

Hamilton County Public Hospital

Accountants' Report and Financial Statements

June 30, 2009 and 2008



Hamilton County Public Hospital

June 30, 2009 and 2008

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the accompanying balance sheets of Hamilton County Public Hospital, as of June 30, 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 Hamilton County Public Hospital 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 October 19, 2009 on our consideration of Hamilton County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

/s/ BKD, LLP

Kansas City, Missouri
October 19, 2009

Hamilton County Public Hospital

Management's Discussion and Analysis

Years Ended June 30, 2009 and 2008

Introduction

This management's discussion and analysis of the financial performance of Hamilton County Public Hospital provides an overview of the Hospital's financial activities for the years ended June 30, 2009 and 2008. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents increased in 2009 by \$12,347,677 and increased in 2008 by \$2,585,292.
- The Hospital's net assets increased in 2009 by \$10,567,759 or 53% and increased in 2008 by \$845,828 or 4%.
- The Hospital reported an operating loss in 2009 of \$411,165 and an operating income in 2008 of \$13,812.
- Net nonoperating revenues decreased in 2009 by \$180,048 or 22% compared to 2008, which decreased by \$85,627 or 9%.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

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

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$10,567,759 or 53% in 2009 over 2008 and \$845,828 or 4% in 2008 over 2007.

Table 1: Assets, Liabilities and Net Assets

	2009	2008	2007
Assets			
Patient accounts receivable, net	\$ 3,741,150	\$ 3,634,518	\$ 3,887,174
Other current assets	9,202,177	12,630,981	11,135,523
Capital assets, net	8,777,835	4,611,879	5,054,744
Noncurrent cash and deposits	33,832,670	840,845	794,261
Total assets	<u>\$ 55,553,832</u>	<u>\$ 21,718,223</u>	<u>\$ 20,871,702</u>
Liabilities			
Current liabilities	\$ 3,162,516	\$ 1,714,666	\$ 1,713,973
Long-term debt	21,820,000	-	-
Total liabilities	<u>24,982,516</u>	<u>1,714,666</u>	<u>1,713,973</u>
Net Assets			
Invested in capital assets	6,666,106	4,611,879	5,054,744
Restricted - expendable	12,685,609	3,120	-
Unrestricted	11,219,601	15,388,558	14,102,985
Total net assets	<u>30,571,316</u>	<u>20,003,557</u>	<u>19,157,729</u>
Total liabilities and net assets	<u>\$ 55,553,832</u>	<u>\$ 21,718,223</u>	<u>\$ 20,871,702</u>

In 2009, other current assets decreased by \$3,428,804 or 27.1% in 2009 over 2008 due to the transferring of cash and current investments to restricted cash and investments in anticipation of the purchase of a new computer software system and the Hospital's share of the building project. Total amount transferred to restricted funds was \$4,300,000.

Capital assets increased \$4,165,956 or 90.3% in 2009 over 2008 mostly due to the start of a replacement hospital construction project, which is not due to be put into service until August of 2010. Costs in construction in progress were \$5,513,338 at year end.

Non Current cash and deposits increased \$32,991,825 in 2009 over 2008 due to the replacement hospital project. A total of \$32,199,032 of non-current cash and deposits is held under a loan agreement with the Hamilton County Board of Supervisors for the building project.

Total liabilities increased \$23,267,850 in 2009 over 2008 due to the replacement hospital project. A total of \$21,820,000 was incurred as long term debt with Hamilton County. The County sold General Obligation bonds for the Hospital, under a reverse referendum. The County loaned the proceeds of the bond sale to the Hospital.

Net assets increased \$10,567,759 or 53% in 2009 over 2008 due to the cash gift of \$10,000,000 to the Hospital during the year for the replacement hospital project.

In 2008, net patient accounts receivable decreased by \$252,656 or 6% in 2008 over 2007 due to stabilization of staffing levels in transcription and coding over the prior year. Staffing levels were back to normal in early fiscal year 2008 leading to the cleanup of the backlog of accounts receivable.

Other current assets increased by \$1,495,458 or 13% in 2008 over 2007 due in part to an increase in cash and cash equivalents, caused by an increase in collections of accounts receivable accounts and a slight slow down of capital expenditures.

Operating Results

In 2009, the Hospital's Increase in Net Assets was \$10,567,759 compared to the Increase in Net Assets of \$845,828 in 2008 as shown in Table 2.

