

# **Hamilton County Public Hospital**

Accountants' Report and Financial Statements

June 30, 2006 and 2005



**Hamilton County Public Hospital**  
**June 30, 2006 and 2005**

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

Board of Trustees  
Hamilton County Public Hospital  
Webster City, Iowa

We have audited the accompanying balance sheets of Hamilton County Public Hospital, as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hamilton County Public Hospital as of June 30, 2006 and 2005, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 17, 2006 on our consideration of Hamilton County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Trustees  
Hamilton County Public Hospital  
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri  
August 17, 2006

# Hamilton County Public Hospital

## Management's Discussion and Analysis

### Years Ended June 30, 2006 and 2005

#### ***Introduction***

This management's discussion and analysis of the financial performance of Hamilton County Public Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2006 and 2005. It should be read in conjunction with the accompanying financial statements of the Hospital.

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

- Cash and short-term deposits increased in 2006 by \$1,327,583 or 18% and increased in 2005 by \$544,542 or 10%.
- The Hospital's net assets increased in 2006 by \$2,241,728 or 14% and increased in 2005 by \$1,480,726 or 10%.
- The Hospital reported an operating income in 2006 of \$1,374,379 and in 2005 of \$594,010.
- Net nonoperating revenues decreased in 2006 by \$19,367 or 2% compared to 2005, which decreased by \$37,539 or 4%.

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

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

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

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

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

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

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

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

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$2,241,728 or 14% in 2006 over 2005 and increased by \$1,480,726 or 10% in 2005 over 2004.

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

	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 3,251,428	\$ 2,941,150	\$ 2,595,147
Other current assets	10,428,309	8,932,690	8,402,082
Other investments	—	70,742	50,000
Capital assets, net	5,506,368	5,213,772	4,785,662
Noncurrent cash and deposits	<u>773,146</u>	<u>744,290</u>	<u>677,820</u>
Total assets	<u>\$ 19,959,251</u>	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>
<b>Total Liabilities</b>	<u>\$ 1,629,443</u>	<u>\$ 1,814,564</u>	<u>\$ 1,903,357</u>
<b>Net Assets</b>			
Invested in capital assets	5,506,368	5,213,772	4,785,662
Unrestricted	<u>12,823,440</u>	<u>10,874,308</u>	<u>9,821,692</u>
Total net assets	<u>18,329,808</u>	<u>16,088,080</u>	<u>14,607,354</u>
Total liabilities and net assets	<u>\$ 19,959,251</u>	<u>\$ 17,902,644</u>	<u>\$ 16,510,711</u>

Net patient accounts receivable increased by \$310,278 or 11% in 2006 over 2005 due to net patient revenue increasing by \$2,610,240 or 19%.

Other current assets increased by \$1,495,619 or 16.7% in 2006 over 2005 due to an increase in cash and short-term CDs of \$1,327,583 or 17.5%. Changes in revenue cycle staff members and processes contributed to this increase in cash.

Other investments decreased by \$70,742 in 2006 over 2005. Of this amount, \$20,742 was an investment in a PHO (Physician Hospital Organization) through Mercy Hospital in Des Moines. The PHO dissolved and distributed remaining assets in 2006.

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

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

### **Operating Results**

In 2006, the Hospital's Increase in Net Assets was \$2,241,728 compared to the Increase in Net Assets of \$1,480,726 in 2005 as shown in Table 2.

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 16,637,679	\$ 14,027,439	\$ 13,202,134
Other operating revenues	<u>57,493</u>	<u>120,146</u>	<u>112,909</u>
Total operating revenues	<u>16,695,172</u>	<u>14,147,585</u>	<u>13,315,043</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	8,385,708	7,510,045	7,724,286
Medical supplies, professional fees and other	3,882,675	3,301,936	3,155,401
Depreciation	992,249	909,522	868,169
Other operating expenses	<u>2,060,161</u>	<u>1,832,072</u>	<u>1,719,824</u>
Total operating expenses	<u>15,320,793</u>	<u>13,553,575</u>	<u>13,467,680</u>
<b>Operating Income (Loss)</b>	<u>1,374,379</u>	<u>594,010</u>	<u>(152,637)</u>
<b>Nonoperating Revenues</b>			
Property taxes	595,527	688,684	730,974
Interest income	250,463	127,209	80,713
Other	<u>21,359</u>	<u>70,823</u>	<u>112,568</u>
Total nonoperating revenues	<u>867,349</u>	<u>886,716</u>	<u>924,255</u>
<b>Increase in Net Assets</b>	<u>\$ 2,241,728</u>	<u>\$ 1,480,726</u>	<u>\$ 771,618</u>

## ***Operating Income/Losses***

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2005 and 2006, the Hospital reported operating income. The Hospital was formed and is operated primarily to serve residents of Hamilton County and the surrounding area. In 2005, the Hospital became a critical access hospital (CAH), which allows the Hospital to receive reimbursement based on cost for Medicare and Medicaid program beneficiaries. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating income for 2006 was \$1,374,379 compared to income of \$594,010 in 2005.

