**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**Orange City, Iowa**

# FINANCIAL REPORT

**June 30, 2005**

# C O N T E N T S


| | Page |
|---|---|
| **OFFICIALS** | 3 |
| **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS** | 4-5 |
| **MANAGEMENT'S DISCUSSION AND ANALYSIS** | 6-11 |
| **FINANCIAL STATEMENTS** | |
| Balance sheets | 12-13 |
| Statements of revenues, expenses, and changes in fund equity | 14 |
| Statements of cash flows | 15-16 |
| Statements of financial position | 17 |
| Statements of activities | 18 |
| Statements of cash flows | 19 |
| Notes to financial statements | 20-31 |
| **INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION** | 32 |
| **SUPPLEMENTARY INFORMATION** | |
| Age analysis of patient receivables | 33 |
| Analysis of allowance for uncollectibles | 33 |
| Inventories | 34 |
| Insurance coverage | 35 |
| Patient service revenue | 36-37 |
| Provisions for contractual and other adjustments | 38 |
| Other revenue | 38 |
| Nursing service expenses | 39-40 |
| Other professional service expenses | 41-43 |
| General service expenses | 44 |
| Fiscal and administrative service and unassigned expenses | 45 |
| Comparative statistics | 46-47 |
| **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*** | 48-49 |
| **SCHEDULE OF FINDINGS** | 50-51 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**OFFICIALS**
**June 30, 2005**

| **Board of Trustees** | **Expiration of term** |
|---|---|
| Paul Koets, Chairman | January, 2006 |
| Tim Zeutenhorst, Vice Chairman | January, 2008 |
| Les Douma, Secretary | January, 2006 |
| Brenda Herda | January, 2008 |
| Randy Jacobsma | January, 2008 |
| Gary Vande Vegte | January, 2006 |
| Shirley VanWechel | January, 2008 |

**Administrator**

Martin W. Guthmiller

**Chief Financial Officer**

Dina A. Baas

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Health System
Orange City, Iowa

We have audited the accompanying balance sheets of Orange City Municipal Hospital, d/b/a Orange City Health System, a component unit of the City of Orange City, Iowa, as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. We have audited the statements of financial position of Orange City Area Health Foundation, a component unit of Orange City Municipal Hospital, as of June 30, 2005 and 2004, and the related statements of activities and cash flows for the year ended June 30, 2005. 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.

Except as discussed in the following paragraph, 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 accordance with the terms of our engagement, we have not applied audit procedures necessary to satisfy ourselves about the classification amounts comprising the statement of activities and statement of cash flows of the Orange City Area Health Foundation for the year ended June 30, 2004.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express and we do not express, an opinion on the results of operations and cash flows of the Orange City Area Health Foundation for the year ended June 30, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Orange City Municipal Hospital as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the accompanying statements of financial position of the Orange City Area Health Foundation presents fairly, in all material respects, its financial position as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the year ended June 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

*1601 22nd Street, Suite 400, West Des Moines, Iowa 50266-1453 Telephone: (515) 225-8400 Fax: (515) 225-0149*
*www.denman-cpa.com e-mail: firm@denman-cpa.com*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2005, on our consideration of Orange City Municipal Hospital's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 6-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

Denman & Company, LLP

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa
August 19, 2005

## Orange City Health System
## Management's Discussion and Analysis

As management of Orange City Health System, we offer readers of the financial statements this narrative overview and analysis of the Health System's financial performance during the fiscal years ended June 30, 2005, 2004 and 2003. Please read it in conjunction with the Health System's financial statements, which follow this section.

### Financial Highlights

- Total assets increased by $14,499,642 from FY 2004 or 65.3% to $36,715,568, primarily due to the continued construction of a replacement health campus.
- Total assets whose use is limited decreased by $601,221 from FY 2004 or 18.4%
- Total fund equity increased by $7,944,184 from FY 2004, primarily due to an increase in operating income of $1,334,441 and contributions of $4,927,711 towards the new health campus construction project.
- Total long-term debt increased by $5,899,532 from FY 2004, which is due to borrowings related to the construction project.
- Net patient service revenue increased by $3,127,319 from FY 2004, primarily due to an increase in providing surgical and radiology services.
- Expenses increased by $1,625,665 from FY 2004, which is due to a combined increase in salaries, supplies, and depreciation.

### Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Orange City Health System. The basic financial statements of the Orange City Area Health Foundation, a component unit, are separately presented. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### Required Financial Statements

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

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

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

## Orange City Health System's Fund Equity

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

A summary of Orange City Health System's balance sheets at June 30, 2005, 2004 and 2003 are presented in Table 1.

Table 1: Assets, Liabilities, and Fund Equity (in Thousands)

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Assets: | | | |
| Current assets | $ 7,501 | $ 5,712 | $ 5,468 |
| Assets whose use is limited, net of current | 2,663 | 3,264 | 3,041 |
| Capital assets, net | 26,367 | 13,089 | 11,258 |
| Other assets | 185 | 151 | 133 |
| Total assets | $36,716 | $22,216 | $19,900 |
| Liabilities: | | | |
| Long-term debt outstanding | $ 9,857 | $ 3,957 | $ 4,571 |
| Other current and noncurrent liabilities | 5,202 | 4,547 | 3,231 |
| Total liabilities | $15,059 | $ 8,504 | $ 7,802 |
| Fund equity: | | | |
| Investment in capital assets, net of related debt | $15,899 | $ 8,506 | $ 6,087 |
| Restricted | 794 | 781 | 784 |
| Unrestricted | 4,964 | 4,425 | 5,227 |
| Total fund equity | $21,657 | $13,712 | $12,098 |

A significant component of the change in the assets of Orange City Health System is the decrease in assets designated by board for deferred compensation, a nonqualified voluntary deferral plan. The asset and related liability decreased by $479,093. The most remarkable change, capital assets, is presented in table 4, and note 5 of the financial statements, and relates to the new health campus construction project. The large increase in long-term debt outstanding also relates to the construction project, as funds were borrowed to finance. Note 7 of the financial statements addresses the long-term debt activity for 2005.

## Operating Results and Changes in Orange City Health System's Fund Equity

The following table presents a summary of revenue and expenses for the fiscal years ended June 30, 2005, 2004 and 2003. In 2005, fund equity increased by $7,944,184 or 57.9% over the prior year. As you can see, this increase was attributable to a combined increase in operating income and contributions.

Table 2: Operating Results and Changes in Fund Equity (in Thousands)

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Operating Revenues: | | | |
| Net patient service revenue | $24,996 | $21,869 | $20,143 |
| Other operating revenue | 1,438 | 1,605 | 1,208 |
| Total operating revenue | 26,434 | 23,474 | 21,351 |
| | | | |
| Operating Expenses: | | | |
| Salaries and benefits | 13,692 | 13,474 | 12,506 |
| Provision for depreciation and amortization | 1,137 | 1,024 | 1,023 |
| Other operating expenses | 8,406 | 7,112 | 6,765 |
| Total operating expenses | 23,235 | 21,610 | 20,294 |
| Operating income | 3,199 | 1,864 | 1,057 |
| | | | |
| Nonoperating revenues and expenses: | | | |
| Investment income | 79 | 72 | 82 |
| Interest expense | (267) | (300) | (330) |
| Other nonoperating revenues and expenses, net | 6 | (22) | 48 |
| Total nonoperating revenues (expenses) | (182) | (250) | (200) |
| | | | |
| Excess of revenues over expenses before contributions | 3,017 | 1,614 | 857 |
| Contributions | 4,928 | – | 16 |
| | | | |
| Change in fund equity | 7,945 | 1,614 | 873 |
| | | | |
| Total fund equity, beginning | 13,712 | 12,098 | 11,225 |
| | | | |
| Total fund equity, ending | $21,657 | $13,712 | $12,098 |

## Operating and Financial Performance

The following summarizes Orange City Health System's statement of revenue, expenses and changes in fund equity between June 30, 2005, 2004 and 2003.

**Net Patient Service Revenue**: Net patient service revenue is a product of volume, price increases and payer mix.

**Volume**: Hospital discharges for fiscal year 2005 were 1,121 compared to 1,251 in fiscal year 2004. Average length of stay decreased slightly as patient days declined to 4,734 from 5,109 in 2004. Volume on the outpatient side indicated positive growth in 2005. In 2005, gross outpatient charges increased to $24,237,313 compared to $20,365,141 in 2004. Emergency service, laboratory, radiology and clinic ancillary services reflected the most significant growth in 2005.

**Price Increase**: As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2005. Overall, gross patient service revenue increased to $32,560,038 from $28,870,595 in 2004.

**Payor Mix**: Effective October 1, 2004, the Hospital was designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this new designation, contractual adjustments and bad debts were $7,436,212 in 2005 compared to $6,905,920 in 2004. This represents 23% of gross patient charges.

The following table displays the percentages of gross charges for patient services by payer for the years ended June 30, 2005, 2004 and 2003.

Table 3: Payer Mix

| | Year ended June 30, | | |
|---|---|---|---|
| | 2005 | 2004 | 2003 |
| Medicare | 43.0% | 42.9% | 43.8% |
| Wellmark | 22.9% | 23.3% | 20.1% |
| Medicaid | 4.2% | 4.9% | 5.2% |
| PPO | 8.2% | 7.9% | 13.5% |
| Commercial Insurance | 19.2% | 18.7% | 15.0% |
| Self Pay | 2.5% | 2.3% | 2.4% |
| Total | 100.0% | 100.0% | 100.0% |

## Other Revenue

Occupancy at Landsmeer Ridge, an assisted and independent living complex, increased from 20,447 resident days in 2004 to 22,462 resident days in 2005. A 4% increase in room rates became effective July 1, 2004.

