

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Accountants' Reports and Financial Statements
June 30, 2009 and 2008



**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
June 30, 2009 and 2008**

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	12
Supplementary Information	
Consolidating Balance Sheets	25
Consolidating Statements of Revenues, Expenses and Changes in Net Assets	29
Schedules of Patient Service Revenues – Hospital.....	31
Schedules of Other Operating Revenues – Hospital.....	32
Schedules of Operating Expenses – Hospital.....	33
Schedules of Patient Receivables and Allowance for Uncollectible Accounts – Hospital	35
Schedules of Noncurrent Cash Transactions – Hospital.....	36
Schedule of Officials – Hospital – Year Ended June 30, 2009	37
Schedules of Financial and Statistical Data – Hospital	38
Schedules of Supplies and Prepaid Expense – Hospital.....	39
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 <i>Government Auditing Standards</i>.....	40
Schedule of Findings and Responses.....	44

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, 2009 and 2008 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, 2009 and 2008, 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 5, 2009, 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
Page 2

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 5, 2009

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

Management's Discussion and Analysis Years Ended June 30, 2009 and 2008

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, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash decreased in 2009 by \$61,510 or 3% and increased in 2008 by \$82,896 or 4%.
- The Hospital's net assets increased in each of the past two years with a \$483,900 or 3% increase in 2009 and a \$998,282 or 7% increase in 2008.
- The Hospital reported operating income in both 2009 and 2008 of \$630,988 and \$1,058,895, respectively.
- Net nonoperating revenues and expense decreased by \$86,475 in 2009 compared to 2008.

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 \$483,900 or 3% in 2009 over 2008 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 2,646,920	\$ 3,043,912	\$ 2,992,541
Other current assets	4,421,901	3,492,158	3,144,012
Capital assets, net	12,074,913	11,600,533	8,320,521
Other noncurrent assets	356,291	503,231	1,120,291
Total assets	<u>\$ 19,500,025</u>	<u>\$ 18,639,834</u>	<u>\$ 15,577,365</u>
Liabilities			
Long-term debt, including current maturities	\$ 2,602,398	\$ 158,177	\$ 207,951
Other current and noncurrent liabilities	1,505,031	3,572,961	1,459,000
Total liabilities	<u>4,107,429</u>	<u>3,731,138</u>	<u>1,666,951</u>
Net Assets			
Invested in capital assets, net of related debt	9,474,890	9,532,606	8,079,325
Unrestricted	5,917,706	5,376,090	5,831,089
Total net assets	<u>15,392,596</u>	<u>14,908,696</u>	<u>13,910,414</u>
Total liabilities and net assets	<u>\$ 19,500,025</u>	<u>\$ 18,639,834</u>	<u>\$ 15,577,365</u>

In 2009, an excess of revenues over expenses was noted of \$483,900 and is included in the total net assets, which resulted in an increase of 3%. No major changes in services were noted.

In 2009, there was a net increase of \$474,380, or 4% in capital assets due to the continuing of the installation of the internal computer system, and the finishing of the remodeling of the second floor patient rooms.

In 2009, an increase in long-term debt of \$2,444,221 is the result of permanent long-term financing of the second floor remodeling.

In 2009, a decrease of \$2,067,930, in other current and noncurrent liabilities, is due to the conversion of temporary debt with the permanent long-term note referenced above.

In 2009, total assets increased \$860,191 or 5%, while total liabilities increased \$376,291 or 10%.

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.

Operating Results and Changes in the Hospital's Net Assets

In 2009, the Hospital's net assets increased by \$483,900 or 3% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$514,382 or 52% compared to 2008.

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating Revenues			
Net patient service revenue	\$ 20,781,728	\$ 19,957,528	\$ 17,527,762
Other operating revenues	547,867	534,840	456,210
	<u>21,329,595</u>	<u>20,492,368</u>	<u>17,983,972</u>
Operating Expenses			
Salaries and wages and employee benefits	11,047,620	10,552,498	9,159,041
Medical professional fees	3,465,580	3,380,898	3,252,194
Depreciation	1,444,236	1,096,731	811,275
Other operating expenses	4,741,171	4,403,346	3,901,182
	<u>20,698,607</u>	<u>19,433,473</u>	<u>17,123,692</u>
Operating Income	<u>630,988</u>	<u>1,058,895</u>	<u>860,280</u>
Nonoperating Revenues (Expenses)			
Investment income	31,500	46,724	187,378
Contributions	6,948	6,351	3,445
Interest expense	(155,666)	(86,829)	(26,601)
Income taxes - Aesculapius	(29,870)	(26,859)	(36,847)
	<u>(147,088)</u>	<u>(60,613)</u>	<u>127,375</u>
Increase in Net Assets	<u>\$ 483,900</u>	<u>\$ 998,282</u>	<u>\$ 987,655</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 2009 and 2008.