Table 2: Operating Results and Changes in Net Assets

	2009	2008	2007
Operating Revenues			
Net patient service revenue	\$ 18,305,746	\$ 16,857,951	\$ 15,872,056
Other operating revenues	<u>194,022</u>	<u>192,739</u>	<u>167,513</u>
Total operating revenues	<u>18,499,768</u>	<u>17,050,690</u>	<u>16,039,569</u>
Operating Expenses			
Salaries, wages and employee benefits	9,958,790	8,895,621	8,809,662
Medical supplies, professional fees and other	5,054,064	4,918,523	4,093,915
Depreciation	1,576,906	1,001,189	1,052,256
Other operating expenses	<u>2,321,173</u>	<u>2,221,545</u>	<u>2,173,458</u>
Total operating expenses	<u>18,910,933</u>	<u>17,036,878</u>	<u>16,129,291</u>
Operating Income (Loss)	<u>(411,165)</u>	<u>13,812</u>	<u>(89,722)</u>
Nonoperating Revenues (Expense)			
Property taxes	505,046	505,666	521,718
Interest income	162,939	282,218	392,210
Other	<u>(16,017)</u>	<u>44,132</u>	<u>3,715</u>
Total nonoperating revenues	<u>651,968</u>	<u>832,016</u>	<u>917,643</u>
Excess of Revenues over Expenses Before Capital Grants, Contributions and Related Earnings	240,803	845,828	827,921
Capital Grants, Contributions and Related Earnings	<u>10,326,956</u>	<u>-</u>	<u>-</u>
Increase in Net Assets	<u>\$ 10,567,759</u>	<u>\$ 845,828</u>	<u>\$ 827,921</u>

Operating Income/Losses

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2009, the Hospital reported an operating loss of \$411,165 compared to a gain of \$13,812 in 2008 and a loss of \$89,722 in 2007. In 2008, the Hospital reported an operating income and in 2007 the Hospital reported an operating loss. The Hospital was formed and is operated primarily to serve residents of Hamilton County and the surrounding area. The Hospital is a critical access hospital (CAH), which allows the Hospital to receive reimbursement based on cost for Medicare and Medicaid program beneficiaries. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

In 2009 the primary components resulting in an operating loss were:

- Net patient service revenue increased by \$1,447,795 or 8.6%, caused by an increase in outpatient visits of 11.56%. Inpatient days increased by 3.06%.
- Operating expenses increased by \$1,874,055 or 11%. This increase was mainly due to an increase in depreciation expense for accelerated depreciation of assets relating to the Hospital replacement project. A total of \$630,533 in additional depreciation expense was taken. Also, additional bad debt expense of \$283,000 was taken due to an increase in uncollectible accounts.

The operating income for 2008 was \$13,812 compared to a loss of \$89,722 in 2007. The primary components resulting in operating income in 2008 were:

- Net patient service revenue increased by \$985,895 or 6%, caused by an increase in outpatient emergency room, ancillary and clinic visits of 20.5%. Offsetting the increase in outpatient revenue was a decrease in inpatient days of 7%, resulting in a decrease in inpatient revenue. Surgery revenue remained fairly steady as the Hospital continued to operate without a dedicated surgeon.
- Operating expenses increased by \$907,587 or 6%. This increase was mainly due to an increase in use of contracted staff due to shortages of RN staff. This expense increased 30% and is offset by lower salaries and wages expense.

Nonoperating Revenues and Expenses and Capital Grants, Contributions and Related Earnings

- Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital and interest income, all of which remained relatively constant in 2009 compared to 2008 and in 2008 as compared to 2007. In 2009, the Hospital received \$10,000,000 in cash from a single donor with the request to use it to build a new replacement Hospital.
- In 2008, the Hospital received \$109,992 or 28% less in investment income due to decreases in interest rates for the invested certificates of deposit.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating and nonoperating revenues and expenses. It is also noted that cash provided by operating activities in 2009 was \$1,311,169 compared to \$1,523,663 in 2008.

Capital Asset and Debt Administration

Capital Assets

At the end of 2009, the Hospital had \$8,777,835 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$4,611,879 in 2008. The capital assets increased due to the building project.

At the end of 2008, the Hospital had \$4,611,879 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements compared to \$5,054,744 in 2007. In 2008, the Hospital acquired new capital assets with a purchase cost totaling \$562,173. No new equipment was acquired through incursion of capital lease obligations.

Debt

- At June 30, 2009, the Hospital incurred new debt in the amount of \$21,820,000. Previously the Hospital had no new debt in 2008 or 2007.

Factors Bearing on Hamilton County Public Hospital's Future

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

- At the first part of the fiscal year ending June 30, 2010, a local clinic recruited and hired an OB/GYN to its staff. Recruitment efforts continue for General practice physicians, as there continues to be a shortage in the area.
- During the year ended June 30, 2009, the Hospital settled its labor contract with the Iowa Nurses Association and the Public Professional and Maintenance Employees. These agreements will expire in 2010 for patient care and support employees.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 515.832.9400.

