

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
Accountants' Reports and Financial Statements  
June 30, 2008 and 2007



**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
June 30, 2008 and 2007**

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

Board of Commissioners  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Charles City, Iowa

We have audited the accompanying balance sheets of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of June 30, 2008 and 2007 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of June 30, 2008 and 2007, 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 November 12, 2008, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Board of Commissioners  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
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Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information is presented for purposes of additional analysis of the governmental financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri  
November 12, 2008

# **Floyd County Memorial Hospital d/b/a Floyd County Medical Center Management's Discussion and Analysis Years Ended June 30, 2008 and 2007**

## ***Introduction***

This management's discussion and analysis of the financial performance of Floyd County Memorial Hospital d/b/a Floyd County Medical Center (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2008 and 2007. It should be read in conjunction with the accompanying financial statements of the Hospital.

## ***Financial Highlights***

- Cash increased in 2008 by \$82,896 or 4% and decreased in 2007 by \$157,639 or 6%.
- The Hospital's net assets increased in each of the past two years with a \$998,282 or 7% increase in 2008 and a \$987,655 or 8% increase in 2007.
- The Hospital reported operating income in both 2008 and 2007 of \$1,058,895 and \$860,280, respectively.
- Net nonoperating revenues decreased by \$187,988 in 2008 compared to 2007.

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

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

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

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

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

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

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

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

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$998,282 or 7% in 2008 over 2007 as shown in Table 1.

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Assets</b>			
Patient accounts receivable, net	\$ 3,043,912	\$ 2,992,541	\$ 2,450,911
Other current assets	3,492,158	3,144,012	3,574,060
Capital assets, net	11,600,533	8,320,521	7,462,786
Other noncurrent assets	503,231	1,120,291	1,116,823
Total assets	<u>\$ 18,639,834</u>	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>
<b>Liabilities</b>			
Long-term debt, including current maturities	\$ 158,177	\$ 207,951	\$ 252,366
Other current and noncurrent liabilities	3,572,961	1,459,000	1,429,455
Total liabilities	<u>3,731,138</u>	<u>1,666,951</u>	<u>1,681,821</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	9,532,606	8,079,325	7,200,841
Unrestricted	5,376,090	5,831,089	5,721,918
Total net assets	<u>14,908,696</u>	<u>13,910,414</u>	<u>12,922,759</u>
Total liabilities and net assets	<u>\$ 18,639,834</u>	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>

In 2008, an excess of revenues over expenses was noted of \$998,282 and is included in the total net assets, which resulted in an increase of 7%. No major changes in services were noted.

In 2008, there was a net increase of \$3,280,012 in capital assets due to the continuing of the installation of the internal computer system, and the continuing of the remodeling of the second floor patient rooms.

In 2008, a decrease in long-term debt \$49,774 or 23%, is reflective of monthly payments of principal on the long-term capital lease.

In 2008, an increase of \$2,113,961, in other current and noncurrent liabilities, is due to a temporary loan of \$2,000,000 (of a total available of \$4,500,000) for the remodeling of the second floor patient rooms. This temporary loan will be turned into a permanent long-term loan at the completion of the renovation of the second floor patient rooms in fiscal year 2009.

In 2008, there was an increase of \$348,146 in other current assets in part due to an increase in total cash on hand of \$82,896. Changes to supplies on hand and other receivables accounted for the remainder of the increases. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This transfer included an additional \$500,000 for 2008 for the continued investment in internal computers and the continued remodeling of the second floor patient rooms.

In 2007, an excess of revenues over expenses was noted of \$987,655 and is included in the total net assets, which resulted in an increase of 8%. No major changes in services were noted.

In 2007, there was a net increase of \$857,735 in capital assets due to continuing the installation of the internal computer system and the start of the second floor remodeling on the patient rooms.

In 2007, a decrease in long-term debt of \$44,415 or 17%, is reflective of monthly payments of principal on the long-term capital lease.

In 2007, there was a decrease of \$430,048 in other current assets as a result of a decrease in total cash on hand of \$157,639. Changes to other various receivables accounted for the remainder of the decrease. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This transfer included an additional \$1,000,000 for 2007 for the continued investment in computers and the start of the second floor patient room renovation.

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

In 2008, the Hospital's net assets increased by \$998,282 or 7% as shown in Table 2. This increase is made up of several different components and represents an increase of \$10,627 or 1% compared to 2007.

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

	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 19,957,528	\$ 17,527,762	\$ 16,170,425
Other operating revenues	<u>534,840</u>	<u>456,210</u>	<u>509,842</u>
Total operating revenues	<u>20,492,368</u>	<u>17,983,972</u>	<u>16,680,267</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	10,552,498	9,159,041	8,707,695
Medical professional fees	3,380,898	3,252,194	2,568,625
Depreciation	1,096,731	811,275	685,965
Other operating expenses	<u>4,403,346</u>	<u>3,901,182</u>	<u>3,703,938</u>
Total operating expenses	<u>19,433,473</u>	<u>17,123,692</u>	<u>15,666,223</u>
<b>Operating Income</b>	<u>1,058,895</u>	<u>860,280</u>	<u>1,014,044</u>
<b>Nonoperating Revenues (Expenses)</b>			
Investment income	46,724	187,378	102,265
Contributions	6,351	3,445	16,096
Interest expense	(86,829)	(26,601)	(49,690)
Income taxes - Aesculapius	(26,859)	(36,847)	(23,790)
Minority interest - Aesculapius	<u>-</u>	<u>-</u>	<u>(10,335)</u>
Total nonoperating revenues (expenses)	<u>(60,613)</u>	<u>127,375</u>	<u>34,546</u>
<b>Increase in Net Assets</b>	<u>\$ 998,282</u>	<u>\$ 987,655</u>	<u>\$ 1,048,590</u>

**Operating Income**

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors can give the Hospital an amount annually as the County's budget allows. The Hospital received no amounts from the County in 2008 and 2007.