The operating income for 2009 decreased as compared to 2008. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$824,200 or 4%.
- An increase in salaries and wages and employee benefits of \$495,122 or 5%.
- An increase in depreciation of \$347,505 or 32%.
- An increase in medical professional fees and other operating expenses of \$442,507 or 5%.
- An increase in total operating expenses of \$1,265,134 or 7%.

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 2009 and 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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Interest expense increased in 2009 as compared to 2008. 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, 2009, the Hospital had \$12,074,913 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2009, the Hospital had additions of capital assets of \$1,918,612.

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.

Debt

The Hospital had a capital lease payable in the amount of \$102,398 and \$158,177 at June 30, 2009 and 2008, respectively. In 2009, the Hospital drew \$500,000 on the construction line-of-credit. At June 30, 2009, the revolving balance on the unsecured debt was \$2,500,000. Subsequent to June 30, 2009, the Hospital converted the line of credit into two long-term notes payable in the amount of \$2,600,000. The Hospital's formal debt issuances are subject to limitations imposed by state law.

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, 2009 and 2008**

Assets

	2009	2008
Current Assets		
Cash	\$ 2,375,832	\$ 2,437,342
Patient accounts receivable, net of allowance; 2009 - \$1,384,200, 2008 - \$1,555,149	2,646,920	3,043,912
Other receivables	61,530	43,740
Estimated amounts due from third-party payers	1,363,000	417,000
Supplies	521,095	485,786
Prepaid expenses	100,444	108,290
Total current assets	7,068,821	6,536,070
Noncurrent Cash		
Internally designated for capital and other expenditures	187,898	266,038
Capital Assets, Net of Accumulated Depreciation	12,074,913	11,600,533
Other Assets		
Investments	168,393	237,193
Total Assets	\$ 19,500,025	\$ 18,639,834

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Line of credit	\$ -	\$ 2,000,000
Current maturities of long-term debt	192,508	55,779
Accounts payable	386,863	466,911
Accrued expenses		
Vacation pay	486,263	433,665
Payroll and related deductions	229,585	336,385
Health insurance	402,320	336,000
	<u>1,697,539</u>	<u>3,628,740</u>
Total current liabilities		
Long-term Debt	<u>2,409,890</u>	<u>102,398</u>
Total liabilities	<u>4,107,429</u>	<u>3,731,138</u>
Net Assets		
Invested in capital assets, net of related debt	9,474,890	9,532,606
Unrestricted	5,917,706	5,376,090
	<u>15,392,596</u>	<u>14,908,696</u>
Total net assets		
Total Liabilities and Net Assets	<u>\$ 19,500,025</u>	<u>\$ 18,639,834</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 21,706,405	\$ 20,831,392
Less provision for uncollectible accounts	<u>924,677</u>	<u>873,864</u>
Net patient service revenue	20,781,728	19,957,528
Other revenues	<u>547,867</u>	<u>534,840</u>
Total operating revenues	<u>21,329,595</u>	<u>20,492,368</u>
Operating Expenses		
Salaries and wages	7,607,486	7,185,543
Employee benefits	3,440,134	3,366,955
Medical professional fees	3,465,580	3,380,898
Supplies and expenses	2,522,012	2,364,509
General services	882,594	870,165
Administrative services	1,336,565	1,168,672
Depreciation	<u>1,444,236</u>	<u>1,096,731</u>
Total operating expenses	<u>20,698,607</u>	<u>19,433,473</u>
Operating Income	<u>630,988</u>	<u>1,058,895</u>
Nonoperating Revenues (Expenses)		
Investment income	31,500	46,724
Contributions	6,948	6,351
Interest expense	(155,666)	(86,829)
Income taxes – Aesculapuis	<u>(29,870)</u>	<u>(26,859)</u>
Total nonoperating revenues (expenses)	<u>(147,088)</u>	<u>(60,613)</u>
Increase in Net Assets	483,900	998,282
Net Assets, Beginning of the Year	<u>14,908,696</u>	<u>13,910,414</u>
Net Assets, End of the Year	<u>\$ 15,392,596</u>	<u>\$ 14,908,696</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows
Years Ended June 30, 2009 and 2008**