## Expenses

Fifty-nine percent of Orange City Health System's expenses are attributed to salaries and benefits. Labor shortages in key areas, such as nursing and radiology, and rising health insurance costs have contributed to the increase. Total salaries and benefits increased by approximately $218,000, from $13.5 million to $13.7 million. Fiscal and administrative services and unassigned expenses increased 10% from $3.51 million in 2004 to $3.86 million in 2005. Professional services increased by 6% from $10.84 million in 2004 to 11.50 million in 2005, primarily due to an increase in surgical and diagnostic procedures.

## Capital Assets and Debt Administration

### Capital Assets

At the end of 2005, Orange City Health System had $26.367 million invested in capital assets, net of accumulated depreciation, as shown in Table 1. Note 5 to the financial statements provides more detail of changes in property and equipment. Orange City Health System is constructing a new medical campus. The new campus is being constructed on a 37-acre site on the southeastern edge of Orange City. The 128,000 square- foot facility will permit consolidation of diagnostic and outpatient services, provide modern, private patient rooms and more private waiting and recovery areas, as well as providing ample parking, convenience and better accessibility. OCHS will have space available to accommodate additional specialty programs, increasing the ability to serve people locally. The campus is projected to cost $31 million, including site acquisition, construction costs, furnishings and equipment and capitalized financing. Nearly $15.5 million of project costs has been incurred to date. The project is being funded from 3 primary sources. The largest part of the cost will be financed through a collaborative effort by local banks, resulting in a $20 million loan to be 90% USDA guaranteed. Voters of Orange City and Alton have approved a bond issue of $4 million for the project. And, the Orange City Health System has sought philanthropic support from the communities it serves. $4.8 million in pledges have been made through June 30, 2005 to the Orange City Area Health Foundation. Note 6 to the financial statements details pledge activity.

The following table summarizes Orange City Health System's capital assets as of June 30, 2005, 2004 and 2003.

Table 4: Capital Assets (in Thousands)

| | 2005 | 2004 | 2003 |
|---|---|---|---|
| Land | $ 651 | $ 601 | $ 601 |
| Land improvements | 329 | 329 | 322 |
| Buildings | 10,864 | 10,533 | 10,524 |
| Fixed equipment | 3,378 | 3,378 | 3,378 |
| Major moveable equipment | 7,276 | 6,548 | 6,084 |
| Construction in progress | 15,223 | 1,917 | 31 |
| Total | 37,721 | 23,306 | 20,940 |
| Less accumulated depreciation and amortization | (11,354) | (10,217) | (9,682) |
| Net property and equipment | $26,367 | $13,089 | $11,258 |

## Long -Term Debt

At June 30, 2005, Orange City Health System had $10.46 million in short and long-term debt related to hospital revenue capital loan notes and capital loan anticipation notes. Long-term debt increased by approximately $5,886,000 from 2004 in order to finance the new health campus construction project. Obligations under capital leases of $11,413 decreased by $53,934 from 2004. More detailed information is presented in Note 7 to the Financial Statements.

**Performance Compared to Budget**

The following table compares fiscal year 2005 actual to budget information.

Table 5: Budget vs. Actual (in Thousands)

| | Budget | Actual | Dollar Variance | Percent Variance |
|---|---|---|---|---|
| Gross patient service revenue | $32,610 | $32,560 | $ (50) | (0.1%) |
| Contractual adjustments | (7,418) | (7,078) | 340 | 4.6% |
| Provision for bad debts | (324) | (358) | (34) | (10.5%) |
| Charity care | (300) | (128) | 172 | 57.3% |
| Net patient service revenue | 24,568 | 24,996 | 428 | 1.7% |
| Other operating revenue | 266 | 1,438 | 1,172 | 440.6% |
| Total operating revenue | 24,834 | 26,434 | 1,600 | 6.4% |
| Operating expenses | 23,284 | 23,235 | 49 | 2.1$ |
| Operating income | 1,550 | 3,199 | 1,649 | 106.4% |
| Income from investments | 73 | 79 | 6 | 8.2 |
| Other nonoperating, including contributions | 15 | 4,667 | 4,652 | 31,006.0% |
| Excess of revenues over expenses | $ 1,638 | $ 7,945 | $6,307 | $385.0% |

## Economic and Other Factors and Next Year's Budget

Orange City Health System's Board and management considered many factors when setting the fiscal year 2005 budget. Economic forces and environmental factors, such as the following were considered:

- Medicare and Medicaid reimbursement rates
- The aging of the population in our market area
- Major employers
- Legislation
- Workforce shortages
- Physician recruitment
- Cost of supplies
- Rising pharmaceutical costs
- Technology advancements
- Pledge receivable collections

## Contacting Orange City Health System's Finance Department

Orange City Health System's financial statements are designed to present users with a general overview of the finances and to demonstrate Orange City Health System's accountability. If you have any questions about the report or need additional information, please contact the finance department at Orange City Health System, 400 Central Ave NW, Orange City, IA 51041.

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**BALANCE SHEETS**

| ASSETS | June 30 2005 | June 30 2004 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 3,120,333 | $ 1,662,299 |
| Assets whose use is limited, required for current liabilities | 618,914 | 591,391 |
| Patient receivables, less allowance for contractual adjustments and uncollectible accounts 2005 $1,452,326; 2004 $1,584,656 | 3,229,897 | 2,648,879 |
| Other receivables | 1,213 | 249,349 |
| Inventories | 495,849 | 481,357 |
| Prepaid expenses | 34,316 | 79,189 |
| Total current assets | 7,500,522 | 5,712,464 |
| **ASSETS WHOSE USE IS LIMITED** | | |
| Designated by board for plant replacement and expansion | | |
| Cash and cash equivalents | 575,704 | 716,510 |
| Certificates of deposit | 828,958 | 849,578 |
| U.S. Government agency securities | 145,101 | 93,434 |
| Accrued interest receivable | 11,320 | 8,547 |
| | 1,561,083 | 1,668,069 |
| Designated by board for deferred compensation | | |
| Mutual funds | 926,417 | 1,405,510 |
| Restricted for payment of revenue notes and interest | | |
| Cash and cash equivalents | 114,692 | 108,066 |
| Certificates of deposit | 670,000 | 670,000 |
| | 784,692 | 778,066 |
| Restricted by donors for specific purpose | | |
| Cash | 9,180 | 3,426 |
| Total assets whose use is limited | 3,281,372 | 3,855,070 |
| Less assets whose use is limited and that are required for current liabilities | 618,914 | 591,391 |
| Noncurrent assets whose use is limited | 2,662,458 | 3,263,679 |
| **PROPERTY AND EQUIPMENT** | 37,721,011 | 23,305,517 |
| Less accumulated depreciation and amortization | 11,353,701 | 10,216,801 |
| Total property and equipment | 26,367,310 | 13,088,716 |
| **OTHER ASSETS** | | |
| Unamortized financing costs | 7,179 | 8,378 |
| Other | 178,099 | 142,688 |
| Total other assets | 185,278 | 151,066 |
| Totals | $36,715,568 | $22,215,926 |

See Notes to Financial Statements.

| LIABILITIES AND FUND EQUITY | June 30 2005 | June 30 2004 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Current maturities of long-term debt | $ 611,413 | $ 625,090 |
| Accounts payable | | |
| Trade | 591,367 | 796,817 |
| Construction | 1,841,109 | 434,768 |
| Accrued payroll and vacation pay | 1,042,936 | 1,081,555 |
| Payroll taxes | 51,850 | 148,549 |
| Accrued interest payable | 18,914 | 21,391 |
| Estimated third-party payor settlements | 80,000 | – |
| Deposits | 38,100 | 32,500 |
| Total current liabilities | 4,275,689 | 3,140,670 |
| **LONG-TERM DEBT** | | |
| Hospital revenue capital loan notes | 10,456,825 | 4,517,036 |
| Obligation under capital lease | 11,413 | 65,347 |
| | 10,468,238 | 4,582,383 |
| Less current maturities | 611,413 | 625,090 |
| Total long-term debt | 9,856,825 | 3,957,293 |
| **OTHER LIABILITIES** | | |
| Deferred compensation liability | 926,417 | 1,405,510 |
| Total liabilities | 15,058,931 | 8,503,473 |
| **COMMITMENTS AND CONTINGENCIES** | | |
| **FUND EQUITY** | | |
| Invested in capital assets, net of related debt | 15,899,072 | 8,506,333 |
| Restricted | 793,872 | 781,492 |
| Unrestricted | 4,963,693 | 4,424,628 |
| Total fund equity | 21,656,637 | 13,712,453 |
| Totals | $36,715,568 | $22,215,926 |

See Notes to Financial Statements.