The operating income for 2008 increased as compared to 2007. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$2,429,766 or 14%.
- An increase in salaries and wages and employee benefits of \$1,393,457 or 15%.
- An increase in depreciation of \$285,456 or 35%. This is due to partial completion of the internal computers and the second floor patient room renovation projects.
- An increase in other operating expenses of \$502,164 or 13%.

- An increase in total operating expenses of \$2,309,781 or 13%.

These increases were all due to an increase in patient volumes and additional expenses related to the continuing of the installation of the internal computer system and the remodeling of the second floor patient rooms.

In 2008, as in the past, the Floyd County Memorial Hospital (Medical Center), subsidizes many Community Benefit Programs in Floyd County. The cost for the subsidy is included in the financial reports presented here and include:

- Meals on Wheels
- Charity care for health services at the Floyd County Memorial Hospital
- Physician care through the Floyd County Area Medical Center
- Physician care through the Nashua Area Medical Center
- Community health care education
- Community disaster planning

The operating income for 2007 decreased as compared to 2006. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$1,357,337 or 8%.
- An increase in salaries and wages and employee benefits of \$451,346 or 5%.
- An increase in other operating expenses of \$197,244 or 5%.
- An increase in nonoperating revenues/expenses of \$92,829 or 269%.

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

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Investment income decreased in 2008 as compared to 2007 while interest expense increased. The primary cause for the increase in interest expense is the \$2,000,000 temporary loan for the second floor patient room remodel. The renovation project also accounts for the decrease in investment income, as available funds were used for the project.

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

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

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

#### **Capital Assets**

At June 30, 2008, the Hospital had \$11,600,533 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2008, the Hospital had additions of capital assets of \$4,376,743.

At June 30, 2007, the Hospital had \$8,320,521 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2007, the Hospital had additions of capital assets of \$1,669,010.

## Debt

The Hospital had a capital lease payable in the amount of \$158,177 and \$207,951 at June 30, 2008 and 2007, respectively. In 2008, the Hospital obtained a line-of-credit, which allows for borrowing up to \$4,500,000. At June 30, 2008, the revolving balance on the unsecured debt was \$2,000,000. The Hospital's formal debt issuances are subject to limitations imposed by state law.

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

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

- Facility Renovation Project. The Hospital presently has a remodeling project in progress. The scope of the project includes remodeling all patient rooms, the OB Department, Pharmacy and other areas of the second floor. The main components of the project include adding sprinklers to the whole second floor and small parts of the first floor for fire safety; upgrade the heating and cooling systems to allow for individually temperature controlled patient rooms; upgrade the patient rooms with a shower in each room and to remodel the entire OB Department. These changes should improve the Hospital's quality of care and patient satisfaction. The remodeling project is divided into three phases, of which Phase I and Phase II are complete. Phase III (South Wing) has an estimated completion date of February 2009.

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

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administrator or Chief Financial Officer by telephoning 641.228.6830.

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Balance Sheets  
June 30, 2008 and 2007**

**Assets**

	<b>2008</b>	<b>2007</b>
<b>Current Assets</b>		
Cash	\$ 2,437,342	\$ 2,354,446
Patient accounts receivable, net of allowance; 2008 – \$1,555,149, 2007 – \$1,555,000	3,043,912	2,992,541
Other receivables	43,740	160,181
Estimated amounts due from third-party payers	417,000	-
Supplies	485,786	524,992
Prepaid expenses	108,290	104,393
Total current assets	<b>6,536,070</b>	<b>6,136,553</b>
<b>Noncurrent Cash</b>		
Internally designated for capital and other expenditures	266,038	892,658
<b>Capital Assets, Net of Accumulated Depreciation</b>	<b>11,600,533</b>	<b>8,320,521</b>
<b>Other Assets</b>		
Investments	237,193	227,633
 <b>Total Assets</b>	 <b>\$ 18,639,834</b>	 <b>\$ 15,577,365</b>