	2009	2008
Operating Activities		
Receipts from and on behalf of patients	\$ 20,232,720	\$ 19,320,157
Payments to suppliers	(8,206,935)	(7,646,319)
Payments to employees	(11,035,502)	(10,397,959)
Other receipts and payments, net	536,923	647,384
Net cash provided by operating activities	1,527,206	1,923,263
Noncapital Financing Activities		
Unrestricted contributions	6,948	6,351
Net cash provided by noncapital financing activities	6,948	6,351
Capital and Related Financing Activities		
Net borrowings under line-of-credit agreement	500,000	2,000,000
Purchase of capital assets	(2,006,487)	(4,319,738)
Principal payments on long-term debt	(55,779)	(49,774)
Interest paid on long-term debt	(155,666)	(86,829)
Proceeds from sale of capital assets	1,000	-
Net cash used in capital and related financing activities	(1,716,932)	(2,456,341)
Investing Activities		
Change in investments	15,382	(10,000)
Income on investments	27,746	(6,997)
Net cash provided by (used in) investing activities	43,128	(16,997)
Decrease in Cash	(139,650)	(543,724)
Cash, Beginning of Year	2,703,380	3,247,104
Cash, End of Year	\$ 2,563,730	\$ 2,703,380

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008**

	2009	2008
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,375,832	\$ 2,437,342
Noncurrent cash		
Internally designated	187,898	266,038
Total cash	\$ 2,563,730	\$ 2,703,380
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	\$ 630,988	\$ 1,058,895
Items not requiring (providing) cash		
Depreciation	1,444,236	1,096,731
Amortization	27,302	27,302
Gain on sale of assets	(1,000)	-
Changes in		
Patient and other accounts receivable, net	379,202	65,070
Supplies	(35,309)	39,206
Prepaid expenses	7,846	(3,897)
Accounts payable and accrued expenses	19,941	225,956
Estimated amounts due to third-party payers	(946,000)	(586,000)
Net cash provided by operating activities	\$ 1,527,206	\$ 1,923,263
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 2,379	\$ 90,250

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

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, 2009 and 2008**

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 (Aesculapius, Inc.) whose earnings and losses are included in the financial statements.

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 \$166,908 and \$26,880 for 2009 and 2008, 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, 2009 and 2008**

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 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.

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

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 2009 or 2008.

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 and Benefits

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.

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The new standard had no impact on the accompanying financial statements.

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, 2009 and 2008**

Subsequent Events

Subsequent events have been evaluated through November 5, 2009, which is the date the financial statements were available to be issued.

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 57% and 56% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2009 and 2008, 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, 2009 and 2008. The Hospital's deposits in banks at June 30, 2009 and 2008 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, 2009 and 2008

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, 2009 and 2008.

Summary of Carrying Value

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

	2009	2008
Deposits	\$ 2,563,730	\$ 2,703,380
Included in the following balance sheet captions		
Cash	\$ 2,375,832	\$ 2,437,342
Noncurrent cash	187,898	266,038
	\$ 2,563,730	\$ 2,703,380

Investment Income

Investment income for the years ended June 30, 2009 and 2008 consisted of:

	2009	2008
Interest	\$ 46,555	\$ 99,564
Return on other investments	(15,055)	(52,840)
Total investment income	\$ 31,500	\$ 46,724

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

Note 4: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2009 and 2008 was:

2009	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Land and improvements	\$ 477,566				\$ 477,566
Building and improvements	12,808,774	\$ 16,968		\$ 2,305,594	15,131,336
Fixed equipment	1,646,969	108,729	\$ 50,635		1,705,063
Major moveable equipment	5,783,242	369,208	351,837	106,298	5,906,911
Construction in progress	1,001,164	1,423,707		(2,411,892)	12,979
	<u>21,717,715</u>	<u>1,918,612</u>	<u>402,472</u>	<u>-</u>	<u>23,233,855</u>
Less accumulated depreciation					
Land improvements	308,046	17,488			325,534
Building and improvements	4,901,908	548,507			5,450,415
Fixed equipment	1,094,419	102,858	50,635		1,146,642
Major moveable equipment	3,812,809	775,383	351,841		4,236,351
Total accumulated depreciation	<u>10,117,182</u>	<u>1,444,236</u>	<u>402,476</u>		<u>11,158,942</u>
Capital assets, net	<u>\$ 11,600,533</u>	<u>\$ 474,376</u>	<u>\$ (4)</u>	<u>\$ -</u>	<u>\$ 12,074,913</u>
2008	Balance June 30, 2007	Additions	Retirements	Transfers	Balance June 30, 2008
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>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

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 year ended June 30, 2008:

	2008
Beginning balance	\$ -
Additions	2,000,000
Deductions	-
Ending balance	\$ 2,000,000

In 2009, the Hospital borrowed an additional \$500,000 on the line of credit. Subsequent to June 30, 2009, the line of credit was converted to a long-term note payable. See note 6 below for changes to the line of credit in 2009.