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **NET PATIENT SERVICE REVENUE**, net of provisions for bad debts 2005 $357,611; 2004 $259,388 | $24,996,307 | $21,868,988 |
| **OTHER REVENUE** | 1,438,075 | 1,605,288 |
| Total revenue | 26,434,382 | 23,474,276 |
| **EXPENSES** | | |
| Nursing service | 5,641,085 | 5,233,759 |
| Other professional service | 11,502,646 | 10,839,802 |
| General service | 1,098,470 | 998,681 |
| Fiscal and administrative service and unassigned expenses | 3,856,118 | 3,513,759 |
| Provision for depreciation and amortization | 1,136,900 | 1,023,553 |
| Total expenses | 23,235,219 | 21,609,554 |
| Operating income | 3,199,163 | 1,864,722 |
| **NONOPERATING GAINS (LOSSES)** | | |
| Investment income | 79,019 | 72,112 |
| Interest expense | (267,562) | (299,419) |
| (Loss) on disposal of equipment | – | (21,629) |
| Nonoperating income (loss) from auxiliary activity, net | 5,753 | (4,270) |
| Unrestricted contributions | 100 | 3,060 |
| Total nonoperating (losses) | (182,690) | (250,146) |
| Excess of revenues over expenses before contributions | 3,016,473 | 1,614,576 |
| **CONTRIBUTIONS** | 4,927,711 | – |
| Change in fund equity | 7,944,184 | 1,614,576 |
| **TOTAL FUND EQUITY** | | |
| Beginning | 13,712,453 | 12,097,877 |
| Ending | $21,656,637 | $13,712,453 |

See Notes to Financial Statements.

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**STATEMENTS OF CASH FLOWS**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from patients and third-party payors | $24,733,653 | $22,289,238 |
| Cash paid to suppliers for goods and services | (8,474,198) | (7,633,689) |
| Cash paid to employees for services | (13,986,631) | (12,891,812) |
| Other operating revenue received | 1,470,159 | 1,562,110 |
| Net cash provided by operating activities | 3,742,983 | 3,325,847 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Nonoperating income (loss) from auxiliary activities, net | 5,753 | (4,270) |
| Unrestricted contributions received | 100 | 3,060 |
| Net cash provided by (used in) noncapital financing activities | 5,853 | (1,210) |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Acquisition of property and equipment | (13,009,153) | (2,456,829) |
| Proceeds from revenue notes | 6,500,000 | – |
| Principal paid on long-term debt | (623,935) | (598,483) |
| Restricted contributions | 4,927,711 | – |
| Interest paid on long-term debt | (259,050) | (290,775) |
| Net cash (used in) capital and related financing activities | (2,464,427) | (3,346,087) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of certificates of deposit | (1,358,403) | (879,780) |
| Proceeds from maturities of certificates of deposit | 1,381,693 | 837,373 |
| Proceeds from maturity of U.S. Government Securities | 11,166 | 23,237 |
| Purchase of government securities | (65,503) | (47,338) |
| Interest received | 76,246 | 73,778 |
| Net cash provided by investing activities | 45,199 | 7,270 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 1,329,608 | (14,180) |
| **CASH AND CASH EQUIVALENTS** | | |
| Beginning | 2,490,301 | 2,504,481 |
| Ending | $ 3,819,909 | $ 2,490,301 |

See Notes to Financial Statements.

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**STATEMENTS OF CASH FLOWS (continued)**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income | $3,199,163 | $1,864,722 |
| Adjustments to reconcile operating income to net cash provided by operating activities | | |
| Provision for depreciation and amortization | 1,136,900 | 1,023,553 |
| Education assistance advances | (14,196) | (12,622) |
| Education assistance advances forgiven | 6,135 | 6,901 |
| Physician advances | (72,500) | (7,500) |
| Physician advances forgiven | 28,438 | 34,375 |
| Changes in assets and liabilities | | |
| (Increase) decrease in patient receivables | (421,018) | 293,962 |
| (Increase) decrease in estimated third-party payor settlements | (80,000) | 126,288 |
| (Increase) decrease in other receivables, net of nonoperating activities | 264,848 | (279,542) |
| (Increase) in inventories | (14,492) | (78,545) |
| (Increase) decrease in prepaid expenses | 44,873 | (11,594) |
| Increase (decrease) in accounts payable, net of amounts for property and equipment | (205,450) | 197,709 |
| Increase (decrease) in accrued payroll and vacation pay | (38,619) | 246,815 |
| Increase (decrease) in payroll taxes | (96,699) | 23,325 |
| (Decrease) in accrued property taxes | – | (100,000) |
| Increase (decrease) in deposits | 5,600 | (2,000) |
| Net cash provided by operating activities | $3,742,983 | $3,325,847 |
| **RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENTS OF CASH FLOWS TO THE BALANCE SHEETS** | | |
| Per balance sheets | | |
| Current assets, cash and cash equivalents | $3,120,333 | $1,662,299 |
| Assets whose use is limited | | |
| Designated by board for plant replacement and expansion | 575,704 | 716,510 |
| Restricted for payment of revenue notes and interest | 114,692 | 108,066 |
| Restricted by donors for specific purpose | 9,180 | 3,426 |
| Total per statements of cash flows | $3,819,909 | $2,490,301 |

See Notes to Financial Statements.

**Orange City Area Health Foundation**
**(A Component Unit of Orange City Municipal Hospital)**
**STATEMENTS OF FINANCIAL POSITION**

| | June 30 | |
|---|---|---|
| **ASSETS** | **2005** | **2004** |
| Cash | $ 423,550 | $ 724,698 |
| Certificates of deposit | 17,073 | 16,805 |
| Capital campaign pledges receivable, net of allowance 2005 $350,000; 2004 $200,000 and discount 2005 $225,450; 2004 $280,450 | 2,415,982 | 3,011,630 |
| Land | 197,337 | 197,337 |
| Other | 9,778 | 2,082 |
| Total assets | $3,063,720 | $3,952,552 |
| **LIABILITIES AND NET ASSETS** | | |
| **LIABILITIES** | | |
| Accounts payable, Orange City Municipal Hospital | $ 1,213 | $ 10,984 |
| **NET ASSETS** | | |
| Unrestricted | 318,941 | 279,830 |
| Temporarily restricted | 2,743,566 | 3,661,738 |
| Total net assets | 3,062,507 | 3,941,568 |
| Total liabilities and net assets | $3,063,720 | $3,952,552 |

See Notes to Financial Statements.

**Orange City Area Health Foundation**
**(A Component Unit of Orange City Municipal Hospital)**
**STATEMENTS OF ACTIVITIES**

| | Year ended June 30, 2005 | | | Year ended June 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily restricted | Total | Unrestricted | Temporarily restricted | (Unaudited) Total |
| **SUPPORT AND REVENUE** | | | | | | |
| Contributions | $ 500 | $ 616,223 | $ 616,723 | $ 9,465 | $3,661,738 | $3,671,203 |
| Interest income | 6,468 | – | 6,468 | 3,418 | – | 3,418 |
| Other | 17,296 | – | 17,296 | 6,090 | – | 6,090 |
| Net assets released from restrictions | 1,534,395 | (1,534,395) | – | – | – | – |
| Total support and revenue | 1,558,659 | 616,223 | 640,487 | 18,973 | 3,661,738 | 3,680,711 |
| **EXPENSES** | | | | | | |
| Contributions | 1,480,050 | – | 1,480,050 | 3,748 | – | 3,748 |
| Supporting services | | | | | | |
| Management and general | | | | | | |
| Management | 19,684 | – | 19,684 | 30,945 | – | 30,945 |
| Property taxes | 1,814 | – | 1,814 | 2,042 | – | 2,042 |
| Office supplies | 113 | – | 113 | 547 | – | 547 |
| Miscellaneous | 2,732 | – | 2,732 | 2,546 | – | 2,546 |
| Total management and general | 24,343 | – | 24,343 | 36,080 | – | 36,080 |
| Fundraising | | | | | | |
| Advertising and marketing | 5,454 | – | 5,454 | 26,360 | – | 26,360 |
| Postage and shipping | 577 | – | 577 | 4,260 | – | 4,260 |
| Professional fees | 304 | – | 304 | 130,576 | – | 130,576 |
| Fundraising event | 8,820 | – | 8,820 | 9,607 | – | 9,607 |
| Total fundraising | 15,155 | – | 15,155 | 170,803 | – | 170,803 |
| Total expenses | 1,519,548 | – | 1,519,548 | 210,631 | – | 210,631 |
| **CHANGE IN NET ASSETS** | 39,111 | (918,172) | (879,061) | (191,658) | 3,661,738 | 3,470,080 |
| **NET ASSETS**, beginning of year | 279,830 | 3,661,738 | 3,941,568 | 471,488 | – | 471,488 |
| **NET ASSETS**, end of year | $ 318,941 | $2,743,566 | $3,062,507 | $ 279,830 | $3,661,738 | $3,941,568 |

See Notes to Financial Statements.

**Orange City Area Health Foundation**
**(A Component Unit of Orange City Municipal Hospital)**
**STATEMENTS OF CASH FLOWS**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| | | **(Unaudited)** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Change in net assets | $ (879,061) | $3,470,080 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities | | |
| (Increase) decrease in capital campaign pledges receivable | 595,648 | (3,011,630) |
| (Increase) decrease in other assets | (7,696) | 1,200 |
| Increase (decrease) in accounts payable, Orange City Municipal Hospital | (9,771) | 531 |
| Net cash provided by (used in) operating activities | (300,880) | 460,181 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of certificates of deposit | (268) | (352) |
| **NET INCREASE (DECREASE) IN CASH** | (301,148) | 459,829 |
| **CASH** | | |
| Beginning | 724,698 | 264,869 |
| Ending | $ 423,550 | $ 724,698 |

See Notes to Financial Statements.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

The Hospital is the municipal hospital of the City of Orange City, Iowa, organized under Chapter 392, Code of Iowa and as such is not subject to taxes on income or certain property.