Hamilton County Public Hospital
Balance Sheets
June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Current Assets		
Cash and cash equivalents	\$ 5,658,185	\$ 7,011,356
Short-term certificates of deposit	1,050,000	4,175,000
Restricted cash-capital asseets/debt service	1,090,711	-
Patient accounts receivable, net of allowance; 2009 - \$715,264, 2008 - \$706,033	3,741,150	3,634,518
Estimated amounts due from third-party payers	-	102,000
Property tax receivable	510,567	511,427
Other receivables	34,833	90,163
Supplies	619,224	579,373
Prepaid expenses and other	<u>238,657</u>	<u>161,662</u>
Total current assets	<u>12,943,327</u>	<u>16,265,499</u>
Noncurrent Cash, Deposits, and Investments		
Internally designated	1,300,000	837,725
Externally restricted		
Donors	-	3,120
Held under loan agreement	<u>32,199,032</u>	<u>-</u>
	<u>33,499,032</u>	<u>840,845</u>
Capital Assets, Net of Accumulated Depreciation	<u>8,777,835</u>	<u>4,611,879</u>
Other Assets		
Deferred financing costs	<u>333,638</u>	<u>-</u>
Total assets	<u>\$ 55,553,832</u>	<u>\$ 21,718,223</u>

Liabilities and Net Assets

	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts payable	\$ 312,550	\$ 413,703
Accounts payable - capital assets	1,190,445	-
Estimated amounts due from third-party payers	217,999	-
Accrued interest	39,056	-
Accrued expenses	897,761	795,678
Deferred property tax revenue	504,705	505,285
	<hr/>	<hr/>
Total current liabilities	3,162,516	1,714,666
Long-term Debt	<u>21,820,000</u>	<u>-</u>
	<hr/>	<hr/>
Total liabilities	24,982,516	1,714,666
Net Assets		
Invested in capital assets, net of related debt	6,666,106	4,611,879
Restricted - expendable for		
Capital assets	10,830,409	3,120
Debt service	1,855,200	-
Unrestricted	11,219,601	15,388,558
	<hr/>	<hr/>
Total net assets	30,571,316	20,003,557
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 55,553,832</u>	<u>\$ 21,718,223</u>

Hamilton County Public Hospital
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	\$ 19,529,049	\$ 17,538,042
Provision for uncollectible accounts	<u>(1,223,303)</u>	<u>(680,091)</u>
Net patient service revenue	18,305,746	16,857,951
Other	<u>194,022</u>	<u>192,739</u>
 Total operating revenues	 <u>18,499,768</u>	 <u>17,050,690</u>
Operating Expenses		
Salaries and wages	7,868,691	6,984,497
Employee benefits	2,090,099	1,911,124
Medical professional fees	2,703,238	2,783,883
Supplies and other	2,350,826	2,134,640
Administrative services	987,490	917,137
General services	969,716	938,166
Depreciation	1,576,906	1,001,189
Insurance	<u>363,967</u>	<u>366,242</u>
 Total operating expenses	 <u>18,910,933</u>	 <u>17,036,878</u>
Operating Income (Loss)	<u>(411,165)</u>	<u>13,812</u>
Nonoperating Revenues (Expenses)		
Property taxes	505,046	505,666
Interest income	162,939	282,218
Other	21,896	25,744
Contributions and changes in Foundation net assets	<u>(37,913)</u>	<u>18,388</u>
 Total nonoperating revenues	 <u>651,968</u>	 <u>832,016</u>
Excess of Revenues over Expenses Before Capital Grants, Contributions and Related Earnings	 240,803	 845,828
Capital Grants, Contributions and Related Earnings	<u>10,326,956</u>	<u>-</u>
Increase in Net Assets	10,567,759	845,828
Net Assets, Beginning of Year	<u>20,003,557</u>	<u>19,157,729</u>
Net Assets, End of Year	<u>\$ 30,571,316</u>	<u>\$ 20,003,557</u>

Hamilton County Public Hospital
Statements of Cash Flows
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 18,519,113	\$ 17,175,607
Payments to suppliers and contractors	(7,593,236)	(6,968,872)
Payments to employees	(9,856,707)	(8,932,377)
Other receipts and payments, net	<u>241,999</u>	<u>249,305</u>
Net cash provided by operating activities	<u>1,311,169</u>	<u>1,523,663</u>
Noncapital Financing Activities		
Property taxes supporting operations	505,046	505,666
Other	21,896	25,744
Gifts and grants for other than capital purposes	<u>(37,913)</u>	<u>18,388</u>
Net cash provided by noncapital financing activities	<u>489,029</u>	<u>549,798</u>
Capital and Related Financing Activities		
Proceeds from capital debt	21,820,000	-
Proceeds from anticipation note	50,000	-
Payment on anticipation note	(50,000)	-
Deferred financing costs	(333,638)	-
Gifts and grants for capital purposes	10,326,956	-
Proceeds from sale of capital assets	16,876	4,800
Purchase of capital assets	<u>(4,522,604)</u>	<u>(562,173)</u>
Net cash provided by (used in) capital and related financing activities	<u>27,307,590</u>	<u>(557,373)</u>
Investing Activities		
Interest on deposits	162,939	282,218
(Increase) decrease in deposits and investments	<u>(16,923,050)</u>	<u>786,986</u>
Net cash provided by (used in) investing activities	<u>(16,760,111)</u>	<u>1,069,204</u>
Increase in Cash and Cash Equivalents	12,347,677	2,585,292
Cash and Cash Equivalents, Beginning of Year	<u>7,038,068</u>	<u>4,452,776</u>
Cash and Cash Equivalents, End of Year	<u>\$ 19,385,745</u>	<u>\$ 7,038,068</u>