The primary components resulting in an operating income for 2006 are:

- An increase in net patient service revenue of \$2,610,240 or 19%. This increase was due to an increase in inpatient days of 105 or 2% and an increase in Outpatient visits of 754 or 5.2%. Orthopedic surgery was added to the Hospital services, which accounted for part of the increase in the patient days and outpatient visits. Contracted Emergency Room (ER) physician services were increased to cover seven days a week for 24 hours, causing additional physician revenue for the Hospital. Hospital charges were increased an average of 6% in each department from 2005 to 2006. The Hospital also received a volume decline exception payment of \$598,722 from Medicare, which is recorded in net patient service revenue.
- Operating expenses increased \$1,767,218 or 13%. Salaries and wages for the Hospital's employees increased \$320,406 or 5% from 2005 to 2006 for cost of living and union negotiated increases. Employee benefits increased \$555,257 or 39% from 2005 to 2006 due to higher utilization of the self-funded health insurance plan by employees. Medical professional fees increased \$261,777 or 19% due to increased coverage of contracted ER physicians to seven days a week, 24 hours a day and increased use of contracted clinical services due to employee turnover. Supplies and other expenses increased by \$318,962 or 17% due to the addition of the orthopedic service and higher patient utilization.

The primary components resulting in an operating income for 2005 are:

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

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

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income, all of which remained relatively constant in 2006 compared to 2005 and in 2005 as compared to 2004. In 2006, the Hospital received \$123,254 or 97% more in investment income due to an increase in investments of Certificates of Deposit and higher rates of interest received. The property tax income decreased \$93,157 due to the Board of Trustees approving a 12% decrease in the Hospital's property tax levy for 2006.

In 2005, the Hospital did receive \$46,496 or 58% more in investment income due to more investing in Certificates of Deposit by the Hospital. The property tax income decreased \$42,290 due to the Board of Trustees approving a 5% decrease in the Hospital's property tax levy for 2005.

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

Changes in the Hospital's cash flows are consistent with changes in operating and nonoperating revenues and expenses. It is also noted that cash provided by operating activities in 2006 was \$1,770,981 compared to \$1,084,801 in 2005.

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

### Capital Assets

At the end of 2006, the Hospital had \$5,506,368 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$5,213,772 in 2005. In 2006, the Hospital acquired new capital assets with a purchase cost totaling \$1,354,632. No new equipment was acquired through incursion of capital lease obligations.

In 2005, the Hospital purchased new capital assets costing \$1,344,264. No new equipment was acquired through incursion of capital lease obligations.

### Debt

At June 30, 2006 and 2005, the Hospital had no outstanding debt. The Hospital issued no new debt in 2006, 2005 or 2004.

## ***Factors Bearing on Hamilton County Public Hospital's Future***

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

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

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

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

**Hamilton County Public Hospital**  
**Balance Sheets**  
**June 30, 2006 and 2005**

**Assets**

	<b>2006</b>	<b>2005</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 3,902,234	\$ 5,911,516
Short-term certificates of deposit	5,000,000	1,663,135
Patient accounts receivable, net of allowance; 2006 – \$551,153, 2005 – \$484,958	3,251,428	2,941,150
Estimated amounts due from third-party payers	93,000	—
Property taxes receivable	529,278	600,667
Other receivables	144,087	47,040
Supplies	612,891	554,671
Prepaid expenses	<u>146,819</u>	<u>155,661</u>
Total current assets	13,679,737	11,873,840
<b>Other Investments</b>	—	70,742
<b>Noncurrent Cash and Deposits</b>		
Internally designated	773,146	744,290
<b>Capital Assets, Net of Accumulated Depreciation</b>	<u>5,506,368</u>	<u>5,213,772</u>
<b>Total Assets</b>	<u>\$ 19,959,251</u>	<u>\$ 17,902,644</u>