Note 6: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2009 and 2008 follows:

	Balance June 30, 2008	Additions/ Conversions	Reductions	Balance June 30, 2009	Amounts Due Within One Year
2009					
Note payable to bank (A)	\$ -	\$ 1,000,000	\$ -	1,000,000	\$ 55,000
Note payable to bank (B)	-	1,500,000	-	1,500,000	75,000
Capital lease obligation (C)	158,177	-	55,779	102,398	62,508
	\$ 158,177	\$ 2,500,000	\$ 55,779	\$ 2,602,398	\$ 192,508
	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
2008					
Capital lease obligation (C)	\$ 207,951	\$ -	\$ 49,774	\$ 158,177	\$ 55,779

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

- (A) Note payable to bank due August 2019 with principal payable bi-annually in the amount of \$55,000 each payment and variable interest at 5.5% payable monthly. The interest rate is based on a base rate tied to the Wall Street Journal Prime Rate. The rate will not change more often than each 60 months. The note is unsecured. The Hospital drew an additional \$100,000 after June 30, 2009.
- (B) Note payable to bank is due August 2014 with principal payable bi-annually in the amount of \$75,000 and interest at 6.39% payable monthly. A final balloon payment, including principal and interest of \$828,929 is due August 2014. The note is unsecured.
- (C) The Hospital is obligated under a lease for equipment that is accounted for as a capital lease, which expires in 2011. Assets under capital lease at June 30, 2009 and 2008, totaled \$86,133 and \$140,533, net of accumulated depreciation of \$185,867 and \$131,467, respectively. Interest is at 11.4%.

Scheduled principal and interest repayments on long-term debt are as follows:

	Long-term Debt		Capital Lease Obligation	
	Principal	Interest	Principal	Interest
2010	\$ 130,000	\$ 126,626	\$ 62,508	\$ 8,508
2011	260,000	126,646	39,890	1,536
2012	260,000	112,609	-	-
2013	260,000	97,983	-	-
2014	260,000	83,652	-	-
2015-2019	1,430,000	91,159	-	-
	<u>\$ 2,600,000</u>	<u>\$ 638,675</u>	<u>\$ 102,398</u>	<u>\$ 10,044</u>

Subsequent to June 30, 2009, the Hospital drew an additional \$100,000 on the line of credit prior to the conversion of the line of credit to two long-term notes payable. See (A) and (B) above. The following is a reconciliation of the total maturities of the notes payable to the amount presented on the balance sheet at June 30, 2009.

	2009
Notes payable at June 30, 2009	\$ 2,500,000
Subsequent draw on line of credit prior to refinancing	100,000
Total maturities of long-term debt	<u>\$ 2,600,000</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

Note 7: Operating Leases

Noncancellable operating lease for equipment expires in 2013.

Future minimum lease payments at June 30, 2009, were:

2010	\$ 141,251
2011	141,251
2012	141,251
2013	<u>70,626</u>
Future minimum lease payments	<u><u>\$ 494,379</u></u>

Rental expense for all operating leases totaled \$218,092 and \$226,267 for 2009 and 2008, respectively.

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 4.1% and 3.9% of their annual covered salary and the Hospital is required to contribute 6.35% and 6.05% of annual covered payroll for 2009 and 2008. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$482,377, \$434,099, \$368,613, respectively, which equaled the required contributions for each year. State law limits the Hospital's contribution rate to a maximum of 6.35% of annual covered salary for 2009.

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

Notes to Financial Statements

June 30, 2009 and 2008

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, 2009 and 2008 consisted of:

	2009	2008
Medicare	\$ 862,493	\$ 1,055,242
Medicaid	121,863	101,778
Third-party payers	790,843	891,070
Patients	1,976,226	2,199,852
Clinics	279,695	351,119
Total	4,031,120	4,599,061
Less allowance for uncollectible accounts	1,384,200	1,555,149
Patient accounts receivable, net	\$ 2,646,920	\$ 3,043,912

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 2009 and 2008 is summarized as follows:

	2009	2008
Balance, beginning of year	\$ 336,000	\$ 230,000
Current year claims and changes in estimates	2,232,408	2,122,191
Claim payments	(2,166,088)	(2,016,191)
Balance, end of year	\$ 402,320	\$ 336,000

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008**

Note 11: Construction in Progress

The Hospital, at June 30, 2009, had \$12,979 in construction in progress related to a new computer system for the Hospital. The estimated cost to complete the project is \$259,493 to be funded by assets of the Hospital.