## Liabilities and Net Assets

	<u>2008</u>	<u>2007</u>
<b>Current Liabilities</b>		
Line of credit	\$ 2,000,000	\$ -
Current maturities of long-term debt	55,779	49,774
Accounts payable	466,911	338,489
Accrued expenses		
Vacation pay	433,665	415,493
Payroll and related deductions	336,385	306,018
Health insurance	336,000	230,000
Estimated amounts due to third-party payers	-	169,000
	<u>3,628,740</u>	<u>1,508,774</u>
Total current liabilities		
	<u>102,398</u>	<u>158,177</u>
<b>Long-term Debt</b>		
	<u>3,731,138</u>	<u>1,666,951</u>
Total liabilities		
<b>Net Assets</b>		
Invested in capital assets, net of related debt	9,532,606	8,079,325
Unrestricted	<u>5,376,090</u>	<u>5,831,089</u>
	<u>14,908,696</u>	<u>13,910,414</u>
Total net assets		
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,639,834</u>	<u>\$ 15,577,365</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating Revenues</b>		
Net patient service revenue before provision for uncollectible accounts	\$ 20,831,392	\$ 18,171,132
Less provision for uncollectible accounts	<u>873,864</u>	<u>643,370</u>
Net patient service revenue	19,957,528	17,527,762
Other revenues	<u>534,840</u>	<u>456,210</u>
Total operating revenues	<u>20,492,368</u>	<u>17,983,972</u>
<b>Operating Expenses</b>		
Salaries and wages	7,185,543	6,777,079
Employee benefits	3,366,955	2,381,962
Medical professional fees	3,380,898	3,252,194
Supplies and expenses	2,364,509	2,111,415
General services	870,165	871,321
Administrative services	1,168,672	918,446
Depreciation	<u>1,096,731</u>	<u>811,275</u>
Total operating expenses	<u>19,433,473</u>	<u>17,123,692</u>
<b>Operating Income</b>	<u>1,058,895</u>	<u>860,280</u>
<b>Nonoperating Revenues (Expenses)</b>		
Investment income	46,724	187,378
Contributions	6,351	3,445
Interest expense	(86,829)	(26,601)
Income taxes – Aesculapuis	<u>(26,859)</u>	<u>(36,847)</u>
Total nonoperating revenues (expenses)	<u>(60,613)</u>	<u>127,375</u>
<b>Increase in Net Assets</b>	998,282	987,655
<b>Net Assets, Beginning of the Year</b>	<u>13,910,414</u>	<u>12,922,759</u>
<b>Net Assets, End of the Year</b>	<u>\$ 14,908,696</u>	<u>\$ 13,910,414</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Statements of Cash Flows  
Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 19,320,157	\$ 17,561,132
Payments to suppliers	(7,646,319)	(7,175,973)
Payments to employees	(10,397,959)	(9,094,752)
Other receipts and payments, net	<u>647,384</u>	<u>326,544</u>
Net cash provided by operating activities	<u>1,923,263</u>	<u>1,616,951</u>
<b>Noncapital Financing Activities</b>		
Unrestricted contributions	<u>6,351</u>	<u>3,445</u>
Net cash provided by noncapital financing activities	<u>6,351</u>	<u>3,445</u>
<b>Capital and Related Financing Activities</b>		
Net borrowings under line-of-credit agreement	2,000,000	-
Purchase of capital assets	(4,319,738)	(1,635,765)
Principal payments on long-term debt	(49,774)	(44,415)
Interest paid on long-term debt	(86,829)	(26,601)
Proceeds from sale of capital assets	<u>-</u>	<u>100</u>
Net cash used in capital and related financing activities	<u>(2,456,341)</u>	<u>(1,706,681)</u>
<b>Investing Activities</b>		
Purchase of investments	(10,000)	(300,000)
Income on investments	<u>(6,997)</u>	<u>165,336</u>
Net cash used in investing activities	<u>(16,997)</u>	<u>(134,664)</u>
<b>Decrease in Cash</b>	(543,724)	(220,949)
<b>Cash, Beginning of Year</b>	<u>3,247,104</u>	<u>3,468,053</u>
<b>Cash, End of Year</b>	<u>\$ 2,703,380</u>	<u>\$ 3,247,104</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Reconciliation of Cash to the Balance Sheets</b>		
Cash	\$ 2,437,342	\$ 2,354,446
Noncurrent cash		
Internally designated	<u>266,038</u>	<u>892,658</u>
Total cash	<u>\$ 2,703,380</u>	<u>\$ 3,247,104</u>
 <b>Reconciliation of Operating Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Operating income	\$ 1,058,895	\$ 860,280
Items not requiring (providing) cash		
Depreciation	1,096,731	811,275
Amortization	27,302	27,302
Gain on sale of assets	-	(100)
Changes in		
Patient and other accounts receivable, net	65,070	(660,895)
Supplies	39,206	(4,025)
Prepaid expenses	(3,897)	(10,301)
Accounts payable and accrued expenses	225,956	18,415
Estimated amounts due to third-party payers	<u>(586,000)</u>	<u>575,000</u>
Net cash provided by operating activities	<u>\$ 1,923,263</u>	<u>\$ 1,616,951</u>
 <b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	<u>\$ 90,250</u>	<u>\$ 33,245</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

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

***Nature of Operations***

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

***Basis of Accounting and Presentation***

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

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

***Reporting Entity***

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

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

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

Health Care of Floyd County L.C. is consolidated into the Hospital's financial statements. HCFC is a legally separate limited liability corporation that is, in substance, a part of the Hospital's operations. It is organized primarily to hold certain assets for the Hospital. HCFC owns shares of a corporation whose earnings and losses are included in the financial statements. HCFC purchased the remaining shares of the corporation in 2007.

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

***Use of Estimates***

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

***Net Patient Service Revenue***

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

***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 \$26,880 and \$0 for 2008 and 2007, respectively.

***Supplies***

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

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

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

The Hospital's deposits include demand deposits and money market accounts. The Hospital also has investments in partnerships holding mobile medical equipment reported on the equity method.

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

***Patient Accounts Receivable***

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

***Noncurrent Cash***

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

***Capital Assets***

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

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

***Medical Malpractice Coverage and Claims***

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

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

***County Assistance***

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. Such proceeds when received would be considered unrestricted as to use by the Hospital and would be used to support operations. The Hospital received no support in 2008 or 2007.

***Risk Management***

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

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

***Compensated Absences***

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

***Net Assets***

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

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
**Notes to Financial Statements**  
**June 30, 2008 and 2007**

**Note 2: Net Patient Service Revenue**

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

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

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

Approximately 56% and 52% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2008 and 2007, respectively.

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

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

***Deposits***

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2008 and 2007. The Hospital's deposits in banks at June 30, 2008 and 2007 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**Investments**

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers' acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts and warrants or improvement certificates of a drainage district. The Hospital had limited investments in partnerships holding mobile medical equipment at June 30, 2008 and 2007.

**Summary of Carrying Value**

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

	<b>2008</b>	<b>2007</b>
Deposits	\$ 2,703,380	\$ 3,247,104
Included in the following balance sheet captions		
Cash	\$ 2,437,342	\$ 2,354,446
Noncurrent cash	266,038	892,658
	\$ 2,703,380	\$ 3,247,104

**Investment Income**

Investment income for the years ended June 30, 2008 and 2007 consisted of:

	<b>2008</b>	<b>2007</b>
Interest	\$ 99,564	\$ 202,248
Return on other investments	(52,840)	(14,870)
Total investment income	\$ 46,724	\$ 187,378

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**Note 4: Capital Assets**

Consolidated capital assets activity for the years ended June 30, 2008 and 2007 was:

<b>2008</b>	<b>Balance June 30, 2007</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2008</b>
Land and improvements	\$ 471,125	\$ 6,441			\$ 477,566
Building and improvements	9,493,575	27,835		\$ 3,287,364	12,808,774
Fixed equipment	1,623,371		\$ 33,357	56,955	1,646,969
Major moveable equipment	5,175,953	342,434	400,626	665,481	5,783,242
Construction in progress	1,010,931	4,000,033		(4,009,800)	1,001,164
	<u>17,774,955</u>	<u>4,376,743</u>	<u>433,983</u>	<u>-</u>	<u>21,717,715</u>
Less accumulated depreciation					
Land improvements	290,808	17,238			308,046
Building and improvements	4,548,854	353,054			4,901,908
Fixed equipment	1,038,422	89,354	33,357		1,094,419
Major moveable equipment	3,576,350	637,085	400,626		3,812,809
Total accumulated depreciation	<u>9,454,434</u>	<u>1,096,731</u>	<u>433,983</u>		<u>10,117,182</u>
Capital assets, net	<u>\$ 8,320,521</u>	<u>\$ 3,280,012</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,600,533</u>
<b>2007</b>	<b>Balance June 30, 2006</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2007</b>
Land and improvements	\$ 457,527	\$ 13,598			\$ 471,125
Building and improvements	9,364,350	92,927		\$ 36,298	9,493,575
Fixed equipment	1,600,888	22,483			1,623,371
Major moveable equipment	4,750,747	108,589	\$ 351,970	668,587	5,175,953
Construction in progress	284,403	1,431,413		(704,885)	1,010,931
	<u>16,457,915</u>	<u>1,669,010</u>	<u>351,970</u>	<u>-</u>	<u>17,774,955</u>
Less accumulated depreciation					
Land improvements	273,899	16,909			290,808
Building and improvements	4,274,963	273,891			4,548,854
Fixed equipment	951,580	86,842			1,038,422
Major moveable equipment	3,494,687	433,633	351,970		3,576,350
Total accumulated depreciation	<u>8,995,129</u>	<u>811,275</u>	<u>351,970</u>		<u>9,454,434</u>
Capital assets, net	<u>\$ 7,462,786</u>	<u>\$ 857,735</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,320,521</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**Note 5: Line of Credit**

The Hospital entered into a line of credit agreement in 2008 that allows the Hospital to borrow up to \$4,500,000 to finance capital asset acquisitions and construction on an interim basis. The line of credit bears interest at 6.875%, is unsecured and originally matures November 2008. The Hospital is paying interest only monthly during the construction period. Following the construction period, it is the Hospital's intent to refinance the line of credit into a long term note payable. The following is a summary of the line of credit transactions for the years ended June 30, 2008 and 2007:

	<b>2008</b>	<b>2007</b>
Beginning balance	\$ -	\$ -
Additions	2,000,000	-
Deductions	-	-
Ending balance	\$ 2,000,000	\$ -

Subsequent to June 30, 2008, the line of credit maturity date was changed to December 2008. The Hospital anticipates converting the line of credit to long-term debt once construction projects are complete.

**Note 6: Long-term Debt**

A schedule of changes in the Hospital's long-term debt for 2008 and 2007 follows:

	<b>Balance June 30, 2007</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance June 30, 2008</b>	<b>Amounts Due Within One Year</b>
<b>2008</b>					
Capital lease obligation (A)	\$ 207,951	\$ -	\$ 49,774	\$ 158,177	\$ 55,779
<b>2007</b>					
Capital lease obligation (A)	\$ 252,366	\$ -	\$ 44,415	\$ 207,951	\$ 49,774

(A) The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at June 30, 2008 and 2007, totaled \$140,533 and \$194,933, net of accumulated depreciation of \$131,467 and \$77,067, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 11.4% together with the present value of the future minimum lease payments as of June 30, 2008.

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**Year Ending  
June 30,**

2009	\$	71,016
2010		71,016
2011		41,428
Total minimum lease payments		183,460
Less amount representing interest		25,283
Present value of future minimum lease payments		\$ 158,177

**Note 7: Operating Leases**

Noncancellable operating lease for equipment expires in 2013.

Future minimum lease payments at June 30, 2008, were:

2009	\$	141,251
2010		141,251
2011		141,251
2012		141,251
2013		70,626
Future minimum lease payments		\$ 635,630

Rental expense for all operating leases totaled \$226,267 and \$236,928 for 2008 and 2007, respectively.

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**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 IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

***Funding Policy***

Plan members are required to contribute 3.9% and 3.7% of their annual covered salary and the Hospital is required to contribute 6.05% and 5.75% of annual covered payroll for 2008 and 2007. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2008, 2007 and 2006 were \$434,099, \$368,613 and \$354,657, respectively, which equaled the required contributions for each year.

**Note 9: Patient Accounts Receivable**

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2008 and 2007 consisted of:

	<b>2008</b>	<b>2007</b>
Medicare	\$ 1,055,242	\$ 810,524
Medicaid	101,778	136,954
Third-party payers	891,070	1,076,506
Patients	2,199,852	2,166,941
Clinics	351,119	356,616
Total	4,599,061	4,547,541
Less allowance for uncollectible accounts	1,555,149	1,555,000
Patient accounts receivable, net	\$ 3,043,912	\$ 2,992,541

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

**Note 10: Employee Health Insurance Claims**

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2008 and 2007 is summarized as follows:

	<b>2008</b>	<b>2007</b>
Balance, beginning of year	\$ 230,000	\$ 263,000
Current year claims and changes in estimates	2,122,191	1,399,142
Claim payments	(2,016,191)	(1,432,142)
Balance, end of year	\$ 336,000	\$ 230,000

**Note 11: Construction in Progress**

The Hospital, at June 30, 2008, had \$1,001,164 in construction in progress related to projects, including remodeling of the Hospital and a new computer system. The estimated cost to complete the various projects is \$1,642,688 to be funded by assets of the Hospital and a line of credit (*see Note 5*).

**Note 12: Budget and Budgetary Accounting**

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

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Notes to Financial Statements  
June 30, 2008 and 2007**

The following is reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2008:

	<b>Book Basis</b>	<b>Actual Accrual Adjustments</b>	<b>Cash Basis</b>	<b>Budget</b>
Other revenues/receipts	\$ 20,486,412	\$ 1,429,296	\$ 21,915,708	\$ 30,552,000
Expenses/disbursements	<u>19,488,130</u>	<u>2,961,742</u>	<u>22,449,872</u>	<u>30,835,700</u>
	998,282	(1,532,446)	(534,164)	(283,700)
Balance, beginning of year	<u>13,910,414</u>	<u>(10,435,677)</u>	<u>3,474,737</u>	<u>3,474,737</u>
Balance, end of year	<u><u>\$ 14,908,696</u></u>	<u><u>\$ (11,968,123)</u></u>	<u><u>\$ 2,940,573</u></u>	<u><u>\$ 3,191,037</u></u>

**Note 13: Litigation**

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. No amounts were recorded at June 30, 2008 or 2007.