**Liabilities and Net Assets**

<b>Current Liabilities</b>		
Accounts payable	\$ 314,705	\$ 406,856
Accrued expenses	792,712	695,178
Estimated amounts due to third-party payers	—	119,000
Deferred property tax revenue	<u>522,026</u>	<u>593,530</u>
Total current liabilities	<u>1,629,443</u>	<u>1,814,564</u>
<b>Net Assets</b>		
Invested in capital assets	5,506,368	5,213,772
Unrestricted	<u>12,823,440</u>	<u>10,874,308</u>
Total net assets	<u>18,329,808</u>	<u>16,088,080</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 19,959,251</u>	<u>\$ 17,902,644</u>

**Hamilton County Public Hospital**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Revenues</b>		
Net patient service revenue, before provision for uncollectible accounts	\$ 17,180,025	\$ 14,450,230
Provision for uncollectible accounts	<u>(542,346)</u>	<u>(422,791)</u>
Net patient service revenue	16,637,679	14,027,439
Other	<u>57,493</u>	<u>120,146</u>
Total operating revenues	<u>16,695,172</u>	<u>14,147,585</u>
<b>Operating Expenses</b>		
Salaries and wages	6,415,896	6,095,490
Employee benefits	1,969,812	1,414,555
Medical professional fees	1,653,737	1,391,960
Supplies and other	2,228,938	1,909,976
Administrative services	848,444	698,098
General services	971,513	899,897
Depreciation	992,249	909,522
Insurance	<u>240,204</u>	<u>234,077</u>
Total operating expenses	<u>15,320,793</u>	<u>13,553,575</u>
<b>Operating Income</b>	<u>1,374,379</u>	<u>594,010</u>
<b>Nonoperating Revenues</b>		
Property taxes	595,527	688,684
Investment income	250,463	127,209
Other	13,160	15,800
Contributions and changes in Foundation net assets	<u>8,199</u>	<u>55,023</u>
Total nonoperating revenues	<u>867,349</u>	<u>886,716</u>
<b>Increase in Net Assets</b>	2,241,728	1,480,726
<b>Net Assets, Beginning of Year</b>	<u>16,088,080</u>	<u>14,607,354</u>
<b>Net Assets, End of Year</b>	<u>\$ 18,329,808</u>	<u>\$ 16,088,080</u>

**Hamilton County Public Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 16,115,401	\$ 13,884,726
Payments to suppliers and contractors	(6,084,364)	(5,272,543)
Payments to employees	(8,288,174)	(7,630,935)
Other receipts and payments, net	<u>28,118</u>	<u>103,553</u>
Net cash provided by operating activities	<u>1,770,981</u>	<u>1,084,801</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	595,527	688,684
Other	8,199	15,800
Gifts and grants for other than capital purposes	<u>13,160</u>	<u>55,023</u>
Net cash provided by noncapital financing activities	<u>616,886</u>	<u>759,507</u>
<b>Capital and Related Financing Activities</b>		
Proceeds from sale of capital assets	2,000	4,500
Purchase of capital assets	<u>(1,354,632)</u>	<u>(1,344,264)</u>
Net cash used in capital and related financing activities	<u>(1,352,632)</u>	<u>(1,339,764)</u>
<b>Investing Activities</b>		
Interest on deposits	250,463	127,209
Net change in deposits	<u>(3,390,546)</u>	<u>(33,400)</u>
Net cash provided by (used in) investing activities	<u>(3,140,083)</u>	<u>93,809</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(2,104,848)	598,353
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>6,059,173</u>	<u>5,460,820</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 3,954,325</u>	<u>\$ 6,059,173</u>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 3,902,234	\$ 5,911,516
Cash in noncurrent cash and deposits	52,091	147,657
Internally designated	<u>52,091</u>	<u>147,657</u>
	<u>\$ 3,954,325</u>	<u>\$ 6,059,173</u>

(continued)

**Hamilton County Public Hospital**  
**Statements of Cash Flows**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 1,374,379	\$ 594,010
Depreciation	992,249	909,522
Loss on sale of capital assets	67,787	2,132
Changes in operating assets and liabilities		
Patient accounts receivable, net	(310,278)	(346,003)
Estimated amounts due from and to third-party payers	(212,000)	203,290
Accounts payable and accrued expenses	(91,663)	(130,824)
Supplies	(58,220)	(53,840)
Prepaid expenses	8,842	(93,251)
Other assets and liabilities	(115)	(235)
Net cash provided by operating activities	\$ <u>1,770,981</u>	\$ <u>1,084,801</u>

# Hamilton County Public Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

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

##### ***Nature of Operations and Reporting Entity***

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

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

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

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

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

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

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

# Hamilton County Public Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

#### ***Cash Equivalents***

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents consisted primarily of certificates of deposit.