Note 12: Budget and Budgetary Accounting

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

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget of the Hospital for the year ended June 30, 2009:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Other revenues/receipts	\$ 21,305,517	\$ (122,577)	\$ 21,182,940	\$ 23,909,500
Expenses/disbursements	<u>20,821,617</u>	<u>569,773</u>	<u>21,391,390</u>	<u>25,094,700</u>
	483,900	(692,350)	(208,450)	(1,185,200)
Balance, beginning of year	<u>14,908,696</u>	<u>(11,968,123)</u>	<u>2,940,573</u>	<u>2,940,573</u>
Balance, end of year	<u><u>\$ 15,392,596</u></u>	<u><u>\$ (12,660,473)</u></u>	<u><u>\$ 2,732,123</u></u>	<u><u>\$ 1,755,373</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, 2009 and 2008.

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Notes to Financial Statements
June 30, 2009 and 2008

Note 14: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the rising unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets recorded in the financial statements could change, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Hospital.

Supplementary Information

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet
June 30, 2009**

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 2,270,042	\$ 105,790		\$ 2,375,832
Patient accounts receivable, net of allowance of \$1,384,200	2,646,920			2,646,920
Other receivables	61,530			61,530
Estimated amounts due from third-party payers	1,363,000			1,363,000
Supplies	521,095			521,095
Prepaid expenses	100,444			100,444
	<u>6,963,031</u>	<u>105,790</u>		<u>7,068,821</u>
Noncurrent Cash				
Internally designated for capital and other expenditures	187,898			187,898
	<u>187,898</u>			<u>187,898</u>
Capital Assets, Net of Accumulated Depreciation				
	11,527,120	547,793		12,074,913
	<u>11,527,120</u>	<u>547,793</u>		<u>12,074,913</u>
Other Assets				
Investments	821,976		\$ (653,583)	168,393
	<u>821,976</u>		<u>\$ (653,583)</u>	<u>168,393</u>
Total Assets	<u>\$ 19,500,025</u>	<u>\$ 653,583</u>	<u>\$ (653,583)</u>	<u>\$ 19,500,025</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Consolidating Balance Sheet (Continued)
June 30, 2009**

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 192,508			\$ 192,508
Accounts payable	386,863			386,863
Accrued expenses				
Vacation pay	486,263			486,263
Payroll and related deductions	229,585			229,585
Health insurance	<u>402,320</u>			<u>402,320</u>
Total current liabilities	1,697,539			1,697,539
Long-term Debt	<u>2,409,890</u>			<u>2,409,890</u>
Total liabilities	<u>4,107,429</u>			<u>4,107,429</u>
Net Assets				
Invested in capital assets, net of related debt	8,927,097	\$ 547,793		9,474,890
Unrestricted	<u>6,465,499</u>	<u>105,790</u>	<u>\$ (653,583)</u>	<u>5,917,706</u>
Total net assets	<u>15,392,596</u>	<u>653,583</u>	<u>(653,583)</u>	<u>15,392,596</u>
Total Liabilities and Net Assets	<u>\$ 19,500,025</u>	<u>\$ 653,583</u>	<u>\$ (653,583)</u>	<u>\$ 19,500,025</u>

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

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
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>
Noncurrent Cash				
Internally designated for capital and other expenditures	266,038			266,038
	<u>266,038</u>			<u>266,038</u>
Capital Assets, Net of Accumulated Depreciation				
	<u>11,042,065</u>	<u>558,468</u>		<u>11,600,533</u>
Other Assets				
Investments	812,379		\$ (575,186)	237,193
	<u>812,379</u>		<u>\$ (575,186)</u>	<u>237,193</u>
Total Assets	<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

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
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	336,000			336,000
	<hr/>			<hr/>
Total current liabilities	3,628,740			3,628,740
Long-term Debt	<u>102,398</u>			<u>102,398</u>
	<hr/>			<hr/>
Total liabilities	<u>3,731,138</u>			<u>3,731,138</u>
Net Assets				
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>
	<hr/>			<hr/>
Total net assets	<u>14,908,696</u>	<u>575,186</u>	<u>(575,186)</u>	<u>14,908,696</u>
	<hr/>			<hr/>
Total Liabilities and Net Assets	<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 Statement of Revenues, Expenses
and Changes in Net Assets
Year Ended June 30, 2009