For financial reporting purposes, Orange City Municipal Hospital, d/b/a Orange City Health System has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. For the fiscal year ended June 30, 2005, Orange City Municipal Hospital has one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is the Orange City Area Health Foundation, and the Hospital will be dependent on the Foundation for financial assistance during the construction of a replacement health campus. The Foundation's financial statements are separately presented on pages 17-19.

The Hospital is includable as a component unit within the City of Orange City, Iowa reporting entity due to fiscal dependence.

### Measurement Focus and Basis of Accounting

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

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

### Accounting Standards

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

Orange City Area Health Foundation's financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Foundation is required to report information regarding its financial position and changes in net assets according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets are those assets which are neither temporarily or permanently restricted by donor-imposed stipulations and represent the portion of expendable assets available for support of Foundation operations.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporarily restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled by actions of the Foundation pursuant to those stipulations. As donor-imposed stipulations expire, temporarily restricted net assets are reclassified as unrestricted net assets. The Foundation had $2,473,566 of temporarily restricted net assets at June 30, 2005. These net assets are to be used for construction expenses incurred during the building of a new health campus.

Permanently restricted net assets represent contributions or other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Foundation. The Foundation had no permanently restricted net assets at June 30, 2005.

### Accounting Estimates and Assumptions

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

### Investments and Investment Income

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

| Type | Method |
|---|---|
| Interest-earning investment contracts | |
| Nonnegotiable certificates of deposit | Cost |
| Open-end mutual funds | |
| Iowa Public Agency Investment Trust (IPAIT) (governmental external investment pool registered as an investment company) | Fair value determined by current share price |
| Publicly traded mutual funds | Fair value based on quoted market prices |
| Debt securities | |
| Negotiable certificates of deposit and U.S. Government Agency Securities | |
| Maturity of one year or less when purchased | Amortized cost |
| Maturity of more than one year when purchased | Fair value based on quoted market prices |

The nonnegotiable certificates of deposit and U.S. Government Agency Securities are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments. Investment income is reported as nonoperating gains.

### Property and Equipment

Property and equipment acquisitions are recorded at cost. Property and equipment donated for Hospital operations are recorded as additions at fair value at the date of receipt.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property and Equipment (continued)

Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. Equipment under capital lease is amortized on the straight-line method over the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Depreciation and amortization are computed using these asset lives:

| | |
|---|---|
| Land improvements | 5 to 20 years |
| Buildings and fixed equipment | 5 to 40 years |
| Major movable equipment | 5 to 25 years |

### Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

### Pledges Receivable

Unconditional pledges receivable are recorded as receivables and contributions in the year received.

### Contributions

Gifts of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

### Fund Equity

Fund equity is presented in the following three components:

#### Invested in capital assets, net of related debt

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

#### Restricted fund equity

Restricted fund equity consists of funds restricted on which constraints have been externally imposed by creditors (such as through debt covenants) grantors, contributors, or laws or regulations of other governments.

#### Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

## NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Cash and Cash Equivalents

For the purpose of reporting the statement of cash flows the Hospital considers all cash accounts and the IPAIT amount to be cash equivalents.

### Statements of Revenues, Expenses, and Changes in Fund Equity

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

### Net Patient Service Revenue

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

### Credit Policy

The Hospital grants credit to patients, substantially all of whom are city residents or reside in the immediate vicinity.

### Charity Care

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

### Costs of Borrowing

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

### Interest

Interest costs incurred during the period of construction are capitalized and included with the costs of the project.

### Reclassifications

Certain reclassifications have been made in the June 30, 2004 financial statements to conform to the June 30, 2005 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

## NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2005, which include bank balances and nonnegotiable certificates of deposit, were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa, except for $1,571,000 on deposit with a financial institution in excess of depository resolution limits, which exposes the Hospital to custodial credit risk. Chapter 12C provides for additional assessments against the depositories to insure there will be no loss of public funds.

## NOTE 2 CASH AND INVESTMENTS (continued)

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

The Hospital's investments, except the mutual funds, are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name. The mutual fund investments are uninsured and unregistered, with securities held by the counter party or by its trust department or agent, but not in the Hospital's name. All investments listed below, except the U.S. Government agency securities, are subject to custodial credit risk. The Hospital does not have a formal policy limiting investment maturities that would help manage its exposure to fair value losses from increasing interest rates (interest rate risk).

As of June 30, 2005, the Hospital's investments are reported at fair value based upon quoted market prices except for the Iowa Public Agency Investment Trust which is valued at amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940 as follows:

| | Maturities | |
|---|---|---|
| Investments | | |
| Edward D. Jones & Co., money market funds | Daily | $ 12,177 |
| Negotiable certificates of deposit | 11/30/05 - 05/05/08 | 201,573 |
| U.S. Government agency securities | 05/27/09 - 11/01/31 | 125,101 |
| Mutual funds | Daily | 926,417 |
| Iowa Public Agency Investment Trust | Daily | 677,611 |
| Totals | | $1,942,879 |

The primary objectives of the Hospital's investment policy include the safety and preservation of principal in the overall investment portfolio, the maintenance of necessary liquidity to match expected liabilities, and obtaining a reasonable return. The investment policy limits the investing of operating funds to instruments that mature within three hundred ninety-seven days. Funds not identified as operating funds may be invested in investments with maturities longer than three hundred ninety-seven days, provided that the maturities shall be consistent with the needs and use of the Hospital.

## NOTE 3 ASSETS RESTRICTED FOR PAYMENT OF CAPITAL LOAN NOTES AND INTEREST

Assets restricted for payment of capital loan notes and interest are required to be funded by the note resolutions. The resolutions require, among other things, the maintenance of the "Hospital Revenue Note and Interest Sinking Fund" (the Sinking Fund) and the "Hospital Revenue Debt Service Reserve Fund" (the Reserve Fund). A balance of $670,000 must be maintained in the Reserve Fund while minimum monthly payments to the Sinking Fund equal to one-twelfth of the principal of all notes maturing on the next June 1 plus one-sixth of the interest due on the next interest payment date on all of the outstanding notes are required. Following are the changes in these assets:

| | Year ended June 30, 2005 | | | Year ended June 30, 2004 | | |
|---|---|---|---|---|---|---|
| | Reserve Fund | Sinking Fund | Total | Reserve Fund | Sinking Fund | Total |
| **BALANCE**, beginning | $670,000 | $108,066 | $778,066 | $670,000 | $106,239 | $776,239 |
| Transfers from current assets cash and cash equivalents | – | 826,711 | 826,711 | – | 829,571 | 829,571 |
| Interest income | – | 6,603 | 6,603 | – | 2,089 | 2,089 |
| Payment of notes and interest | – | (826,688) | (826,688) | – | (829,833) | (829,833) |
| **BALANCE**, ending | $670,000 | $114,692 | $784,692 | $670,000 | $108,066 | $778,066 |

## NOTE 4 PATIENT RECEIVABLES

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

| | June 30 | |
|---|---|---|
| | 2005 | 2004 |
| Receivable from patients | $ 395,004 | $ 320,582 |
| Receivable from insurance carriers | 2,756,658 | 2,592,832 |
| Receivable from Medicare | 1,143,895 | 1,012,181 |
| Receivable from Medicaid | 386,666 | 307,940 |
| Total patient receivables | 4,682,223 | 4,233,535 |
| Less allowances for contractual and other adjustments | (1,452,326) | (1,584,656) |
| Totals | $3,229,897 | $2,648,879 |

## NOTE 5 PROPERTY AND EQUIPMENT

A summary of changes in property and equipment for the year ended June 30, 2005 and 2004 follows:

| | Balance July 1, 2004 | Additions | Deletions | Transfers | Balance June 30, 2005 |
|---|---|---|---|---|---|
| Land | $ 601,087 | $ 50,000 | $ – | $ – | $ 651,087 |
| Land improvements | 329,019 | – | – | – | 329,019 |
| Buildings | 10,533,272 | 330,969 | – | – | 10,864,241 |
| Fixed equipment | 3,378,212 | – | – | – | 3,378,212 |
| Major movable equipment | 6,547,619 | 728,364 | – | – | 7,275,983 |
| Construction in progress | 1,916,308 | 13,306,161 | – | – | 15,222,469 |
| Totals | 23,305,517 | 14,415,494 | – | – | 37,721,011 |
| Less accumulated depreciation and amortization | (10,216,801) | (1,136,900) | – | – | 11,353,701 |
| Net property and equipment | $13,088,716 | $13,278,594 | $ – | $ – | $26,367,310 |

Construction in progress at June 30, 2005 consisted primarily of costs incurred for the design and initial construction costs associated with the building of a 128,000 square foot replacement health campus. The total cost of this replacement campus is estimated at $31,000,000 and is expected to be completed by the spring of 2006. This project is going to be funded primarily through a combination of USDA guaranteed bank loans, general obligation bonds by the Cities of Orange City and Alton, private capital campaign contributions, and reserves of the Hospital. As of June 30, 2005, outstanding obligations of approximately $9,590,000 are remaining on signed construction related contracts.

| | Balance July 1, 2003 | Additions | Deletions | Transfers | Balance June 30, 2004 |
|---|---|---|---|---|---|
| Land | $ 601,087 | $ – | $ – | $ – | $ 601,087 |
| Land improvements | 321,734 | 7,285 | – | – | 329,019 |
| Buildings | 10,524,378 | 8,894 | – | – | 10,533,272 |
| Fixed equipment | 3,378,212 | – | – | – | 3,378,212 |
| Major movable equipment | 6,084,338 | 979,860 | (516,579) | – | 6,547,619 |
| Construction in progress | 30,500 | 1,885,808 | – | – | 1,916,308 |
| Totals | 20,940,249 | 2,881,847 | (516,579) | – | 23,305,517 |
| Less accumulated depreciation and amortization | (9,682,448) | (1,023,553) | 489,200 | – | (10,216,801) |
| Net property and equipment | $11,257,801 | $1,858,294 | $ (27,379) | $ – | $13,088,716 |

## NOTE 6 PLEDGES RECEIVABLE

At June 30, 2005 the Foundation's pledges receivable consisted of pledges to be used for the building of a new health campus and are discounted at 3.95%. An allowance has been established to offset future uncollectible pledges and has been estimated by management to be $350,000 as of June 30, 2005.