#### ***Property Taxes***

The Hospital received approximately 4% and 5% of its financial support from property tax revenues for the years ended June 30, 2006 and 2005, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second proceeding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

#### ***Risk Management***

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

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

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

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

**Hamilton County Public Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

***Supplies***

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

***Capital Assets***

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

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

***Compensated Absences***

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

***Net Assets***

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

***Net Patient Service Revenue***

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

# Hamilton County Public Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

#### **Charity Care**

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$66,000 and \$70,000 for 2006 and 2005, respectively.

#### **Income Taxes**

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

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

#### **Note 2: Net Patient Service Revenue**

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

**Medicare.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.

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

Approximately 56% and 55% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2006 and 2005, respectively. Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

# Hamilton County Public Hospital

## Notes to Financial Statements

### June 30, 2006 and 2005

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

For the year ended June 30, 2006, the Hospital received a volume decline exception payment of \$598,722 from Medicare. This payment was a one-time payment recorded as a reduction to Medicare contractual allowances.

#### **Note 3: Deposits, Investments and Deposit Income**

##### ***Deposits***

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2006 and 2005. The Hospital's deposits in banks at June 30, 2006 and 2005 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

##### ***Investments***

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had a limited investment in a physician hospital organization at June 30, 2005 and had no other investments at June 30, 2006 and 2005.

**Hamilton County Public Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

***Summary of Carrying Value***

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

	<b>2006</b>	<b>2005</b>
Deposits	\$ <u>9,675,380</u>	\$ <u>8,368,941</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 3,902,234	\$ 5,911,516
Short-term certificates of deposit	5,000,000	1,663,135
Other investments	—	50,000
Noncurrent cash and deposits	<u>773,146</u>	<u>744,290</u>
	\$ <u>9,675,380</u>	\$ <u>8,368,941</u>

***Deposit Income***

Income on deposits for the years ended June 30, 2006 and 2005 consisted of:

	<b>2006</b>	<b>2005</b>
Interest income	\$ <u>250,463</u>	\$ <u>127,209</u>

**Note 4: Concentration of Credit Risk**

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2006 and 2005 was:

	<b>2006</b>	<b>2005</b>
Medicare and Medicaid	\$ 1,314,539	\$ 1,094,790
Other third-party payers	885,963	980,383
Patients	1,547,582	1,306,625
Home care	46,094	35,753
ER physicians	<u>8,403</u>	<u>8,557</u>
	3,802,581	3,426,108
Less allowances for uncollectible accounts	<u>551,153</u>	<u>484,958</u>
	\$ <u>3,251,428</u>	\$ <u>2,941,150</u>

**Hamilton County Public Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 5: Capital Assets**

Capital assets activity for the years ended June 30, 2006 and 2005 was:

	Beginning Balance	Additions	2006		Ending Balance
			Disposals	Construction Transfers	
Land	\$ 224,092	\$ —	\$ —	\$ —	\$ 224,092
Land improvements	291,800	7,020	—	—	298,820
Buildings	4,916,373	35,916	—	5,644	4,957,933
Fixed equipment	3,380,258	—	—	—	3,380,258
Major movable equipment	8,053,676	1,119,098	900,997	147,419	8,419,196
Construction in progress	<u>145,557</u>	<u>192,598</u>	<u>—</u>	<u>(153,063)</u>	<u>185,092</u>
	<u>17,011,756</u>	<u>1,354,632</u>	<u>900,997</u>	<u>—</u>	<u>17,465,391</u>
Less accumulated depreciation					
Land improvements	202,878	10,966	—	—	213,844
Buildings	3,306,668	113,855	—	—	3,420,523
Fixed equipment	2,529,631	126,134	—	—	2,655,765
Major movable equipment	<u>5,758,807</u>	<u>741,294</u>	<u>831,210</u>	<u>—</u>	<u>5,668,891</u>
	<u>11,797,984</u>	<u>992,249</u>	<u>831,210</u>	<u>—</u>	<u>11,959,023</u>
Capital assets, net	<u>\$ 5,213,772</u>	<u>\$ 362,383</u>	<u>\$ 69,787</u>	<u>\$ —</u>	<u>\$ 5,506,368</u>
	Beginning Balance	Additions	2005		Ending Balance
			Disposals	Construction Transfers	
Land	\$ 224,092	\$ —	\$ —	\$ —	\$ 224,092
Land improvements	275,617	16,183	—	—	291,800
Buildings	4,894,559	21,814	—	—	4,916,373
Fixed equipment	3,369,622	10,636	—	—	3,380,258
Major movable equipment	7,295,406	1,180,371	422,101	—	8,053,676
Construction in progress	<u>30,297</u>	<u>115,260</u>	<u>—</u>	<u>—</u>	<u>145,557</u>
	<u>16,089,593</u>	<u>1,344,264</u>	<u>422,101</u>	<u>—</u>	<u>17,011,756</u>
Less accumulated depreciation					
Land improvements	190,707	12,171	—	—	202,878
Buildings	3,163,993	142,675	—	—	3,306,668
Fixed equipment	2,398,027	131,604	—	—	2,529,631
Major movable equipment	<u>5,551,204</u>	<u>623,072</u>	<u>415,469</u>	<u>—</u>	<u>5,758,807</u>
	<u>11,303,931</u>	<u>909,522</u>	<u>415,469</u>	<u>—</u>	<u>11,797,984</u>
Capital assets, net	<u>\$ 4,785,662</u>	<u>\$ 434,742</u>	<u>\$ 6,632</u>	<u>\$ —</u>	<u>\$ 5,213,772</u>

