 audit engagement in a letter dated September 17, 2004.

Segregation of Duties

Certain matters regarding internal controls were included in the 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*.

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

Segregation of duties conflicts exist in the duties performed by the Chief Financial Officer (CFO) in the Purchasing cycle, the Financial Analyst in the Payroll and Purchasing cycles and the Part-Time Accountant in the Payroll cycle. These positions have access to the payroll records, can make changes to payroll information, record payroll in the general ledger and reconcile the payroll reports to the general ledger. Regarding the Purchasing cycle, both the CFO and Financial Analyst can issue a check, make a computer entry to generate a payment, have access to signed checks and record accounts payable or have access to the computer system.

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

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

- Consider limiting access or reassigning the duties of authorizing, executing and record-keeping between the CFO and Financial Analyst and part-time accountant.

Approval of Expenses

We noted the Chief Financial Officer approves the Administrator's expense reimbursements. We recommend having a member of the Finance Committee of the Board of Trustees approve the Administrator's expense reimbursements in order to improve controls over these expenses.

Contractual and Bad Debt Analysis

We noted the financial class is not changed to the secondary payer in the accounts receivable detail once the primary payer has paid on an accounts receivable account. We recommend implementing this change to ensure a more accurate accounts receivable aging by financial class is generated for purposes of determining contractual and bad debt allowances.

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

Corporate Compliance Program

We noted the Hospital has a Corporate Compliance program. We noted the Hospital does not have an audit work plan to evaluate and monitor risk areas at the Hospital. We recommend the Hospital create an audit work plan for the next year. We would encourage the Hospital to have an independent review of the Compliance plan's effectiveness on an annual basis.

Review of Journal Entries

It was noted the Hospital does not require documented approval of journal entries entered into the general ledger. We believe this is an important procedure for accurate reporting. We recommend that the journal entries be reviewed by the direct supervisor of the staff proposing the journal entry on a monthly basis.

Billing/Medical Records Review

The Hospital performed no billing/medical records audits during the year. We recommend the Hospital perform these audits annually and formally document procedures used, any findings and resolutions, as well as reports to the Compliance Committee to support the Hospital's position in its compliance efforts.

* * *

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
August 11, 2005