Hamilton County Public Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Reconciliation of Cash and Cash Equivalents to the		
Balance Sheets		
Cash and cash equivalents	\$ 5,658,185	\$ 7,011,356
Restricted cash - capital assets/debt service	1,090,711	-
Cash in noncurrent cash and deposits		
Externally restricted	12,636,849	-
Internally designated	-	26,712
	<u> </u>	<u> </u>
	<u>\$ 19,385,745</u>	<u>\$ 7,038,068</u>
Reconciliation of Net Operating Revenues (Expenses)		
to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (411,165)	\$ 13,812
Depreciation	1,576,906	1,001,189
Gain on sale of capital assets	(7,633)	(951)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(106,632)	252,656
Estimated amounts due from and to third-party payers	319,999	65,000
Accounts payable and accrued expenses	930	1,446
Supplies	(39,851)	44,594
Prepaid expenses	(76,995)	88,400
Other assets and liabilities	55,610	57,517
	<u> </u>	<u> </u>
Net cash provided by operating activities	<u>\$ 1,311,169</u>	<u>\$ 1,523,663</u>
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	<u>\$ 1,190,445</u>	<u>\$ -</u>

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

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

Nature of Operations and Reporting Entity

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

The Hospital is the beneficiary of Hamilton County Hospital Foundation (Foundation), a separate legal entity with its own board of trustees. The Hospital is the sole member of the Foundation and approves appointments to the Foundation Board of Trustees. Thus, the Hospital is financially accountable for the Foundation. As a result, the Foundation is a component unit of the Hospital and is reflected in the accompanying financial statements using the blended method. In 2009, the Foundation was dissolved and all remaining assets were given to the Hospital.

Basis of Accounting and Presentation

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

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

Use of Estimates

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2009 and 2008, cash equivalents consisted primarily of money market accounts.

Property Taxes

The Hospital received approximately 3% of its financial support from property tax revenues for both the years ended June 30, 2009 and 2008, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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

Risk Management

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

Patient Accounts Receivable

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

Supplies

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Noncurrent Cash, Deposits and Investments

Noncurrent cash, deposits and investments include (1) assets restricted by donors, (2) assets restricted under a loan agreement, and (3) internally designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Such amounts include cash, certificates of deposit and a U.S. Treasury Bill.

Capital Assets

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

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

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. As of June 30, 2009, the Hospital had accrued interest costs of \$39,056 related to construction in progress.

Long-Lived Assets Accelerated Depreciation

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate of future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

At June 30, 2009, the capital assets associated with the Hospital's old facility were considered for impairment. Although the capital assets related to the old facility were not considered impaired, the capital assets remaining estimated useful lives and salvage values were reconsidered. Additional depreciation of \$630,523 was recognized for capital assets for the year ended June 30, 2009, based on assets that will be abandoned or otherwise not make the transition to the new facility which is planned for fall 2010. The loss results from a reduction in the estimated useful life of these assets and the related acceleration of depreciation expense. The total estimated loss at June 30, 2009 was approximately \$1,891,570, which is being recognized over the twenty-four month period from acceptance of the project to estimated completion. The loss is included in depreciation and amortization expense in the accompanying statement of revenue, expenses and changes in net assets.

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the bonds outstanding method.

Compensated Absences and Post-retirement Benefits

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

The Hospital has adopted the provisions of Governmental Accounting Standard No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As the Hospital does not provide such benefits, the new standard had no impact on the accompanying financial statements.

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

Net Patient Service Revenue

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

Charity Care

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$232,681 and \$232,240 for 2009 and 2008, respectively.

Income Taxes

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

Subsequent Events

Subsequent events have been evaluated through October 19, 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. Inpatient and outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Estimated settlements have been reflected in the accompanying financial statements.

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 49% and 47% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid Programs for the years ended June 30, 2009 and 2008, respectively. Laws and regulations governing Medicare and Medicaid Programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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 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.

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 investments in U.S. Treasury Bills at June 30, 2009 and no investments at June 30, 2008.

At June 30, 2009, the Hospital had the following investments and maturities:

Type	June 30, 2009				
	Fair Value	Maturities in Years			
		Less than 1	1-5	6-10	More than 10
U.S. Treasury Bills	\$ 15,702,084	\$ 15,702,084	\$ -	\$ -	\$ -

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy limits investments considered operating funds to maturities 397 days or less. Investments not considered operating funds may have maturities greater than 397 days but should be consistent with the needs and uses of the Hospital.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At June 30, 2009, the Hospital's investments in U.S. Treasury Bills are guaranteed by the U.S. Government.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2009 and 2008

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the Hospital's investments at June 30, 2009, are held by the third party custodians in the Hospital's name.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. At June 30, 2009, the Hospital's investment in U.S. Treasury Bills constituted 100% of its total investments.