## **Supplementary Information**

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet  
June 30, 2008**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,420,624	\$ 16,718		\$ 2,437,342
Patient accounts receivable, net of allowance of \$1,555,149	3,043,912			3,043,912
Other receivables	43,740			43,740
Estimated amounts due from third-party payers	417,000			417,000
Supplies	485,786			485,786
Prepaid expenses	108,290			108,290
	<u>6,519,352</u>	<u>16,718</u>		<u>6,536,070</u>
<b>Noncurrent Cash</b>				
Internally designated for capital and other expenditures	266,038			266,038
	<u>266,038</u>			<u>266,038</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>				
	11,042,065	558,468		11,600,533
	<u>11,042,065</u>	<u>558,468</u>		<u>11,600,533</u>
<b>Other Assets</b>				
Investments	812,379		\$ (575,186)	237,193
	<u>812,379</u>		<u>\$ (575,186)</u>	<u>237,193</u>
<b>Total Assets</b>	<u>\$ 18,639,834</u>	<u>\$ 575,186</u>	<u>\$ (575,186)</u>	<u>\$ 18,639,834</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet (Continued)  
June 30, 2008**

**Liabilities and Net Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Line-of-credit	\$ 2,000,000			\$ 2,000,000
Current maturities of long-term debt	55,779			55,779
Accounts payable	466,911			466,911
Accrued expenses				
Vacation pay	433,665			433,665
Payroll and related deductions	336,385			336,385
Health insurance	<u>336,000</u>			<u>336,000</u>
Total current liabilities	3,628,740			3,628,740
<b>Long-term Debt</b>	<u>102,398</u>			<u>102,398</u>
Total liabilities	<u>3,731,138</u>			<u>3,731,138</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	8,974,138	\$ 558,468		9,532,606
Unrestricted	<u>5,934,558</u>	<u>16,718</u>	<u>\$ (575,186)</u>	<u>5,376,090</u>
Total net assets	<u>14,908,696</u>	<u>575,186</u>	<u>(575,186)</u>	<u>14,908,696</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,639,834</u>	<u>\$ 575,186</u>	<u>\$ (575,186)</u>	<u>\$ 18,639,834</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet  
June 30, 2007**

**Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Assets</b>				
Cash	\$ 2,321,188	\$ 33,258		\$ 2,354,446
Patient accounts receivable, net of allowance of \$1,555,000	2,992,541			2,992,541
Other receivables	160,181			160,181
Supplies	524,992			524,992
Prepaid expenses	104,393			104,393
	<u>6,103,295</u>	<u>33,258</u>		<u>6,136,553</u>
<b>Noncurrent Cash</b>				
Internally designated for capital and other expenditures	892,658			892,658
	<u>892,658</u>			<u>892,658</u>
<b>Capital Assets, Net of Accumulated Depreciation</b>				
	7,765,262	555,259		8,320,521
	<u>7,765,262</u>	<u>555,259</u>		<u>8,320,521</u>
<b>Other Assets</b>				
Investments	816,150		\$ (588,517)	227,633
	<u>816,150</u>		<u>\$ (588,517)</u>	<u>227,633</u>
<b>Total Assets</b>	<u>\$ 15,577,365</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$ 15,577,365</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Balance Sheet (Continued)  
June 30, 2007**

**Liabilities and Net Assets**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Current Liabilities</b>				
Current maturities of long-term debt	\$ 49,774			\$ 49,774
Accounts payable	338,489			338,489
Accrued expenses				
Vacation pay	415,493			415,493
Payroll and related deductions	306,018			306,018
Health insurance	230,000			230,000
Estimated amounts due to third-party payers	<u>169,000</u>			<u>169,000</u>
Total current liabilities	1,508,774			1,508,774
<b>Long-term Debt</b>	<u>158,177</u>			<u>158,177</u>
Total liabilities	<u>1,666,951</u>			<u>1,666,951</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	7,524,066	\$ 555,259		8,079,325
Unrestricted	<u>6,386,348</u>	<u>33,258</u>	<u>\$ (588,517)</u>	<u>5,831,089</u>
Total net assets	<u>13,910,414</u>	<u>588,517</u>	<u>(588,517)</u>	<u>13,910,414</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 15,577,365</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$ 15,577,365</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Consolidating Statement of Revenues, Expenses  
and Changes in Net Assets  
Year Ended June 30, 2008**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 20,831,392			\$ 20,831,392
Less provision for uncollectible accounts	<u>873,864</u>			<u>873,864</u>
Net patient service revenue	19,957,528			19,957,528
Other revenues	<u>381,184</u>	<u>\$ 214,221</u>	<u>\$ (60,565)</u>	<u>534,840</u>
Total operating revenues	<u>20,338,712</u>	<u>214,221</u>	<u>(60,565)</u>	<u>20,492,368</u>
<b>Operating Expenses</b>				
Salaries and wages	7,185,543			7,185,543
Employee benefits	3,366,955			3,366,955
Medical professional fees	3,380,898			3,380,898
Supplies and expenses	2,364,509			2,364,509
General services	882,448	61,613	(73,896)	870,165
Administrative services	1,144,923	23,749		1,168,672
Depreciation	<u>1,076,025</u>	<u>20,706</u>		<u>1,096,731</u>
Total operating expenses	<u>19,401,301</u>	<u>106,068</u>	<u>(73,896)</u>	<u>19,433,473</u>
<b>Operating Income</b>	<u>937,411</u>	<u>108,153</u>	<u>13,331</u>	<u>1,058,895</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	46,349	375		46,724
Contributions	6,351			6,351
Interest expense	(86,829)			(86,829)
Income taxes – Aesculapius		(26,859)		(26,859)
Dividends paid – Aesculapius	<u>95,000</u>		<u>(95,000)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>60,871</u>	<u>(26,484)</u>	<u>(95,000)</u>	<u>(60,613)</u>
<b>Increase (Decrease) in Net Assets</b>	998,282	81,669	(81,669)	998,282
<b>Net Assets, Beginning of the Year</b>	13,910,414	588,517	(588,517)	13,910,414
<b>Dividends Paid</b>		<u>(95,000)</u>	<u>95,000</u>	<u>-</u>
<b>Net Assets, End of the Year</b>	<u>\$ 14,908,696</u>	<u>\$ 575,186</u>	<u>\$ (575,186)</u>	<u>\$ 14,908,696</u>