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 21,706,405			\$ 21,706,405
Less provision for uncollectible accounts	924,677			924,677
Net patient service revenue	20,781,728			20,781,728
Other revenues	407,398	\$ 214,365	\$ (73,896)	547,867
Total operating revenues	21,189,126	214,365	(73,896)	21,329,595
Operating Expenses				
Salaries and wages	7,607,486			7,607,486
Employee benefits	3,440,134			3,440,134
Medical professional fees	3,465,580			3,465,580
Supplies and expenses	2,522,012			2,522,012
General services	895,782	60,708	(73,896)	882,594
Administrative services	1,312,564	24,001		1,336,565
Depreciation	1,422,393	21,843		1,444,236
Total operating expenses	20,665,951	106,552	(73,896)	20,698,607
Operating Income	523,175	107,813	-	630,988
Nonoperating Revenues (Expenses)				
Investment income	109,443	454	(78,397)	31,500
Contributions	6,948			6,948
Interest expense	(155,666)			(155,666)
Income taxes – Aesculapius		(29,870)		(29,870)
Total nonoperating revenues (expenses)	(39,275)	(29,416)	(78,397)	(147,088)
Increase (Decrease) in Net Assets	483,900	78,397	(78,397)	483,900
Net Assets, Beginning of the Year	14,908,696	575,186	(575,186)	14,908,696
Net Assets, End of the Year	\$ 15,392,596	\$ 653,583	\$ (653,583)	\$ 15,392,596

**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, 2008**

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
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>
Operating Expenses				
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>
Operating Income	<u>937,411</u>	<u>108,153</u>	<u>13,331</u>	<u>1,058,895</u>
Nonoperating Revenues (Expenses)				
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>
Increase (Decrease) in Net Assets	998,282	81,669	(81,669)	998,282
Net Assets, Beginning of the Year	13,910,414	588,517	(588,517)	13,910,414
Dividends Paid		<u>(95,000)</u>	<u>95,000</u>	<u>-</u>
Net Assets, End of the Year	<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
Schedules of Patient Service Revenues – Hospital
Years Ended June 30, 2009 and 2008**

	2009			2008		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 3,161,615	\$ 3,161,615		\$ 3,324,325	\$ 3,324,325	
Nursery	158,157	158,157		107,041	107,041	
	<u>3,319,772</u>	<u>3,319,772</u>		<u>3,431,366</u>	<u>3,431,366</u>	
Other Nursing Services						
Operating room	2,486,396	855,264	\$ 1,631,132	2,172,389	448,635	\$ 1,723,754
Recovery room	278,694	43,875	234,819	253,952	34,433	219,519
Delivery room	155,301	95,016	60,285	118,300	77,568	40,732
Emergency room	3,315,879	62,362	3,253,517	3,447,448	160,449	3,286,999
	<u>6,236,270</u>	<u>1,056,517</u>	<u>5,179,753</u>	<u>5,992,089</u>	<u>721,085</u>	<u>5,271,004</u>
Other Professional Services						
Central service and supply	340,076	137,344	202,732	348,526	125,187	223,339
Laboratory	5,523,579	730,285	4,793,294	5,317,110	771,969	4,545,141
Blood	177,277	72,844	104,433	193,777	73,584	120,193
Radiology	1,644,210	70,777	1,573,433	1,506,571	95,381	1,411,190
Electrocardiology	617,889	51,390	566,499	711,189	53,821	657,368
Ultrasound	313,293	15,375	297,918	303,721	18,556	285,165
Nuclear medicine	227,369	12,814	214,555	186,314	19,375	166,939
CT Scan	2,404,007	310,448	2,093,559	2,108,930	289,708	1,819,222
MRI	911,281	79,430	831,851	999,899	73,013	926,886
Pharmacy	1,525,786	698,377	827,409	1,937,576	773,812	1,163,764
Intravenous therapy	601,520	414,121	187,399	559,361	378,947	180,414
Respiratory therapy	1,153,585	494,904	658,681	1,269,764	534,743	735,021
Physical therapy	1,676,808	660,731	1,016,077	1,684,397	644,393	1,040,004
Occupational therapy	269,842	143,127	126,715	243,000	114,012	128,988
Speech pathology	297,128	26,494	270,634	296,110	31,408	264,702
Anesthesia	318,413	54,775	263,638	313,368	39,257	274,111
Medical clinic	145,264		145,264	145,233		145,233
Rural health clinic	1,094,156		1,094,156	1,045,164		1,045,164
CRNA services	586,446		586,446	719,580		719,580
	<u>19,827,929</u>	<u>3,973,236</u>	<u>15,854,693</u>	<u>19,889,590</u>	<u>4,037,166</u>	<u>15,852,424</u>
Patient Service Revenue	29,383,971	<u>\$ 8,349,525</u>	<u>\$ 21,034,446</u>	29,313,045	<u>\$ 8,189,617</u>	<u>\$ 21,123,428</u>
Contractual Allowance	<u>(7,677,566)</u>			<u>(8,481,653)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	21,706,405			20,831,392		
Provision for Uncollectible Accounts	<u>(924,677)</u>			<u>(873,864)</u>		
Net Patient Service Revenue	<u>\$ 20,781,728</u>			<u>\$ 19,957,528</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, 2009 and 2008**