Summary of Carrying Value

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

	2009	2008
Deposits	\$ 25,595,844	\$ 12,027,201
Investments	15,702,084	-
	\$ 41,297,928	\$ 12,027,201
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 5,658,185	\$ 7,011,356
Short-term certificates of deposit	1,050,000	4,175,000
Restricted cash - project fund	1,090,711	-
Noncurrent cash, deposits and investments - internally designated	1,300,000	837,725
Noncurrent cash, deposits and investments - externally restricted	32,199,032	3,120
	\$ 41,297,928	\$ 12,027,201

Deposit and Investment Income

Income on deposits and investments for the years ended June 30, 2009 and 2008 consisted of:

	2009	2008
Interest on deposits	\$ 162,939	\$ 282,218
Interest on restricted contributions	145,841	-
	\$ 308,780	\$ 282,218

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 4: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The mix of receivables from patients and third-party payers at June 30, 2009 and 2008 was:

	2009	2008
Medicare and Medicaid	\$ 1,175,910	\$ 1,034,064
Other third-party payers	787,967	913,307
Patients	2,460,172	2,347,722
Home care	31,549	44,519
ER physicians	816	939
	4,456,414	4,340,551
Less allowances for uncollectible accounts	715,264	706,033
	\$ 3,741,150	\$ 3,634,518

Note 5: Capital Assets

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

	2009				Ending
	Beginning	Additions	Disposals	Construction	Balance
	Balance			Transfers	
Land	\$ 224,092	\$ -	\$ -	\$ -	\$ 224,092
Land improvements	314,082	-	-	-	314,082
Buildings	5,208,003	-	3,183	-	5,204,820
Fixed equipment	3,362,467	5,075	2,837	-	3,364,705
Major movable equipment	7,659,558	420,135	575,154	142,537	7,647,076
Construction in progress	329,704	5,326,171	-	(142,537)	5,513,338
	17,097,906	5,751,381	581,174	-	22,268,113
Less accumulated depreciation					
Land improvements	237,769	28,798	-	-	266,567
Buildings	3,628,788	551,241	2,431	-	4,177,598
Fixed equipment	2,870,152	194,452	2,304	-	3,062,300
Major movable equipment	5,749,318	802,415	567,920	-	5,983,813
	12,486,027	1,576,906	572,655	-	13,490,278
Capital assets, net	\$ 4,611,879	\$ 4,174,475	\$ 8,519	\$ -	\$ 8,777,835

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

	Beginning Balance	2008			Ending Balance
		Additions	Disposals	Construction Transfers	
Land	\$ 224,092	\$ -	\$ -	\$ -	\$ 224,092
Land improvements	314,082	-	-	-	314,082
Buildings	5,193,795	7,725	1,790	8,273	5,208,003
Fixed equipment	3,377,970	-	15,503	-	3,362,467
Major movable equipment	7,663,081	213,439	300,183	83,221	7,659,558
Construction in progress	80,189	341,009	-	(91,494)	329,704
	<u>16,853,209</u>	<u>562,173</u>	<u>317,476</u>	<u>-</u>	<u>17,097,906</u>
Less accumulated depreciation					
Land improvements	225,552	12,217	-	-	237,769
Buildings	3,525,527	105,051	1,790	-	3,628,788
Fixed equipment	2,771,171	114,484	15,503	-	2,870,152
Major movable equipment	<u>5,276,215</u>	<u>769,437</u>	<u>296,334</u>	<u>-</u>	<u>5,749,318</u>
	<u>11,798,465</u>	<u>1,001,189</u>	<u>313,627</u>	<u>-</u>	<u>12,486,027</u>
Capital assets, net	<u>\$ 5,054,744</u>	<u>\$ (439,016)</u>	<u>\$ 3,849</u>	<u>\$ -</u>	<u>\$ 4,611,879</u>

Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the year ended June 30, 2009:

	2009				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Loan (A)	\$ -	\$ 21,820,000	\$ -	\$ 21,820,000	\$ -
Total long-term debt	<u>\$ -</u>	<u>\$ 21,820,000</u>	<u>\$ -</u>	<u>\$ 21,820,000</u>	<u>\$ -</u>

(A) Loan; \$21,820,000 maturing serially through June 2026 with semiannual interest payments at rates from 1.30% to 4.55%. The Hospital borrowed the funds from Hamilton County, Iowa who issued General Obligation Bonds. The payments by the Hospital mirror the payments on these bonds. The Loan is secured by net revenues of the Hospital.