**Floyd County Memorial Hospital**  
**d/b/a Floyd County Medical Center**  
**Consolidating Statement of Revenues, Expenses**  
**and Changes in Net Assets (Continued)**  
**Year Ended June 30, 2007**

	<b>Floyd County Memorial Hospital</b>	<b>HCFC</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Net patient service revenue before provision for uncollectible accounts	\$ 18,171,132			\$ 18,171,132
Less provision for uncollectible accounts	<u>643,370</u>			<u>643,370</u>
Net patient service revenue	17,527,762			17,527,762
Other revenues	<u>332,552</u>	<u>\$ 214,161</u>	<u>(90,503)</u>	<u>456,210</u>
Total operating revenues	<u>17,860,314</u>	<u>214,161</u>	<u>(90,503)</u>	<u>17,983,972</u>
<b>Operating Expenses</b>				
Salaries and wages	6,777,079			6,777,079
Employee benefits	2,381,962			2,381,962
Medical professional fees	3,252,194			3,252,194
Supplies and expenses	2,111,415			2,111,415
General services	887,743	57,474	(73,896)	871,321
Administrative services	895,588	22,858		918,446
Depreciation	<u>790,589</u>	<u>20,686</u>		<u>811,275</u>
Total operating expenses	<u>17,096,570</u>	<u>101,018</u>	<u>(73,896)</u>	<u>17,123,692</u>
<b>Operating Income (Loss)</b>	<u>763,744</u>	<u>113,143</u>	<u>(16,607)</u>	<u>860,280</u>
<b>Nonoperating Revenues (Expenses)</b>				
Investment income	187,067	311		187,378
Contributions	3,445			3,445
Interest expense	(26,601)			(26,601)
Income taxes – Aesculapius		(36,847)		(36,847)
Dividends paid – Aesculapius	<u>60,000</u>		<u>(60,000)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>223,911</u>	<u>(36,536)</u>	<u>(60,000)</u>	<u>127,375</u>
<b>Increase (Decrease) in Net Assets</b>	987,655	76,607	(76,607)	987,655
<b>Net Assets, Beginning of the Year</b>	12,922,759	571,910	(571,910)	12,922,759
<b>Dividends Paid</b>		<u>(60,000)</u>	<u>60,000</u>	<u>-</u>
<b>Net Assets, End of the Year</b>	<u>\$ 13,910,414</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$ 13,910,414</u>

# Floyd County Memorial Hospital d/b/a Floyd County Medical Center

## Schedules of Patient Service Revenues – Hospital Years Ended June 30, 2008 and 2007

	2008			2007		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
<b>Routine Services</b>						
Acute nursing care	\$ 3,324,325	\$ 3,324,325	\$	\$ 2,818,357	\$ 2,818,357	\$
Nursery	107,041	107,041		139,006	139,006	
	<u>3,431,366</u>	<u>3,431,366</u>		<u>2,957,363</u>	<u>2,957,363</u>	
<b>Other Nursing Services</b>						
Operating room	2,172,389	448,635	\$ 1,723,754	2,599,987	492,026	\$ 2,107,961
Recovery room	253,952	34,433	219,519	223,643	32,809	190,834
Delivery room	118,300	77,568	40,732	145,283	145,283	
Emergency room	3,447,448	160,449	3,286,999	2,475,320	111,580	2,363,740
	<u>5,992,089</u>	<u>721,085</u>	<u>5,271,004</u>	<u>5,444,233</u>	<u>781,698</u>	<u>4,662,535</u>
<b>Other Professional Services</b>						
Central service and supply	348,526	125,187	223,339	286,602	105,790	180,812
Laboratory	5,317,110	771,969	4,545,141	4,484,785	645,686	3,839,099
Blood	193,777	73,584	120,193	183,243	75,310	107,933
Radiology	1,506,571	95,381	1,411,190	1,214,827	64,065	1,150,762
Electrocardiology	711,189	53,821	657,368	600,584	40,620	559,964
Ultrasound	303,721	18,556	285,165	279,570	17,775	261,795
Nuclear medicine	186,314	19,375	166,939	169,728	4,735	164,993
CT Scan	2,108,930	289,708	1,819,222	1,861,641	269,213	1,592,428
MRI	999,899	73,013	926,886	961,809	72,689	889,120
Pharmacy	1,937,576	773,812	1,163,764	1,579,303	792,665	786,638
Intravenous therapy	559,361	378,947	180,414	263,589	132,866	130,723
Respiratory therapy	1,269,764	534,743	735,021	1,086,198	409,966	676,232
Physical therapy	1,684,397	644,393	1,040,004	1,478,111	441,518	1,036,593
Occupational therapy	243,000	114,012	128,988	202,880	80,996	121,884
Speech pathology	296,110	31,408	264,702	242,413	20,182	222,231
Anesthesia	313,368	39,257	274,111	277,529	40,582	236,947
Medical clinic	145,233		145,233	141,735		141,735
Rural health clinic	1,045,164		1,045,164	979,895		979,895
CRNA services	719,580		719,580	626,152		626,152
	<u>19,889,590</u>	<u>4,037,166</u>	<u>15,852,424</u>	<u>16,920,594</u>	<u>3,214,658</u>	<u>13,705,936</u>
<b>Patient Service Revenue</b>	<u>29,313,045</u>	<u>\$ 8,189,617</u>	<u>\$ 21,123,428</u>	<u>25,322,190</u>	<u>\$ 6,953,719</u>	<u>\$ 18,368,471</u>
<b>Contractual Allowance</b>	<u>(8,481,653)</u>			<u>(7,151,058)</u>		
<b>Net Patient Service Revenue before Provision for Uncollectible Accounts</b>	20,831,392			18,171,132		
<b>Provision for Uncollectible Accounts</b>	<u>(873,864)</u>			<u>(643,370)</u>		
<b>Net Patient Service Revenue</b>	<u>\$ 19,957,528</u>			<u>\$ 17,527,762</u>		