## NOTE 6 PLEDGES RECEIVABLE (continued)

A summary of the activity in pledges receivable for the year ended June 30, 2005 is as follows:

| | |
|---|---|
| Beginning pledges receivable | $3,011,630 |
| Pledges made during the year | 656,328 |
| Pledge payments received | (1,156,976) |
| Decrease in discount of future payments receivable | 55,000 |
| Increase in allowance for uncollectible pledges receivable | (150,000) |
| Ending pledges receivable | $2,415,982 |

Pledges receivable at June 30, 2005, are expected to be received as follows:

| | |
|---|---|
| Year ending June 30, | |
| 2006 | $ 997,144 |
| 2007 | 997,144 |
| 2008 | 997,144 |
| | 2,991,432 |
| Less allowance and discounts on pledges receivable | (575,450) |
| Total | $2,415,982 |

## NOTE 7 LONG-TERM DEBT

| | Outstanding June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **Hospital Revenue Capital Loan Notes** | | |
| The City Council of Orange City adopted a resolution to issue a $1,625,000 Hospital Revenue Refunding Capital Loan Notes Series 1997A dated December 1, 1997. The notes mature serially through June 1, 2006, with interest payable on June 1 and December 1 at an annual rate of 5.3%. | $ 295,284 | $ 581,396 |
| The City Council of Orange City adopted a resolution authorizing the issuance of $4,650,000 of Hospital Revenue Capital Loan Notes Series 1997B dated December 1, 1997, to finance the construction of an independent and assisted living facility for senior citizens. The notes mature serially through June 1, 2017, with interest payable on June 1 and December 1 at annual rates varying from 5.30% to 6.0%. Notes maturing after June 1, 2008 may be called for redemption, in any order of maturity and within any maturity by lot, at par and accrued interest to date of call. | 3,587,270 | 3,792,619 |
| The City Council of Orange City adopted a resolution authorizing the issuance of $500,000 of Hospital Revenue Capital Loan Notes Series 1998 dated February 1, 1998, to finance the improvement of the Hospital, including acquisition of a CT scanner and associated equipment and remodeling. The notes mature serially through June 1, 2006, with interest payable on June 1 and December 1 at an annual rate of 5.0%. The notes may be called for redemption, in any order of maturity and within any maturity by lot, at par and accrued interest to date of call. | 74,271 | 143,021 |

**NOTE 7 LONG-TERM DEBT (continued)**

| | Outstanding June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **Taxable Subordinate Hospital Revenue Capital Loan Note Anticipation Project Notes** | | |
| The City Council of Orange City adopted a resolution authorizing the issuance of Taxable Subordinate Hospital Revenue Capital Loan Note Anticipation Project Notes, Series 2004, not to exceed $20,000,000, to finance the construction of a health campus. During the construction period, monthly interest only payments are required on the outstanding loan balance computed at 7.0% through October 1, 2006. Construction related draws through June 30, 2005 totaled $6,500,000. These notes have been reported as long-term debt subject to the terms of the following paragraph. | $ 6,500,000 | $ – |
| | 10,456,825 | 4,517,036 |

After construction of the replacement hospital campus is completed, permanent financing will replace the construction period loan. The permanent financing, not to exceed $20,000,000, will be amortized over 30 years and will call for a fixed interest rate of 5.5% for the first five years of the loan. After the initial five year fixed rate term expires, the interest rate will be adjusted to reflect an amount equal to 350 basis points above the constant maturity of the one year T-Bill as published in the Wall Street Journal. Thereafter, the interest rate will be adjusted annually on the anniversary date of the loan. The amount of the annual interest rate adjustment will not exceed 2.0%, with a minimum rate of 5.5% and a maximum rate of 11.5%.

All financing of the construction project has been guaranteed by the United States Department of Agriculture at a guarantee of 90% of the loan.

**Obligation Under Capital Leases**

| | | |
|---|---|---|
| The Hospital has entered into an agreement to acquire an ambulance under a capital lease. The related liability under the lease at June 30, 2005 is $12,085, net of unamortized interest of $672. The obligation under the lease calls for monthly installments of $1,564 through February, 2006, including interest at a rate of 5.90%. The total amount capitalized under the lease is $79,183 with related accumulated amortization of $68,933 at June 30, 2005. | 11,413 | 65,347 |
| | 10,468,238 | 4,582,383 |
| Less current maturities | 611,413 | 625,090 |
| Total long-term debt | $ 9,856,825 | $3,957,293 |

The capital loan notes are payable solely and only from the revenues of the Hospital which have been placed in the Sinking Fund and do not constitute an indebtedness of the City. The notes are reported net of unamortized discount of $68,175 and $77,964 as of June 30, 2005 and 2004, respectively.

## NOTE 7 LONG-TERM DEBT (continued)

The following summarizes the maturities of long-term debt:

| | Anticipation project notes | | Capital lease obligation | | Revenue notes payable | |
|---|---|---|---|---|---|---|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| Year ending June 30 | | | | | | |
| 2006 | $ – | $ – | $ 11,413 | $ 672 | $ 600,000 | $ 226,973 |
| 2007 | 177,964 | 730,498 | – | – | 235,000 | 195,398 |
| 2008 | 279,456 | 1,083,237 | – | – | 245,000 | 182,708 |
| 2009 | 295,220 | 1,067,474 | – | – | 260,000 | 169,355 |
| 2010 | 311,873 | 1,050,821 | – | – | 275,000 | 155,055 |
| 2011 to 2015 | 1,843,950 | 4,969,517 | – | – | 1,620,000 | 525,535 |
| 2016 to 2020 | 2,426,093 | 4,387,375 | – | – | 790,000 | 71,315 |
| 2021 to 2022 | 1,165,444 | 1,552,559 | – | – | – | – |
| Total | 6,500,000 | 14,841,481 | 11,413 | 672 | 4,025,000 | 1,526,339 |
| Less unamortized discount | – | – | – | – | (68,175) | – |
| Totals | $6,500,000 | $14,841,481 | $ 11,413 | $ 672 | $3,956,825 | $1,526,339 |

Long-term debt activity for the years ended June 30, 2005 and 2004 follows:

| | Beginning balance | Additions | Reductions | Ending balance | Amounts due within one year |
|---|---|---|---|---|---|
| **2005** | | | | | |
| Hospital revenue notes | $4,595,000 | $ – | $ 570,000 | $ 4,025,000 | $ 600,000 |
| Taxable Subordinate Hospital Revenue Capital Loan Note Anticipation Project Notes | – | 6,500,000 | – | 6,500,000 | – |
| Obligations under capital lease | 65,347 | – | 53,934 | 11,413 | 11,413 |
| Totals | $4,660,347 | $6,500,000 | $ 623,934 | $10,536,413 | $ 611,413 |
| **2004** | | | | | |
| Hospital revenue notes | $5,140,000 | $ – | $ 545,000 | $4,595,000 | $ 570,000 |
| Obligations under capital lease | 118,829 | – | 53,482 | 65,347 | 55,090 |
| Totals | $5,258,829 | $ – | $ 598,482 | $4,660,347 | $ 625,090 |

## NOTE 8 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were $630,569, $588,124 and $554,799, respectively, equal to the required contributions for each year.

## NOTE 9 EMPLOYEE BENEFITS

The Hospital has a self-insured health insurance program for all employees. Claims for health care services covered under the program for employees and their families are accrued when incurred. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to $35,000 per person and approximately $1,026,000 in the aggregate per plan year. Expense under this self-insurance program for the years ended June 30, 2005 and 2004 was $830,529 and $783,268, respectively, which includes program administration expenses.

In 2002, the Hospital established a Key Employee Share Option Program (KEYSOP) which is a nonqualified voluntary contributory savings plan for certain employees. During the year ended June 30, 2003, the Hospital established a Voluntary Deferral Plan which is also a nonqualified voluntary contributory savings plan for certain employees. Under these programs the Hospital purchases and holds investment assets, recorded at fair value, equal to the participant's voluntary contributions. As a result, the Hospital has recorded an asset and an equal corresponding liability of $926,417 and $1,405,510 to reflect the fair value of these program assets as of June 30, 2005 and 2004, respectively, and related liability to participants.