**Hamilton County Public Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 6: Medical Malpractice Claims**

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

**Note 7: Employee Health Claims**

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

Activity in the Hospital's accrued employee health claims liability during 2006 and 2005 is summarized as follows:

	<b>2006</b>	<b>2005</b>
Balance, beginning of year	\$ 62,505	\$ 131,558
Current year claims incurred and changes in estimates for claims incurred in prior years	1,165,967	466,498
Claims and expenses paid	<u>(1,113,091)</u>	<u>(535,551)</u>
Balance, end of year	<u>\$ 115,381</u>	<u>\$ 62,505</u>

**Hamilton County Public Hospital**  
**Notes to Financial Statements**  
**June 30, 2006 and 2005**

**Note 8: Defined Benefit Pension Plan**

***Plan Description***

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

***Funding Policy***

Plan members are required to contribute 3.7% of their annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2006 and 2005. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2006, 2005 and 2004 were \$347,630, \$330,072 and \$346,055, respectively, which equaled the required contributions for each year.

**Note 9: Budget and Budgetary Accounting**

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

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

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Amount to be raised by taxation	\$ 595,527	\$ —	\$ 595,527	\$ 593,530
Other revenues/receipts	<u>16,966,994</u>	<u>(522,278)</u>	<u>16,444,716</u>	<u>16,436,504</u>
	17,562,521	(522,278)	17,040,243	17,030,034
Expenses/disbursements	<u>15,320,793</u>	<u>49,493</u>	<u>15,370,286</u>	<u>15,506,658</u>
	2,241,728	(571,771)	1,669,957	1,523,376
Balance, beginning of year	<u>16,088,080</u>	<u>(2,477,488)</u>	<u>13,610,592</u>	<u>13,610,592</u>
Balance, end of year	<u>\$ 18,329,808</u>	<u>\$ (3,049,259)</u>	<u>\$ 15,280,549</u>	<u>\$ 15,133,968</u>