See Independent Accountants' Report

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Other Operating Revenues – Hospital  
Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cafeteria	\$ 171,722	\$ 170,123
Specialty clinics	134,744	95,585
Office rental	27,580	34,421
Registration fees	5,731	8,146
Medical records transcripts	10,737	10,779
Other	<u>30,670</u>	<u>13,498</u>
	<u>\$ 381,184</u>	<u>\$ 332,552</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Operating Expenses – Hospital  
Years Ended June 30, 2008 and 2007**

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
<b>Nursing Services</b>						
Nursing administration	\$ 504,784	\$ 353,349	\$ 151,435	\$ 789,345	\$ 600,936	\$ 188,409
Routine care	2,718,531	1,812,471	906,060	2,104,629	1,507,127	597,502
Nursery	67,663	48,925	18,738	38,898	31,624	7,274
Operating room	1,006,519	364,718	641,801	1,378,704	389,423	989,281
Delivery room	32,013	23,514	8,499	29,038	23,681	5,357
Emergency room	1,690,343	639,541	1,050,802	1,140,058	458,163	681,895
	<u>6,019,853</u>	<u>3,242,518</u>	<u>2,777,335</u>	<u>5,480,672</u>	<u>3,010,954</u>	<u>2,469,718</u>
<b>Other Professional Services</b>						
Central service and supply	220,023	68,638	151,385	243,245	65,655	177,590
Laboratory	1,192,590	452,217	740,373	1,076,072	413,453	662,619
Radiology	813,582	443,828	369,754	738,933	432,266	306,667
Electrocardiology	137,761	57,906	79,855	118,188	53,897	64,291
Nuclear medicine	73,281		73,281	71,686		71,686
Pharmacy	884,346	91,123	793,223	660,789	67,049	593,740
Intravenous therapy	23,825		23,825	56,316		56,316
Respiratory therapy	342,866		342,866	328,719		328,719
Physical therapy	732,248		732,248	652,271		652,271
Occupational therapy	78,369		78,369	70,177		70,177
Speech pathology	184,169	143,233	40,936	180,825	144,374	36,451
CT Scan	387,779		387,779	387,024		387,024
Medical clinic	177,846	59,876	117,970	165,702	57,837	107,865
Rural health clinic	1,101,408	382,626	718,782	1,008,846	374,870	633,976
Sleep studies	65,425		65,425	63,425		63,425
CRNA services	495,614		495,614	315,133		315,133
	<u>6,911,132</u>	<u>1,699,447</u>	<u>5,211,685</u>	<u>6,137,351</u>	<u>1,609,401</u>	<u>4,527,950</u>

(Continued)

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Operating Expenses – Hospital  
Years Ended June 30, 2008 and 2007**

	2008			2007		
	Total	Salaries	Other	Total	Salaries	Other
<b>General Services</b>						
Dietary	\$ 882,825	\$ 453,590	\$ 429,235	\$ 813,545	\$ 400,371	\$ 413,174
Operation of plant	681,823	178,835	502,988	555,920	109,812	446,108
Housekeeping	463,906	281,490	182,416	476,698	328,048	148,650
Laundry	106,012	13,781	92,231	96,383	13,709	82,674
	<u>2,134,566</u>	<u>927,696</u>	<u>1,206,870</u>	<u>1,942,546</u>	<u>851,940</u>	<u>1,090,606</u>
<b>Administrative Services</b>						
Medical records	393,776	237,751	156,025	362,001	237,173	124,828
Administration	2,515,160	939,424	1,575,736	2,075,070	926,269	1,148,801
Purchasing	142,476	77,050	65,426	108,103	77,326	30,777
Personnel	93,508	61,657	31,851	90,950	64,016	26,934
Insurance	114,805		114,805	109,288		109,288
	<u>3,259,725</u>	<u>1,315,882</u>	<u>1,943,843</u>	<u>2,745,412</u>	<u>1,304,784</u>	<u>1,440,628</u>
<b>Depreciation</b>	<u>1,076,025</u>		<u>1,076,025</u>	<u>790,589</u>		<u>790,589</u>
	<u>\$ 19,401,301</u>	<u>\$ 7,185,543</u>	<u>\$ 12,215,758</u>	<u>\$ 17,096,570</u>	<u>\$ 6,777,079</u>	<u>\$ 10,319,491</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Patient Receivables and Allowance for  
Uncollectible Accounts – Hospital  
Years Ended June 30, 2008 and 2007**

**Schedules of Patient Receivables**

	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Days Since Discharge				
0-30	\$ 2,343,514	\$ 2,041,898	45.99%	41.79%
31-60	712,660	706,201	13.99%	14.46%
61-90	258,841	313,394	5.08%	6.41%
91-120	181,164	156,395	3.56%	3.20%
121-150	192,191	149,374	3.77%	3.06%
151 and over	<u>1,407,023</u>	<u>1,518,664</u>	<u>27.61%</u>	<u>31.08%</u>
	5,095,393	4,885,926	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>448,119</u>	<u>524,515</u>		
	<u>5,543,512</u>	<u>5,410,441</u>		
Less				
Contractual allowances	944,451	862,900		
Allowance for uncollectible accounts	<u>1,555,149</u>	<u>1,555,000</u>		
	<u>2,499,600</u>	<u>2,417,900</u>		
	<u>\$ 3,043,912</u>	<u>\$ 2,992,541</u>		