## NOTE 10 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2005 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

## NOTE 11 NET PATIENT SERVICE REVENUE

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

### Medicare and Medicaid

Effective October 1, 2004, the Hospital became designated a Critical Access Hospital. As a Critical Access Hospital, services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

### Other

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

## NOTE 12 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2005 and 2004.

| | 2005 | 2004 |
|---|---|---|
| Charges foregone, based on established rates | $ 127,519 | $ 95,687 |
| Equivalent percentage of charity care patients to all patients served | 0.4% | 0.3% |

## NOTE 13 HOSPITAL RISK MANAGEMENT

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

## NOTE 14 ORANGE CITY AREA HEALTH FOUNDATION

In accordance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Hospital's management has determined that the Orange City Area Health Foundation is a component unit of the Hospital. The Orange City Area Health Foundation has been established to raise funds to support the operations and other activities of the Orange City Municipal Hospital. The Foundation has received funds and secured significant pledge commitments in a capital campaign to benefit the Hospital's construction of a replacement campus. And as such, the Foundation is considered to be a component unit of the Hospital based upon the significance of this capital campaign and the related benefit to the Hospital. The Foundation made unrestricted contributions of $-0- and $3,060 to the Hospital for the years ended June 30, 2005 and 2004, respectively. Also the Foundation made restricted contributions of $1,479,500 and $-0- to the Hospital for the years ended June 30, 2005 and 2004, respectively. The Foundation's audited statements of financial position as of June 30, 2005 and 2004, and audited statement of activities and cash flows for the year ended June 30, 2005 and unaudited statement of activities for the year ended June 30, 2004, are included on pages 17 - 19.

## NOTE 15 SUBSEQUENT EVENT

The Board of Directors of the Orange City Area Health Foundation voted to approve the construction of a Medical Office Building on July 27, 2005. The total cost of the construction project is $2,100,000 and will be financed with long-term debt and Foundation funds. The USDA has issued a conditional commitment to guarantee 80% of the $1,750,000 loan. The project is expected to be completed by June 2006.

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Health System
Orange City, Iowa

Our report on our audits of the basic financial statements of Orange City Municipal Hospital d/b/a Orange City Health System appears on page four. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa
August 19, 2005

*1601 22nd Street, Suite 400, West Des Moines, Iowa 50266-1453 Telephone: (515) 225-8400 Fax: (515) 225-0149*
*www.denman-cpa.com e-mail: firm@denman-cpa.com*

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**AGE ANALYSIS OF PATIENT RECEIVABLES**

| Age of accounts (by date of discharge) | Amounts June 30 2005 | Amounts June 30 2004 | Percent to total June 30 2005 | Percent to total June 30 2004 |
|---|---|---|---|---|
| **HOSPITAL PATIENTS** | | | | |
| 0 - 30 days | $1,880,494 | $1,594,076 | 52.50% | 51.75% |
| 31 - 60 days | 366,561 | 372,461 | 10.23 | 12.09 |
| 61 - 90 days | 142,399 | 162,204 | 3.98 | 5.26 |
| 91 - 180 days | 397,833 | 259,350 | 11.11 | 8.43 |
| Over 6 months | 794,647 | 692,084 | 22.18 | 22.47 |
| Totals | 3,581,934 | 3,080,175 | 100.00% | 100.00% |
| **CLINIC PATIENTS** | | | | |
| 0 - 30 days | 694,287 | 724,597 | 63.10% | 62.82% |
| 31 - 60 days | 119,352 | 129,090 | 10.85 | 11.19 |
| 61 - 90 days | 94,578 | 77,860 | 8.59 | 6.75 |
| Over 91 days | 192,072 | 221,813 | 17.46 | 19.24 |
| Totals | 1,100,289 | 1,153,360 | 100.00% | 100.00% |
| | 4,682,223 | 4,233,535 | | |
| Allowances | | | | |
| Uncollectibles | 590,000 | 532,000 | | |
| Contractual adjustments | 862,326 | 1,052,656 | | |
| Total allowances | 1,452,326 | 1,584,656 | | |
| Totals | $3,229,897 | $2,648,879 | | |

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

| | Year ended June 30 2005 | Year ended June 30 2004 |
|---|---|---|
| **BALANCE**, beginning | $ 532,000 | $ 431,000 |
| Provision for bad debts | 357,611 | 259,388 |
| Recoveries of accounts written off previously | 11,547 | 14,996 |
| Accounts written off | (311,158) | (173,384) |
| **BALANCE**, ending | $ 590,000 | $ 532,000 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**INVENTORIES**

| | June 30 | |
|---|---|---|
| | **2005** | **2004** |
| General stores | $ 226,823 | $ 237,810 |
| Central supply | 63,035 | 58,917 |
| Operating room | 135,367 | 115,056 |
| Radiology | 12,661 | 10,282 |
| Medical clinics | 37,225 | 38,695 |
| Laboratory | 20,738 | 20,597 |
| Totals | $ 495,849 | $ 481,357 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**INSURANCE COVERAGE**
**June 30, 2005**

| | |
|---|---|
| CHUBB Group of Insurance Companies (policy expiration June 30, 2006) | |
| Building and contents, builders risk, fire and extended coverage (100% co-insurance, replacement value) | $25,051,578 |
| | $5,000 deductible |
| Blanket earnings and expense | $12,617,575 |
| Fireman's Fund Insurance Company (policy expiration January 1, 2006) | |
| Directors' and officers' liability | $1,000,000 |
| | $25,000 retention |
| CHUBB Group of Insurance Companies (policy expiration July 1, 2005) | |
| Owned automobiles | |
| Liability | $1,000,000 |
| Collision | $1,000 deductible |
| Uninsured/underinsured motorist | $1,000,000 |
| Blanket fidelity bond | |
| Employees | $150,000 |
| | $2,500 deductible |
| The Cincinnati Insurance Company (policy expiration January 1, 2006) | |
| Machinery and equipment | |
| Direct damage | $15,000,000 |
| | $1,000 deductible |
| Accounts receivable records | $1,000,000 |
| Employment practices liability | $1,000,000 |
| | $25,000 deductible |
| Builders risk | $18,843,000 |
| PIC Wisconsin Insurance Company (policy expiration July 1, 2005) | |
| Employee benefit liability | $1,000,000 |
| Professional liability—institutional | $1,000,000/3,000,000 |
| Professional liability—physicians | $1,000,000/3,000,000 |
| General liability | $1,000,000/3,000,000 |
| Umbrella professional liability | $2,000,000 |
| Umbrella liability hospital | $2,000,000 |
| The Cincinnati Insurance Company (policy expiration April 1, 2006) | |
| Workers' compensation | Statutory |

The summary of insurance coverage is presented on the basis of information obtained from policies on file at the Hospital.

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**PATIENT SERVICE REVENUE**

| | Total | | Inpatient | |
|---|---|---|---|---|
| | Year ended June 30 | | Year ended June 30 | |
| | 2005 | 2004 | 2005 | 2004 |
| **DAILY PATIENT SERVICES** | | | | |
| Medical, surgical and obstetric | $ 1,991,107 | $ 1,576,604 | $1,433,296 | $1,410,179 |
| Special care | 32,050 | 60,750 | 32,050 | 60,750 |
| Long term care | 3,250,706 | 3,150,775 | – | – |
| Nursery | 164,628 | 143,908 | 164,334 | 143,694 |
| | 5,438,491 | 4,932,037 | 1,629,680 | 1,614,623 |
| **OTHER NURSING SERVICES** | | | | |
| Operating and recovery room | 803,438 | 678,674 | 333,880 | 346,639 |
| Same day surgery | 1,595,624 | 1,610,674 | – | – |
| Central service and supply | 840,894 | 817,634 | 174,627 | 206,847 |
| Emergency service | 968,727 | 811,011 | 88,499 | 144,957 |
| Ambulance | 234,754 | 215,898 | 8,357 | 14,122 |
| Home Health | 814,397 | 598,859 | – | – |
| | 5,257,834 | 4,732,750 | 605,363 | 712,565 |
| **OTHER PROFESSIONAL SERVICES** | | | | |
| Laboratory | 2,617,719 | 2,102,292 | 436,857 | 439,298 |
| Radiology | 4,361,513 | 3,503,972 | 299,614 | 376,591 |
| Pharmacy | 3,350,921 | 2,960,149 | 792,553 | 866,886 |
| Anesthesiology | 971,730 | 960,919 | 267,710 | 280,701 |
| Respiratory therapy and oxygen | 335,190 | 353,625 | 163,411 | 162,800 |
| Physical therapy | 781,698 | 769,649 | 25,723 | 28,864 |
| Cardio pulmonary | 426,030 | 368,654 | 44,855 | 49,130 |
| Pulmonary rehabilitation | 4,000 | 6,665 | – | 6,665 |
| Speech therapy | 7,381 | 5,870 | 1,720 | 539 |
| Audiology | 346,835 | 376,063 | – | – |
| Orange City medical clinic | 4,870,821 | 4,433,376 | – | – |
| Hospers medical clinic | 149,055 | 185,184 | – | – |
| Paullina medical clinic | 467,621 | 431,277 | – | – |
| Specialty clinics | 348,314 | 158,983 | 8,412 | 110 |
| Otolaryngology | 1,449,949 | 1,821,978 | – | – |
| Orthopedics | 988,074 | 767,152 | – | – |
| Surgery | 386,862 | – | – | – |
| | 21,863,713 | 19,205,808 | 2,040,855 | 2,211,584 |
| | 32,560,038 | 28,870,595 | $4,275,898 | $4,538,772 |
| Charity care charges foregone, based on established rates | 127,519 | 95,687 | | |
| Total gross patient service revenue | 32,432,519 | 28,774,908 | | |
| Provisions for contractual and other adjustments | 7,436,212 | 6,905,920 | | |
| Net patient service revenue | $24,996,307 | $21,868,988 | | |