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2009 and 2008

The Loan Resolution provides that a Debt Service Reserve fund be maintained in the amount of \$1,855,200. This amount is included in noncurrent cash, deposits, and investments. A fund has been established in the amount of \$906,428 from the proceeds of the debt for capitalized interest. The Loan Resolution also requires that payment be made into a sinking fund in sufficient amount to pay the principal and interest due on the bonds. Sinking fund deposits are not required until July 1, 2010 for principal payments and January 1, 2011 for interest payments.

Scheduled principal and interest payments on the Loan are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2010	\$ 723,688	\$ -	\$ 723,688
2011	1,854,365	1,110,000	744,365
2012	1,854,935	1,125,000	729,935
2013	1,851,935	1,140,000	711,935
2014	1,854,135	1,165,000	689,135
2015-2019	9,257,523	6,300,000	2,957,523
2020-2024	9,267,525	7,515,000	1,752,525
2025-2026	3,701,498	3,465,000	236,498
	<u>\$ 30,365,604</u>	<u>\$ 21,820,000</u>	<u>\$ 8,545,604</u>

The Hospital borrowed \$50,000 through an Anticipation note in 2009 and repaid within the same year.

Note 7: Medical Malpractice Claims

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

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 8: Restricted Net Assets

At June 30, 2009 and 2008, restricted expendable net assets were available for the following purposes:

	2009	2008
Capital assets	\$ 10,830,409	\$ 3,120
Debt service	1,855,200	-
	\$ 12,685,609	\$ 3,120

Note 9: Employee Health Claims

In 2007 and prior, substantially all of the Hospital's employees and their dependents were eligible to participate in the Hospital's employee health insurance plan. The Hospital was self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$35,000. Commercial stop-loss insurance coverage was purchased for claims in excess of the aggregate annual amount. A provision was accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual was estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. In 2007, the Hospital moved from a self-funded health insurance plan to a fully-funded plan. The Hospital continued to pay out claims related to the self-funded plan in 2008.

Activity in the Hospital's accrued employee health claims liability during 2009 and 2008 is summarized as follows:

	2009	2008
Balance, beginning of year	\$ 5,366	\$ 99,835
Current year claims incurred and changes in estimates for claims incurred in prior years	-	31,735
Claims and expenses paid	(5,366)	(126,204)
Balance, end of year	\$ -	\$ 5,366

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 10: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 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, respectively. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2009, 2008 and 2007 were \$474,232, \$414,337 and \$392,858, 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.

Note 11: Budget and Budgetary Accounting

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

Hamilton County Public Hospital
Notes to Financial Statements
June 30, 2009 and 2008

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

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 505,046	\$ -	\$ 505,046	\$ 505,285
Other revenues/receipts	28,973,646	213,367	29,187,013	19,275,936
	29,478,692	213,367	29,692,059	19,781,221
Expenses/disbursements	18,910,933	118,356	19,029,289	21,150,000
	10,567,759	95,011	10,662,770	(1,368,779)
Balance, beginning of year	20,003,557	(3,723,507)	16,280,050	16,280,050
Balance, end of year	<u>\$ 30,571,316</u>	<u>\$ (3,628,496)</u>	<u>\$ 26,942,820</u>	<u>\$ 14,911,271</u>

Note 12: Contingencies

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. Events could occur that would cause the estimate of ultimate loss to differ in the near term.

Note 13: Replacement Facility

The Hospital is in the process of building a replacement facility with an estimated cost of \$40.1 million. The estimated completion of the project is in the fall of 2010. Building costs as of June 30, 2009, total \$5.5 million (construction in progress). The Hospital will fund the project with proceeds from the loan, a \$10,000,000 contribution and Hospital funds.

The Hospital received a conditional pledge from a family in the community of \$10,000,000 in 2008. The condition was met in 2009 and the Hospital received the funds.

Hamilton County Public Hospital

Notes to Financial Statements

June 30, 2009 and 2008

Note 14: Significant Estimates and Concentrations

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which in some cases have resulted in 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 future adjustments in allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