## **Supplementary Information**

**Hamilton County Public Hospital**  
**Schedules of Patient Service Revenues**  
**Years Ended June 30, 2006 and 2005**

	<b>2006</b>			<b>2005</b>		
	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>	<b>Total</b>	<b>Inpatient</b>	<b>Outpatient</b>
<b>Routine Services</b>						
Acute nursing care	\$ 3,501,280	\$ 2,902,315	\$ 598,965	\$ 3,359,935	\$ 2,768,297	\$ 591,638
<b>Nursing Services</b>						
Operating and recovery	3,330,849	503,021	2,827,828	2,730,462	339,763	2,390,699
Swing-bed	598,044	598,044		419,685	419,685	
CCU	59,464	59,464		141,814	141,814	
Emergency	2,384,964	114,285	2,270,679	1,872,440	117,969	1,754,471
Delivery	236,214	191,497	44,717	225,367	167,692	57,675
Nursery	163,350	163,350		150,376	150,376	
Obstetrics	328,783	247,240	81,543	281,353	223,785	57,568
Pediatric	138,000	138,000		72,653	72,653	
Home Care and Hospice	297,564	8,512	289,052	337,123	7,264	329,859
	<u>7,537,232</u>	<u>2,023,413</u>	<u>5,513,819</u>	<u>6,231,273</u>	<u>1,641,001</u>	<u>4,590,272</u>
<b>Other Professional Services</b>						
Central Supply	976,584	550,055	426,529	776,350	359,121	417,229
Ambulance	698,628	61,654	636,974	593,753	52,950	540,803
Blood	120,720	66,210	54,510	105,742	53,577	52,165
Electrocardiology	186,634	47,433	139,201	189,692	53,462	136,230
Radiology	2,723,539	431,631	2,291,908	2,592,956	468,333	2,124,623
Cardiac rehabilitation	145,685		145,685	167,334		167,334
Pharmacy	2,558,066	1,879,617	678,449	2,264,188	1,693,658	570,530
Chemistry	1,795,163	536,209	1,258,954	1,619,928	537,706	1,082,222
Echocardiography	79,729	35,782	43,947	103,380	50,939	52,441
Diabetes education	20,727	71	20,656	4,336		4,336
Histology	56,999	15,483	41,516	35,766	10,956	24,810
Microbiology	401,430	141,141	260,289	359,467	145,344	214,123
Jewell Clinic	165,771	339	165,432	158,954		158,954
Anesthesiology	461,803	138,471	323,332	368,839	90,160	278,679
Respiratory therapy	1,189,492	1,052,669	136,823	1,394,033	1,144,067	249,966
Physical therapy	522,634	119,267	403,367	489,014	71,125	417,889
Occupational therapy	111,642	56,864	54,778	98,838	32,517	66,321
Speech therapy	45,886	5,753	40,133	57,086	20,618	36,468
Corporate health	9,496		9,496	20,572		20,572
Dietary counseling	250		250	200		200
Sleep study	123,684		123,684			
	<u>12,394,562</u>	<u>5,138,649</u>	<u>7,255,913</u>	<u>11,400,428</u>	<u>4,784,533</u>	<u>6,615,895</u>
<b>Patient Service Revenue</b>	23,433,074	<u>\$ 10,064,377</u>	<u>\$ 13,368,697</u>	20,991,636	<u>\$ 9,193,831</u>	<u>\$ 11,797,805</u>
<b>Contractual Allowances</b>	<u>6,253,049</u>			<u>6,541,406</u>		
<b>Net Patient Service Revenue, Before Provision for Uncollectible Accounts</b>	17,180,025			14,450,230		
<b>Provision for Uncollectible Accounts</b>	<u>(542,346)</u>			<u>(422,791)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 16,637,679</u>			<u>\$ 14,027,439</u>		

**Hamilton County Public Hospital**  
**Schedules of Other Revenues**  
**Years Ended June 30, 2006 and 2005**

	<u>2006</u>	<u>2005</u>
Meals on Wheels	\$ —	\$ 2,750
Cafeteria revenue	75,521	66,701
Vending machine commissions	—	2,900
Rebates	8,320	8,026
Services provided to other entities	17,727	3,802
Medical records transcripts	1,622	1,268
Sale of supplies and scrap	4,706	53
Loss on disposal of property and equipment	(67,787)	(2,132)
Grants	13,840	6,779
Miscellaneous	<u>3,544</u>	<u>29,999</u>
	<u>\$ 57,493</u>	<u>\$ 120,146</u>