| Outpatient | | Swing bed | | Intermediate care unit | |
|---|---|---|---|---|---|
| Year ended June 30 | | Year ended June 30 | | Year ended June 30 | |
| 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| $ 553,530 | $ 166,425 | $ 4,281 | $ – | $ – | $ – |
| – | – | – | – | – | – |
| – | – | 329,088 | 339,620 | 2,921,618 | 2,811,155 |
| 294 | 214 | – | – | – | – |
| 553,824 | 166,639 | 333,369 | 339,620 | 2,921,618 | 2,811,155 |
| 469,028 | 332,035 | 530 | – | – | – |
| 1,595,624 | 1,610,674 | – | – | – | – |
| 574,296 | 507,563 | 23,113 | 18,509 | 68,858 | 84,715 |
| 879,498 | 664,277 | 730 | 1,777 | – | – |
| 226,397 | 201,651 | – | 125 | – | – |
| 814,397 | 598,859 | – | – | – | – |
| 4,559,240 | 3,915,059 | 24,373 | 20,411 | 68,858 | 84,715 |
| 2,096,774 | 1,603,910 | 84,088 | 59,084 | – | – |
| 4,042,046 | 3,110,420 | 19,853 | 16,961 | – | – |
| 2,134,188 | 1,640,220 | 385,497 | 392,487 | 38,683 | 60,556 |
| 698,779 | 672,340 | 5,241 | 7,878 | – | – |
| 109,182 | 112,167 | 62,597 | 78,658 | – | – |
| 673,228 | 657,659 | 82,747 | 83,126 | – | – |
| 366,933 | 307,493 | 14,242 | 12,031 | – | – |
| 4,000 | – | – | – | – | – |
| – | 5,331 | 5,661 | – | – | – |
| 346,835 | 376,063 | – | – | – | – |
| 4,870,821 | 4,433,376 | – | – | – | – |
| 149,055 | 185,184 | – | – | – | – |
| 467,621 | 431,277 | – | – | – | – |
| 339,902 | 158,873 | – | – | – | – |
| 1,449,949 | 1,821,978 | – | – | – | – |
| 988,074 | 767,152 | – | – | – | – |
| 386,862 | – | – | – | – | – |
| 19,124,249 | 16,283,443 | 659,926 | 650,225 | 38,683 | 60,556 |
| $24,237,313 | $20,365,141 | $1,017,668 | $1,010,256 | $3,029,159 | $2,956,426 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**PROVISIONS FOR CONTRACTUAL AND OTHER ADJUSTMENTS**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| Contractual adjustments | $5,827,545 | $5,551,434 |
| Clinic discounts and adjustments | 1,251,056 | 1,095,098 |
| Provision for bad debts | 357,611 | 259,388 |
| Totals | $7,436,212 | $6,905,920 |

**OTHER REVENUE**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| Cafeteria | $ 84,801 | $ 103,579 |
| Other | 243,566 | 252,061 |
| Lifeline | 28,092 | 21,587 |
| Landsmeer Ridge | 1,081,616 | 973,129 |
| Landsmeer Ridge property tax refund | – | 254,932 |
| Totals | $1,438,075 | $1,605,288 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**NURSING SERVICE EXPENSES**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **NURSING ADMINISTRATION** | | |
| Salaries | $ 84,126 | $ 74,532 |
| Supplies and expenses | 26,882 | 13,493 |
| | 111,008 | 88,025 |
| **MEDICAL, SURGICAL AND OBSTETRIC** | | |
| Salaries | 1,008,228 | 941,126 |
| Supplies and expenses | 215,624 | 135,385 |
| | 1,223,852 | 1,076,511 |
| **SPECIAL CARE** | | |
| Salaries | 8,632 | 16,414 |
| Supplies and expenses | 247 | 375 |
| | 8,879 | 16,789 |
| **SWING BED** | | |
| Salaries | 74,499 | 79,666 |
| Supplies and expenses | 121 | 365 |
| | 74,620 | 80,031 |
| **INTERMEDIATE CARE** | | |
| Hospital | | |
| Salaries | 579,680 | 572,280 |
| Purchased services | 45,775 | 29,547 |
| Supplies and expenses | 87,130 | 108,895 |
| Heritage House | | |
| Salaries | 1,072,648 | 1,097,893 |
| Supplies and expenses | 401,064 | 439,645 |
| | 2,186,297 | 2,248,260 |
| **NURSERY** | | |
| Salaries | 50,424 | 41,020 |
| Supplies and expenses | 4,553 | 4,443 |
| | 54,977 | 45,463 |
| **OPERATING AND RECOVERY ROOMS** | | |
| Salaries | 369,063 | 360,652 |
| Supplies and expenses | 228,254 | 210,188 |
| | 597,317 | 570,840 |
| **CENTRAL SERVICE AND SUPPLY** | | |
| Salaries | 25,517 | 22,457 |
| Billable supplies | 348,367 | 326,661 |
| Supplies and expenses | 11,107 | 5,415 |
| | 384,991 | 354,533 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**NURSING SERVICE EXPENSES (continued)**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **EMERGENCY SERVICE** | | |
| Salaries | $ 317,552 | $ 179,530 |
| Supplies and expenses | 6,729 | 10,247 |
| | 324,281 | 189,777 |
| **AMBULANCE** | | |
| Salaries | 56,009 | 55,680 |
| Supplies and expenses | 20,233 | 13,735 |
| | 76,242 | 69,415 |
| **HOME HEALTH** | | |
| Salaries | 449,624 | 370,930 |
| Purchased services | 64,203 | 58,709 |
| Supplies and expenses | 84,794 | 64,476 |
| | 598,621 | 494,115 |
| Totals | $5,641,085 | $5,233,759 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**OTHER PROFESSIONAL SERVICE EXPENSES**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **LABORATORY** | | |
| Salaries | $ 248,520 | $ 219,695 |
| Professional fees | 163,884 | 125,412 |
| Supplies and expenses | 239,123 | 202,025 |
| | 651,527 | 547,132 |
| **RADIOLOGY** | | |
| Salaries | 772,061 | 683,475 |
| Professional fees | 59,536 | 53,929 |
| Purchased services | 416,660 | 383,136 |
| Supplies and expenses | 150,561 | 183,791 |
| | 1,398,818 | 1,304,331 |
| **PHARMACY** | | |
| Salaries | 51,218 | 52,106 |
| Purchased services | 1,230,175 | 1,110,517 |
| Drugs | 6,761 | 2,254 |
| Supplies and expenses | 1,875 | 1,747 |
| | 1,290,029 | 1,166,624 |
| **ANESTHESIOLOGY** | | |
| Salaries | 213,115 | 208,583 |
| Professional fees | 97,635 | 114,625 |
| Supplies and expenses | 11,630 | 14,138 |
| | 322,380 | 337,346 |
| **RESPIRATORY THERAPY** | | |
| Salaries | 70,686 | 60,027 |
| Oxygen | 11,465 | 12,962 |
| Supplies and expenses | 31,532 | 37,665 |
| | 113,683 | 110,654 |
| **PHYSICAL THERAPY** | | |
| Salaries | 54,904 | 56,321 |
| Purchased services | 398,076 | 396,923 |
| Supplies and expenses | 22,606 | 13,632 |
| | 475,586 | 466,876 |
| **CARDIO PULMONARY** | | |
| Salaries | 6,464 | 9,270 |
| Purchased services | 61,929 | 65,078 |
| Supplies and expenses | 3,968 | 1,317 |
| | 72,361 | 75,665 |
| **PULMONARY REHABILITATION** | | |
| Salaries | 41 | 935 |
| Supplies and expenses | – | 4 |
| | 41 | 939 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