Supplementary Information

Hamilton County Public Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Routine Services						
Acute nursing care	\$ 4,026,460	\$ 3,180,723	\$ 845,737	\$ 3,979,764	\$ 3,288,112	\$ 691,652
Nursing Services						
Operating and recovery	4,128,035	571,609	3,556,426	3,242,000	419,803	2,822,197
Swing-bed	695,540	695,540		509,450	509,450	
CCU				14,746	14,746	
Emergency	3,301,772	95,571	3,206,201	3,154,318	128,205	3,026,113
Delivery	285,483	160,654	124,829	250,719	174,564	76,155
Nursery	184,034	183,069	965	176,943	176,498	445
Obstetrics	414,408	302,934	111,474	360,293	256,825	103,468
Pediatric	136,970	136,970		210,444	210,444	
Home Care and Hospice	331,117	1,568	329,549	364,165	5,057	359,108
	<u>9,477,359</u>	<u>2,147,915</u>	<u>7,329,444</u>	<u>8,283,078</u>	<u>1,895,592</u>	<u>6,387,486</u>
Other Professional Services						
Central Supply	830,001	360,825	469,176	741,726	331,321	410,405
Ambulance	1,120,465	71,331	1,049,134	923,905	83,776	840,129
Blood	166,962	73,769	93,193	131,976	68,065	63,911
Electrocardiology	245,266	38,440	206,826	197,755	45,040	152,715
Radiology	3,708,081	438,137	3,269,944	3,402,908	425,527	2,977,381
Cardiac rehabilitation	153,535		153,535	176,966		176,966
Pharmacy	2,217,732	1,548,983	668,749	1,905,799	1,384,220	521,579
Chemistry	2,957,318	684,285	2,273,033	2,487,076	606,647	1,880,429
Echocardiography	46,099	10,597	35,502	115,502	24,372	91,130
Diabetes education	35,188		35,188	43,286		43,286
Histology	75,417	14,700	60,717	71,580	13,680	57,900
Microbiology	556,257	145,705	410,552	490,026	150,933	339,093
Jewell Clinic	274,486	130	274,356	236,523		236,523
Stratford Clinic	193,768		193,768	111,155	102	111,053
Anesthesiology	508,258	138,975	369,283	403,892	122,258	281,634
Respiratory therapy	868,593	728,621	139,972	751,231	648,803	102,428
Physical therapy	541,489	112,424	429,065	540,545	112,388	428,157
Occupational therapy	162,076	69,703	92,373	118,549	49,444	69,105
Speech therapy	19,398	4,125	15,273	17,146	5,991	11,155
Corporate health	3,520		3,520	7,251		7,251
Sleep study	145,397		145,397	105,793		105,793
	<u>14,829,306</u>	<u>4,440,750</u>	<u>10,388,556</u>	<u>12,980,590</u>	<u>4,072,567</u>	<u>8,908,023</u>
Patient Service Revenue	28,333,125	<u>\$ 9,769,388</u>	<u>\$ 18,563,737</u>	25,243,432	<u>\$ 9,256,271</u>	<u>\$ 15,987,161</u>
Contractual Allowances	<u>(8,804,076)</u>			<u>(7,705,390)</u>		
Net Patient Service Revenue, Before Provision for Uncollectible Accounts	19,529,049			17,538,042		
Provision for Uncollectible Accounts	<u>(1,223,303)</u>			<u>(680,091)</u>		
Net Patient Service Revenue	<u>\$ 18,305,746</u>			<u>\$ 16,857,951</u>		

Hamilton County Public Hospital
Schedules of Other Revenues
Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cafeteria revenue	\$ 87,478	\$ 84,804
Rebates	10,283	15,193
Services provided to other entities	63,114	48,639
Medical records transcripts	3,381	2,763
Sale of supplies and scrap	911	73
Gain on disposal of property and equipment	7,633	951
Grants	4,212	20,486
Speciality clinics	8,690	6,960
Miscellaneous	8,320	12,870
	<u>\$ 194,022</u>	<u>\$ 192,739</u>