# Hamilton County Public Hospital

## Schedules of Operating Expenses

### Years Ended June 30, 2006 and 2005

	2006			2005		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing	\$ 1,705,580	\$ 1,545,972	\$ 159,608	\$ 1,617,725	\$ 1,465,051	\$ 152,674
Nursery	70,623	58,642	11,981	46,954	44,031	2,923
Labor and delivery	48,797	41,398	7,399	38,935	35,500	3,435
Maternity	212,366	192,828	19,538	230,835	193,332	37,503
Coronary care unit	41,870	32,471	9,399	64,814	43,433	21,381
Operating	788,819	412,202	376,617	612,825	348,672	264,153
Emergency	<u>1,131,214</u>	<u>513,234</u>	<u>617,980</u>	<u>912,639</u>	<u>442,460</u>	<u>470,179</u>
	<u>3,999,269</u>	<u>2,796,747</u>	<u>1,202,522</u>	<u>3,524,727</u>	<u>2,572,479</u>	<u>952,248</u>
<b>Other Professional Services</b>						
Anesthesia	338,889		338,889	251,284		251,284
Central Supply	538,451	77,768	460,683	271,930	73,998	197,932
Ambulance	231,693	182,952	48,741	291,307	164,272	127,035
Laboratory	789,696	330,942	458,754	720,735	321,040	399,695
Blood	78,893		78,893	68,484		68,484
Electrocardiology	8,245		8,245	8,337		8,337
Radiology	476,198	228,256	247,942	528,448	209,037	319,411
Pharmacy	738,567	254,010	484,557	670,067	228,712	441,355
Cardiac rehabilitation	85,689	74,573	11,116	92,640	87,438	5,202
Diabetes education	20,173	280	19,893	4,307	3,106	1,201
Physical therapy	266,561	50,839	215,722	249,383	43,851	205,532
Social services	29,302	28,410	892	15,573	14,956	617
Durable medical equipment	151,562	82,193	69,369	170,720	67,998	102,722
Specialty clinics	6,065	5,701	364	7,263	6,837	426
Inhalation therapy	327,513	233,918	93,595	338,390	253,750	84,640
Corporate health	192		192	2,638	1,926	712
Jewell Clinic	196,714	134,393	62,321	193,199	137,172	56,027
Free Clinic	506		506			
Occupational therapy	56,226		56,226	50,525		50,525
Speech therapy	<u>23,628</u>	<u>375</u>	<u>23,253</u>	<u>28,551</u>		<u>28,551</u>
	<u>4,364,763</u>	<u>1,684,610</u>	<u>2,680,153</u>	<u>3,963,781</u>	<u>1,614,093</u>	<u>2,349,688</u>
<b>General Services</b>						
Dietary	431,069	255,737	175,332	419,037	252,771	166,266
Operation of plant	747,184	219,368	527,816	724,931	222,639	502,292
Housekeeping	380,402	195,525	184,877	346,412	192,341	154,071
Laundry	<u>83,488</u>		<u>83,488</u>	<u>77,268</u>		<u>77,268</u>
	<u>1,642,143</u>	<u>670,630</u>	<u>971,513</u>	<u>1,567,648</u>	<u>667,751</u>	<u>899,897</u>
<b>Administrative Services</b>						
Public relations/Marketing	35,677	5,040	30,637	31,904	2,121	29,783
Medical records	261,464	223,759	37,705	226,177	203,203	22,974
Patient accounts	125,141	98,948	26,193	286,317	215,587	70,730
Admitting	404,797	366,769	38,028	243,117	235,378	7,739
Administration	523,529	232,207	291,322	534,157	281,039	253,118
Data processing	423,858	136,414	287,444	359,093	116,998	242,095
Human resources	220,042	95,849	124,193	135,492	78,856	56,636
Quality management	<u>117,845</u>	<u>104,923</u>	<u>12,922</u>	<u>123,008</u>	<u>107,985</u>	<u>15,023</u>
	<u>2,112,353</u>	<u>1,263,909</u>	<u>848,444</u>	<u>1,939,265</u>	<u>1,241,167</u>	<u>698,098</u>
<b>Insurance</b>	<u>240,204</u>		<u>240,204</u>	<u>234,077</u>		<u>234,077</u>
<b>Employee Benefits</b>	<u>1,969,812</u>		<u>1,969,812</u>	<u>1,414,555</u>		<u>1,414,555</u>
<b>Depreciation</b>	<u>992,249</u>		<u>992,249</u>	<u>909,522</u>		<u>909,522</u>
	<u>\$ 15,320,793</u>	<u>\$ 6,415,896</u>	<u>\$ 8,904,897</u>	<u>\$ 13,553,575</u>	<u>\$ 6,095,490</u>	<u>\$ 7,458,085</u>

**Hamilton County Public Hospital**  
**Schedules of Patient Receivables and Allowance**  
**for Uncollectible Accounts**  
**Years Ended June 30, 2006 and 2005**

**Schedules of Patient Receivables**

Days Since Discharge	2006		2005	
	Amounts	Percent to Total	Amounts	Percent to Total
0-30 days	\$ 1,919,451	45.1%	\$ 2,014,236	54.2%
31-60 days	749,714	17.6	649,916	17.5
61-90 days	430,673	10.1	205,687	5.5
91-120 days	320,086	7.5	160,957	4.3
Over 4 months	833,734	19.7	682,471	18.5
Total	4,253,658	<u>100.0%</u>	3,713,267	<u>100.0%</u>
Home care, net of allowance	46,094		35,753	
ER Physicians, net of allowance	8,403		8,557	
Bad debt accounts, net of allowance	371,092		260,439	
Less contractual allowances	876,666		591,908	
Less allowance for uncollectible accounts	551,153		484,958	
Net patient receivables	\$ <u>3,251,428</u>		\$ <u>2,941,150</u>	