**Allowance for Uncollectible Accounts**

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 1,555,000	\$ 1,198,000
Provision for year	873,864	643,370
Recoveries of accounts previously written off	<u>171,253</u>	<u>199,544</u>
	2,600,117	2,040,914
Less accounts written off	<u>1,044,968</u>	<u>485,914</u>
Balance, end of year	<u>\$ 1,555,149</u>	<u>\$ 1,555,000</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Noncurrent Cash Transactions – Hospital  
Years Ended June 30, 2008 and 2007**

	<b>Total</b>
<b>Balance, July 1, 2006</b>	\$ 955,968
Deposits	1,884,638
Withdrawals	(1,947,948)
<b>Balance, June 30, 2007</b>	892,658
Deposits	3,679,203
Withdrawals	(4,305,823)
<b>Balance, June 30, 2008</b>	\$ 266,038

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedule of Officials – Hospital  
Year Ended June 30, 2008**

<b>Name</b>	<b>Title</b>	<b>Term Expires</b>
<b>Board of Commissioners</b>		
Mike Marth	Chairman	2008
James Moon	Secretary	2009
Ross Enabnit	Treasurer	2009
Myrna Jakoubek	Member	2008
Joe Nettleton	Member	2010
<b>Hospital Officials</b>		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Financial and Statistical Data – Hospital  
Years Ended June 30, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>Patient Days (Exclusive of Swing-bed)</b>		
Medicare	1,863	1,794
Medicaid	230	266
Private and other	<u>591</u>	<u>636</u>
	<u>2,684</u>	<u>2,696</u>
<b>Medicare and Medicaid Percent</b>	<u>78.0%</u>	<u>76.4%</u>
<b>Percent of Occupancy (Exclusive of Swing-bed)</b>	<u>29%</u>	<u>30%</u>
<b>Discharges (Exclusive of Swing-bed)</b>		
Medicare	557	566
Medicaid	77	102
Private and other	<u>228</u>	<u>224</u>
	<u>862</u>	<u>892</u>
<b>Average Length of Stay in Days</b>	<u>3.1</u>	<u>3.0</u>

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedules of Supplies and Prepaid Expense – Hospital  
Years Ended June 30, 2008 and 2007**

	<b>2008</b>	<b>2007</b>
<b>Supplies</b>		
Storeroom	\$ 151,168	\$ 148,091
Pharmacy	140,911	126,282
Surgery	182,343	243,684
Dietary	11,364	6,935
	\$ 485,786	\$ 524,992
 <b>Prepaid Expense</b>		
Insurance	\$ 39,385	\$ 36,383
Maintenance contracts	48,642	55,909
Memberships and dues	14,231	6,888
Workers' compensation insurance	6,032	5,213
	\$ 108,290	\$ 104,393



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

Board of Commissioners  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of and for the year ended June 30, 2008 and have issued our report thereon dated November 12, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### ***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, 2008 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, 2008. 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, 2008.

### ***Certified Budget***

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures during the year ended June 30, 2008 did not exceed amounts budgeted.

### ***Questionable Expenditures***

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

### ***Travel Expense***

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

### ***Business Transactions***

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

### ***Commission Minutes***

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

### ***Deposits and Investments***

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

### ***Unclaimed Property***

The Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

### ***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.

Board of Commissioners  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
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***Publication of Bills Allowed and Salaries***

Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category ...” The Hospital has sought council in this matter and it was determined that the Hospital is not required to publish such items.

We also noted certain additional matters that we reported to the Hospital’s management in a separate letter dated November 12, 2008.

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  
November 12, 2008

**Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Schedule of Findings and Responses  
Year Ended June 30, 2008**

**Reference  
Number**

**Finding**

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None



Board of Commissioners and Management  
Floyd County Memorial Hospital  
d/b/a Floyd County Medical Center  
Charles City, Iowa

In planning and performing our audit of the financial statements of Floyd County Memorial Hospital d/b/a Floyd County Medical Center as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal controls would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal controls.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2007 audit engagement in a letter dated November 15, 2007.

### ***Material Weaknesses***

No matters are reportable.

### ***Significant Deficiencies***

No matters are reportable.

## **Control Deficiencies**

### Segregation of Duties

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 is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

#### *Purchases Cycle*

- The Data Processing Clerks have the ability to issue and sign checks and have certain recording responsibilities.

#### *Payroll Cycle*

- The Personnel Manager and Personnel Assistant have the ability to issue and sign checks and also have recording responsibilities.

### Information System Offsite Backup

We understand the Hospital was backing up the information system, but did not have a copy offsite. We recommend that a backup of the information system be stored offsite to assist the Hospital in recovering data in the case of a fire or other disaster.

## **Other Matters**

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters, which came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

### Standard Accounting Policies and Procedures

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

Disaster Recovery Policies/Procedures

Policies and procedures for disaster recovery of information systems have not been developed. While backups of data are performed regularly, no policy or procedure exists for a catastrophic failure. We recommend expanding upon procedures in place and developing a comprehensive disaster recovery policy to protect the Hospital should a significant loss of information occur.

Post Retirement Health Insurance Benefits

The Governmental Accounting Standards Board recently issued its Statement No. 45 (GASB No. 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement provides accounting and disclosure requirements for postemployment benefit plans in which the Hospital participates. This Statement will apply to your health insurance plan, and will be effective for the Hospital for the year ending June 30, 2009.

GASB No. 45 generally requires recognition of expenses for postemployment benefits as services are performed, regardless of the timing of the related benefit payments. Previously, the Hospital has accounted for benefits under this plan on a “pay-as-you-go” basis. This method of accounting will no longer be permitted when the standard is effective.

GASB No. 45 requires periodic actuarial valuations based on the size of the plan. We encourage the Hospital to identify and engage a knowledgeable and reputable actuarial firm well in advance of its required implementation date to smooth the transition. An alternative valuation method is available for certain plans with less than 100 participants. However, this method is complicated and the requirements should be carefully considered before this method is selected.

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This communication is intended solely for the information and use of Management, the Board of Commissioners and others within the Hospital, and is not intended to be, and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri  
November 12, 2008