	<u>2009</u>	<u>2008</u>
Cafeteria	\$ 173,475	\$ 171,722
Specialty clinics	152,855	134,744
Office rental	18,937	27,580
Registration fees	5,671	5,731
Medical records transcripts	12,951	10,737
Other	<u>43,509</u>	<u>30,670</u>
	<u>\$ 407,398</u>	<u>\$ 381,184</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2009 and 2008**

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 524,935	\$ 364,421	\$ 160,514	\$ 504,784	\$ 353,349	\$ 151,435
Routine care	2,963,037	1,989,969	973,068	2,718,531	1,812,471	906,060
Nursery	75,750	52,866	22,884	67,663	48,925	18,738
Operating room	1,108,182	383,931	724,251	1,006,519	364,718	641,801
Delivery room	63,555	44,211	19,344	32,013	23,514	8,499
Emergency room	1,734,583	636,135	1,098,448	1,690,343	639,541	1,050,802
	<u>6,470,042</u>	<u>3,471,533</u>	<u>2,998,509</u>	<u>6,019,853</u>	<u>3,242,518</u>	<u>2,777,335</u>
Other Professional Services						
Central service and supply	239,002	70,577	168,425	220,023	68,638	151,385
Laboratory	1,264,434	478,021	786,413	1,192,590	452,217	740,373
Radiology	888,773	458,312	430,461	813,582	443,828	369,754
Electrocardiology	126,481	54,943	71,538	137,761	57,906	79,855
Nuclear medicine	68,025		68,025	73,281		73,281
Pharmacy	987,219	85,284	901,935	884,346	91,123	793,223
Intravenous therapy	309		309	23,825		23,825
Respiratory therapy	319,040		319,040	342,866		342,866
Physical therapy	731,266		731,266	732,248		732,248
Occupational therapy	84,619		84,619	78,369		78,369
Speech pathology	203,919	158,533	45,386	184,169	143,233	40,936
CT Scan	351,161		351,161	387,779		387,779
Medical clinic	178,151	61,085	117,066	177,846	59,876	117,970
Rural health clinic	1,140,589	411,178	729,411	1,101,408	382,626	718,782
Sleep studies	50,765		50,765	65,425		65,425
CRNA services	459,961		459,961	495,614		495,614
	<u>7,093,714</u>	<u>1,777,933</u>	<u>5,315,781</u>	<u>6,911,132</u>	<u>1,699,447</u>	<u>5,211,685</u>

(Continued)

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2009 and 2008**

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
General Services						
Dietary	\$ 889,111	\$ 459,180	\$ 429,931	\$ 882,825	\$ 453,590	\$ 429,235.
Operation of plant	709,213	180,819	528,394	681,823	178,835	502,988
Housekeeping	502,292	307,309	194,983	463,906	281,490	182,416
Laundry	99,091	13,622	85,469	106,012	13,781	92,231
	<u>2,199,707</u>	<u>960,930</u>	<u>1,238,777</u>	<u>2,134,566</u>	<u>927,696</u>	<u>1,206,870</u>
Administrative Services						
Medical records	433,615	249,040	184,575	393,776	237,751	156,025
Administration	2,713,340	1,003,597	1,709,743	2,515,160	939,424	1,575,736
Purchasing	134,734	79,737	54,997	142,476	77,050	65,426
Personnel	97,605	64,716	32,889	93,508	61,657	31,851
Insurance	100,801		100,801	114,805		114,805
	<u>3,480,095</u>	<u>1,397,090</u>	<u>2,083,005</u>	<u>3,259,725</u>	<u>1,315,882</u>	<u>1,943,843</u>
Depreciation	<u>1,422,393</u>		<u>1,422,393</u>	<u>1,076,025</u>		<u>1,076,025</u>
	<u>\$ 20,665,951</u>	<u>\$ 7,607,486</u>	<u>\$ 13,058,465</u>	<u>\$ 19,401,301</u>	<u>\$ 7,185,543</u>	<u>\$ 12,215,758</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, 2009 and 2008**