**Allowance for Uncollectible Accounts**

	2006	2005
Balance, beginning of year	\$ 484,958	\$ 531,000
Provision for year	542,346	422,791
Recoveries of accounts previously written off	77,830	102,625
	1,105,134	1,056,416
Accounts written off	553,981	571,458
Balance, end of year	\$ <u>551,153</u>	\$ <u>484,958</u>

**Hamilton County Public Hospital**  
**Schedule of Officials**  
**June 30, 2006**

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Name	Title	Term Expires
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**Board of Trustees**

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

**Hospital Officials**

Palmer Schneider	Chief Executive Officer
Alice Heinrichs	Chief Financial Officer

**Hamilton County Public Hospital**  
**Schedules of Supplies and Prepaid Expenses**  
**Years Ended June 30, 2006 and 2005**

**Supplies**

	<u>2006</u>	<u>2005</u>
General	\$ 83,406	\$ 69,194
Pharmacy	150,183	165,196
Central Supply	52,834	55,212
Dietary	10,355	9,976
Plant operation and maintenance	49,619	47,874
Laboratory	76,017	71,189
Surgical Services	177,190	122,434
Radiology	9,610	8,448
Jewell Clinic	<u>3,677</u>	<u>5,148</u>
	<u>\$ 612,891</u>	<u>\$ 554,671</u>

**Prepaid Expenses**

	<u>2006</u>	<u>2005</u>
Insurance	\$ 85,580	\$ 84,471
Maintenance	34,000	35,478
Surgery Call Pay	<u>27,239</u>	<u>35,712</u>
	<u>\$ 146,819</u>	<u>\$ 155,661</u>



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

Board of Trustees  
Hamilton County Public Hospital  
Webster City, Iowa

We have audited the financial statements of Hamilton County Public Hospital as of and for the year ended June 30, 2006 and have issued our report thereon dated August 17, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and responses as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

## **Compliance and Other Matters**

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

## **Compliance with Certain Provisions of Iowa Law**

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2006. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

### **Official Depository Banks**

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2006.

### **Certified Budget**

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2006 did not exceed amounts budgeted.

### **Questionable Expenditures**

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

### Travel Expense

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

### Business Transactions

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

### Trustee Minutes

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

### Deposits and Investments

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

### Disbursements for Equipment and Supplies

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

### Compensation of Hospital Administrator, Assistants and Employees

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

### Internal Revenue Service Information Returns and Outside Services

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

### Unclaimed Property

The Hospital is required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital filed the unclaimed property report for the year ended June 30, 2006.

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 17, 2006

**Hamilton County Public Hospital**  
**Schedule of Findings and Responses**  
**Year Ended June 30, 2006**

<b>Reference Number</b>	<b>Finding</b>
06-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—Three individuals have incompatible duties in the purchases and payroll cycles.</p> <p>Context—Individuals responsible for processing cash disbursements and recording and monitoring payroll information have duties that include access to assets, recording responsibilities and some monitoring responsibilities.</p> <p>Effect—Potentially material misstatements in the financial statements or material misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases and payroll cycles are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>



Board of Trustees  
Hamilton County Public Hospital  
Webster City, Iowa

As part of our audit of the financial statements of Hamilton County Public Hospital for the year ended June 30, 2006, we studied and evaluated the Hospital's internal control structure. Because the study and evaluation was only part of the overall audit plan regarding the financial statements, it was not intended to be a complete review of all your accounting procedures and, therefore, would not necessarily disclose all reportable conditions or opportunities for improvement. A reportable condition involves matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. We observed the following matters and offer these comments and suggestions. Previously, we made observations as a result of our 2005 audit engagement in a letter dated August 11, 2005.

### ***Segregation of Duties***

Certain matters regarding internal controls were included in the Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with *Government Auditing Standards*.

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

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

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

- Perform an independent review/approval of the payroll register and of the payroll reconciliation to the general ledger.

- Where review procedures have been implemented to reduce the risk from lack of segregation (i.e., having the CFO and the Financial Analyst review each other's work), demonstrate written evidence of this review process, either directly on the item being reviewed or on a daily review log.
- Consider limiting access or reassigning the duties of authorizing, executing and record-keeping between the CFO and Financial Analyst and Accountant.

### ***Risk Assessment Audit Standards***

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards number 104 through 111). These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These standards are effective for fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will most likely be June 30, 2008.

\* \* \* \* \*

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

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

/s/ **BKD, LLP**

Kansas City, Missouri  
August 17, 2006