| | Year ended June 30 | |
|---|---|---|
| | 2005 | 2004 |
| **SPEECH THERAPY** | | |
| Purchased services | $ 6,357 | $ 2,646 |
| **AUDIOLOGY** | | |
| Salaries | 53,997 | 92,444 |
| Purchased services | 3,962 | 4,846 |
| Supplies and expenses | 82,374 | 106,643 |
| | 140,333 | 203,933 |
| **OCCUPATIONAL HEALTH SERVICES** | | |
| Salaries | 69,181 | 57,166 |
| Purchased services | 7,321 | 1,906 |
| Supplies and expenses | 7,354 | 7,671 |
| | 83,856 | 66,743 |
| **ORANGE CITY MEDICAL CLINIC** | | |
| Salaries | 2,394,451 | 2,282,114 |
| Purchased services | 619,238 | 547,740 |
| Medical supplies | 168,982 | 133,364 |
| Supplies and expenses | 66,331 | 43,866 |
| Utilities | 15,714 | 14,556 |
| Postage | 4,764 | 5,344 |
| Telephone | 12,401 | 11,496 |
| Insurance | 67,576 | 78,074 |
| Employee benefits | 404,891 | 394,786 |
| | 3,754,348 | 3,511,340 |
| **HOSPERS MEDICAL CLINIC** | | |
| Salaries | 111,422 | 134,623 |
| Purchased service | 22,582 | 26,105 |
| Medical supplies | 7,448 | 8,886 |
| Supplies and expenses | 14,930 | 15,312 |
| Utilities | 1,082 | 1,166 |
| Telephone | 3,026 | 3,031 |
| Employee benefits | 18,121 | 21,467 |
| | 178,611 | 210,590 |
| **PAULLINA MEDICAL CLINIC** | | |
| Salaries | 296,878 | 271,106 |
| Purchased service | 86,575 | 73,810 |
| Medical supplies | 24,588 | 27,960 |
| Supplies and expenses | 22,578 | 24,715 |
| Utilities | 3,073 | 3,096 |
| Telephone | 8,356 | 7,053 |
| Employee benefits | 54,034 | 49,475 |
| | 496,082 | 457,215 |
| **SPECIALTY CLINICS** | | |
| Salaries | 178,306 | 165,613 |
| Supplies and expenses | 18,328 | 27,330 |
| | 196,634 | 192,943 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**OTHER PROFESSIONAL SERVICE EXPENSES (continued)**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **OTOLARYNGOLOGY** | | |
| Salaries | $ 574,741 | $ 827,393 |
| Purchased services | 19,005 | 19,929 |
| Supplies and expenses | 237,903 | 123,507 |
| | 831,649 | 970,829 |
| **ORTHOPEDICS** | | |
| Salaries | 325,574 | 276,639 |
| Purchased services | 145,922 | 111,515 |
| Supplies and expenses | 77,467 | 75,695 |
| | 548,963 | 463,849 |
| **SURGERY** | | |
| Salaries | 167,328 | – |
| Purchased services | 3,325 | – |
| Supplies and expenses | 11,179 | – |
| Utilities | 3,466 | – |
| | 185,298 | – |
| **LANDSMEER RIDGE** | | |
| Salaries | 328,743 | 315,951 |
| Purchased services | 22,506 | 21,207 |
| Medical supplies | 999 | 1,025 |
| Supplies and expenses | 130,622 | 134,537 |
| Utilities | 66,400 | 65,678 |
| Telephone | 4,913 | 4,599 |
| Insurance | 3,830 | 3,720 |
| | 558,013 | 546,717 |
| **SOCIAL SERVICE** | | |
| Salaries | 64,493 | 61,486 |
| Supplies and expenses | 1,890 | 479 |
| | 66,383 | 61,965 |
| **MEDICAL RECORDS** | | |
| Salaries | 106,515 | 118,809 |
| Supplies and expenses | 25,179 | 22,656 |
| | 131,694 | 141,465 |
| Totals | $11,502,646 | $10,839,802 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**GENERAL SERVICE EXPENSES**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **DIETARY** | | |
| Salaries | $ 213,193 | $ 213,796 |
| Food | 215,195 | 205,899 |
| Supplies and expenses | 52,523 | 56,749 |
| | 480,911 | 476,444 |
| **PLANT OPERATION AND MAINTENANCE** | | |
| Salaries | 148,114 | 125,619 |
| Utilities | 183,710 | 153,830 |
| Purchased services | 10,484 | 10,501 |
| Supplies and expenses | 84,491 | 65,009 |
| | 426,799 | 354,959 |
| **HOUSEKEEPING** | | |
| Salaries | 130,633 | 117,066 |
| Supplies and expenses | 39,154 | 37,868 |
| | 169,787 | 154,934 |
| **LAUNDRY AND LINEN** | | |
| Salaries | 8,443 | 7,259 |
| Supplies and expenses | 12,530 | 5,085 |
| | 20,973 | 12,344 |
| Totals | $1,098,470 | $ 998,681 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**FISCAL AND ADMINISTRATIVE SERVICE**
**AND UNASSIGNED EXPENSES**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **FISCAL AND ADMINISTRATIVE SERVICE** | | |
| **Administrative and general** | | |
| Salaries | $ 514,523 | $ 494,628 |
| Management fees | 263,249 | 259,374 |
| Professional services | 39,409 | 36,065 |
| Collection | 34,625 | 29,693 |
| Telephone | 52,284 | 49,004 |
| Supplies and expenses | 294,897 | 278,686 |
| | 1,198,987 | 1,147,450 |
| **Human resources** | | |
| Salaries | 102,849 | 91,161 |
| Supplies and expenses | 87,791 | 65,037 |
| | 190,640 | 156,198 |
| **Regulatory affairs** | | |
| Salaries | 55,100 | 52,641 |
| Supplies and expenses | 3,036 | 2,362 |
| | 58,136 | 55,003 |
| **Community relations** | | |
| Salaries | 61,252 | 60,055 |
| Supplies and expenses | 46,038 | 9,445 |
| | 107,290 | 69,500 |
| **Receiving and stores** | | |
| Salaries | 97,182 | 96,730 |
| Supplies and expenses | 26,885 | 29,382 |
| | 124,067 | 126,112 |
| **Wellness** | | |
| Supplies and expenses | 443 | – |
| Total fiscal and administrative expenses | 1,679,563 | 1,554,263 |
| **UNASSIGNED EXPENSES** | | |
| Employee benefits | | |
| Payroll taxes | 1,089,856 | 1,015,044 |
| Group health insurance | 660,383 | 619,255 |
| Other | 108,099 | 97,559 |
| Insurance | 318,217 | 227,638 |
| Total unassigned expenses | 2,176,555 | 1,959,496 |
| Totals | $3,856,118 | $3,513,759 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**COMPARATIVE STATISTICS**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **PATIENT DAYS** | | |
| Adult and pediatric | 2,700 | 2,963 |
| Nursery | 472 | 432 |
| Swing bed | | |
| Skilled nursing care | 1,540 | 1,623 |
| Intermediate care | 22 | 91 |
| Intermediate care | | |
| Hospital | 11,859 | 11,399 |
| Heritage House | 15,484 | 15,776 |
| Totals | 32,077 | 32,284 |
| **ADMISSIONS** | | |
| Adult and pediatric | 912 | 1,020 |
| Swing bed | | |
| Skilled nursing care | 193 | 209 |
| Intermediate care | 11 | 20 |
| Intermediate care | | |
| Hospital | 8 | 27 |
| Heritage House | 33 | 31 |
| Total admissions | 1,157 | 1,307 |
| **DISCHARGES** | | |
| Adult and pediatric | 914 | 1,026 |
| Swing bed | | |
| Skilled nursing care | 196 | 206 |
| Intermediate care | 11 | 19 |
| Intermediate care | | |
| Hospital | 11 | 27 |
| Heritage House | 27 | 38 |
| Total discharges | 1,159 | 1,316 |
| **AVERAGE LENGTH OF STAY** | | |
| Adult and pediatric | 2.95 | 2.87 |
| Swing bed | | |
| Skilled nursing care | 7.86 | 7.88 |
| Intermediate care | 2.00 | 4.80 |
| Intermediate care | | |
| Hospital | 1,078.09 | 422.19 |
| Heritage House | 573.48 | 415.16 |

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**COMPARATIVE STATISTICS (continued)**

| | Year ended June 30 | |
|---|---|---|
| | **2005** | **2004** |
| **BEDS** | | |
| Adult, pediatric and swing bed | 25 | 30 |
| Intermediate care | | |
| Hospital | 33 | 33 |
| Heritage House | 50 | 50 |
| **OCCUPANCY PERCENT** | | |
| Adult, pediatric and swing bed | 44.5% | 42.5% |
| Intermediate care | | |
| Hospital | 98.5% | 94.4% |
| Heritage House | 84.8% | 86.2% |
| **NET PATIENT SERVICE REVENUE PER CALENDAR DAY** | | |
| Hospital | $52,338 | $44,755 |
| Medical Clinics | $16,145 | $14,996 |
| **NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT ACCOUNTS RECEIVABLE AT END OF YEAR** | | |
| Hospital | 42.1 | 45.4 |
| Medical Clinics | 50.5 | 56.8 |

DENMAN
& Company, LLP
Certified Public Accountants and Business Consultants

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

Board of Trustees
Orange City Municipal Hospital
d/b/a Orange City Health System
Orange City, Iowa

We have audited the financial statements of Orange City Municipal Hospital d/b/a Orange City Health System as of and for the year ended June 30, 2005, and have issued our report thereon dated August 19, 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 Orange City Municipal Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Orange City Municipal 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*. However, we noted a certain immaterial instance of noncompliance that is described in the accompanying schedule of findings.

*1601 22nd Street, Suite 400, West Des Moines, Iowa 50266-1453 Telephone: (515) 225-8400 Fax: (515) 225-0149*
*www.denman-cpa.com e-mail: firm@denman-cpa.com*

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

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

Denman & Company, LLP

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa
August 19, 2005

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**SCHEDULE OF FINDINGS**
**Year ended June 30, 2005**

## Part I—Findings Related to the Financial Statements

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

**Orange City Municipal Hospital**
**d/b/a Orange City Health System**
**SCHEDULE OF FINDINGS**
**Year ended June 30, 2005**

## Part II—Findings Related to Required Statutory Reporting

### 05-II-A OFFICIAL DEPOSITORIES

**Comment**

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amount stated in the resolution was exceeded during the year ended June 30, 2005 at one financial institution.

**Recommendation**

We recommend the Hospital's depository resolution be reviewed with the maximum deposit amounts adjusted as needed.

**Response**

The depository resolution will be reviewed and updated as necessary.

**Conclusion**

Response accepted.

### 05-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

### 05-II-C TRAVEL EXPENSES

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

### 05-II-D BUSINESS TRANSACTIONS

No transactions between the Hospital and a Hospital official were noted.

### 05-II-E BOARD MINUTES

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

### 05-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Hospital's investment policy, except as noted in 05-II-A above.