Schedules of Patient Receivables

	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Days Since Discharge				
0-30	\$ 2,250,299	\$ 2,343,514	48.98%	45.99%
31-60	540,741	712,660	11.77%	13.99%
61-90	245,751	258,841	5.35%	5.08%
91-120	147,641	181,164	3.21%	3.56%
121-150	121,565	192,191	2.65%	3.77%
151 and over	1,288,018	1,407,023	28.04%	27.61%
	<u>4,594,015</u>	<u>5,095,393</u>	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>336,395</u>	<u>448,119</u>		
	<u>4,930,410</u>	<u>5,543,512</u>		
Less				
Contractual allowances	899,290	944,451		
Allowance for uncollectible accounts	<u>1,384,200</u>	<u>1,555,149</u>		
	<u>2,283,490</u>	<u>2,499,600</u>		
	<u>\$ 2,646,920</u>	<u>\$ 3,043,912</u>		

Allowance for Uncollectible Accounts

	<u>2009</u>	<u>2008</u>
Balance, beginning of year	\$ 1,555,149	\$ 1,555,000
Provision for year	924,677	873,864
Recoveries of accounts previously written off	139,449	171,253
	<u>2,619,275</u>	<u>2,600,117</u>
Less accounts written off	<u>1,235,075</u>	<u>1,044,968</u>
Balance, end of year	<u>\$ 1,384,200</u>	<u>\$ 1,555,149</u>

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Noncurrent Cash Transactions – Hospital
Years Ended June 30, 2009 and 2008**

	Total
Balance, July 1, 2007	\$ 892,658
Deposits	3,679,203
Withdrawals	(4,305,823)
Balance, June 30, 2008	266,038
Deposits	1,901,802
Withdrawals	(1,979,942)
Balance, June 30, 2009	\$ 187,898

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

**Schedule of Officials – Hospital
Year Ended June 30, 2009**

Name	Title	Term Expires
Board of Commissioners		
Mike Marth	Chairman	2011
James Moon	Secretary	2009
Ross Enabnit	Treasurer	2009
Myrna Jakoubek	Member	2011
Joe Nettleton	Member	2010
Hospital Officials		
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, 2009 and 2008

	2009	2008
Patient Days (Exclusive of Swing-bed)		
Medicare	1,491	1,863
Medicaid	201	230
Private and other	663	591
	2,355	2,684
Medicare and Medicaid Percent	71.8%	78.0%
Percent of Occupancy (Exclusive of Swing-bed)	26%	29%
Discharges (Exclusive of Swing-bed)		
Medicare	496	557
Medicaid	82	77
Private and other	213	228
	791	862
Average Length of Stay in Days	3.0	3.1

Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedules of Supplies and Prepaid Expense – Hospital
Years Ended June 30, 2009 and 2008

	2009	2008
Supplies		
Storeroom	\$ 155,374	\$ 151,168
Pharmacy	149,007	140,911
Surgery	207,813	182,343
Dietary	8,901	11,364
	\$ 521,095	\$ 485,786
 Prepaid Expense		
Insurance	\$ 32,412	\$ 39,385
Maintenance contracts	46,731	48,642
Memberships and dues	14,765	14,231
Workers' compensation insurance	6,536	6,032
	\$ 100,444	\$ 108,290

**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, 2009 and have issued our report thereon dated November 5, 2009. 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, 2009 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, 2009. 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, 2009.

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, 2009 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
Page 4

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 counsel 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 5, 2009.

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 5, 2009

**Floyd County Memorial Hospital
d/b/a Floyd County Medical Center
Schedule of Findings and Responses
Year Ended June 30, 2009**

**Reference
Number**

Finding

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 as of and for the year ended June 30, 2009, 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 control 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 2008 audit engagement in a letter dated November 12, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Other 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.

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.

Inventory of Capital Assets

During the course of performing the audit, we noted a physical count of capital assets had not been performed. We recommend management perform an inventory of capital assets on a periodic basis to ensure Hospital records are consistent with assets currently in use.

Current Economic Environment

The current economic environment has created unprecedented circumstances and challenges for the health care industry. As a result, hospitals are facing declines in contributions, constraints on

liquidity and difficulty obtaining financing. The values of the assets and liabilities recorded in the financial statements could change, resulting in future adjustments to the allowance for accounts receivable, etc. that could negatively impact the Hospital.

Now, more than ever, we recommend that management and the Board of Commissioners vigilantly monitor and aggressively manage all of these matters.

* * * * *

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 5, 2009