Hamilton County Public Hospital

Schedules of Operating Expenses

Years Ended June 30, 2009 and 2008

	2009			2008		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing	\$ 2,115,978	\$ 1,732,860	\$ 383,118	\$ 1,997,827	\$ 1,670,518	\$ 327,309
Nursery	61,630	56,144	5,486	63,838	57,991	5,847
Labor and delivery	108,193	61,072	47,121	98,691	52,763	45,928
Maternity	267,048	246,189	20,859	243,459	223,491	19,968
Coronary care unit				23,244	2,805	20,439
Operating	1,681,720	875,086	806,634	1,427,540	361,776	1,065,764
Emergency	1,438,294	599,937	838,357	1,284,409	526,996	757,413
	<u>5,672,863</u>	<u>3,571,288</u>	<u>2,101,575</u>	<u>5,139,008</u>	<u>2,896,340</u>	<u>2,242,668</u>
Other Professional Services						
Anesthesia	354,649		354,649	294,045		294,045
Central Supply	346,640	87,707	258,933	158,327	83,241	75,086
Ambulance	263,289	225,167	38,122	285,420	237,835	47,585
Laboratory	935,604	376,132	559,472	866,518	350,966	515,552
Blood	107,818		107,818	77,908		77,908
Electrocardiology	12,615		12,615	10,209		10,209
Radiology	669,939	295,313	374,626	601,010	246,461	354,549
Pharmacy	730,106	283,714	446,392	677,236	292,534	384,702
Cardiac rehabilitation	95,328	87,016	8,312	112,317	101,372	10,945
Diabetes education	35,466		35,466	37,545		37,545
Physical therapy	278,102	54,198	223,904	273,482	48,857	224,625
Social services	22,289	21,454	835	21,327	20,857	470
Durable medical equipment	167,068	94,550	72,518	197,751	91,771	105,980
Specialty clinics	10,461	8,804	1,657	6,145	4,353	1,792
Inhalation therapy	377,863	247,084	130,779	382,788	268,121	114,667
Corporate health	58		58	145		145
Jewell Clinic	200,370	80,747	119,623	259,419	67,513	191,906
Stratford Clinic	256,409	140,450	115,959	205,030	45,790	159,240
Free Clinic				187		187
Occupational therapy	81,051		81,051	60,144		60,144
Speech therapy	9,700		9,700	8,573		8,573
	<u>4,954,825</u>	<u>2,002,336</u>	<u>2,952,489</u>	<u>4,535,526</u>	<u>1,859,671</u>	<u>2,675,855</u>
General Services						
Dietary	498,923	291,963	206,960	475,932	282,394	193,538
Operation of plant	811,770	198,574	613,196	766,683	205,212	561,471
Housekeeping	281,059	243,070	37,989	274,415	235,617	38,798
Laundry	111,571		111,571	144,359		144,359
	<u>1,703,323</u>	<u>733,607</u>	<u>969,716</u>	<u>1,661,389</u>	<u>723,223</u>	<u>938,166</u>
Administrative Services						
Public relations/Marketing	106,260	21,533	84,727	77,480		77,480
Medical records	371,794	342,231	29,563	398,759	323,861	74,898
Patient accounts	143,517	139,913	3,604	141,079	137,250	3,829
Admitting	463,073	377,854	85,219	449,086	368,035	81,051
Administration	566,063	266,915	299,148	549,203	255,530	293,673
Data processing	483,685	142,563	341,122	427,029	142,465	284,564
Human resources	289,449	155,546	133,903	255,878	167,146	88,732
Quality management	125,109	114,905	10,204	123,886	110,976	12,910
	<u>2,548,950</u>	<u>1,561,460</u>	<u>987,490</u>	<u>2,422,400</u>	<u>1,505,263</u>	<u>917,137</u>
Insurance	363,967		363,967	366,242		366,242
Employee Benefits	2,090,099		2,090,099	1,911,124		1,911,124
Depreciation	1,576,906		1,576,906	1,001,189		1,001,189
	<u>\$ 18,910,933</u>	<u>\$ 7,868,691</u>	<u>\$ 11,042,242</u>	<u>\$ 17,036,878</u>	<u>\$ 6,984,497</u>	<u>\$ 10,052,381</u>

Hamilton County Public Hospital
Schedules of Patient Receivables and Allowance
for Uncollectible Accounts
Years Ended June 30, 2009 and 2008

Schedule of Patient Receivables

Days Since Discharge	2009		2008	
	Amounts	Percent to Total	Amounts	Percent to Total
0-30 days	\$ 2,258,031	49%	\$ 2,014,247	47%
31-60 days	798,195	18%	638,421	15%
61-90 days	325,994	7%	337,004	8%
91-120 days	225,610	5%	257,862	6%
Over 4 months	981,222	21%	1,037,807	24%
Total	4,589,052	100%	4,285,341	100%
Home care, net of allowance	31,549		44,519	
ER Physicians, net of allowance	816		939	
Bad debt accounts, net of allowance	539,784		666,920	
Less contractual allowances	704,787		657,168	
Less allowance for uncollectible accounts	715,264		706,033	
Net patient receivables	\$ 3,741,150		\$ 3,634,518	

Allowance for Uncollectible Accounts

	2009	2008
Balance, beginning of year	\$ 706,033	\$ 639,073
Provision for year	1,223,303	680,091
Recoveries of accounts previously written off	116,813	75,066
	2,046,149	1,394,230
Accounts written off	1,330,885	688,197
Balance, end of year	\$ 715,264	\$ 706,033

Hamilton County Public Hospital

Schedule of Officials

June 30, 2009

Name	Title	Term Expires
Board of Trustees		
Nancy Dermand	Chairman	2010
Carol Ose	Vice Chairperson	2012
George Heller	Treasurer	2012
Don Bottorff	Secretary	2010
John Hemingway	Member	2014
Stephan Mourlam	Member	2014
Henry Witt	Member	2014
Hospital Officials		
Palmer Schneider	Chief Executive Officer	
Alice Heinrichs	Chief Financial Officer	

Hamilton County Public Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2009 and 2008

Supplies

	<u>2009</u>	<u>2008</u>
General	\$ 63,170	\$ 47,950
Pharmacy	161,510	140,902
Central supply	170,490	171,410
Dietary	13,434	12,466
Plant operation and maintenance	53,738	44,958
Laboratory	80,190	78,341
Surgical services	55,616	67,448
Radiology	11,831	10,606
Jewell Clinic	9,245	5,292
	<u>\$ 619,224</u>	<u>\$ 579,373</u>

Prepaid Expenses

	<u>2009</u>	<u>2008</u>
Insurance	\$ 104,764	\$ 144,201
Maintenance	7,391	16,261
Health Insurance/other	126,502	1,200
	<u>\$ 238,657</u>	<u>\$ 161,662</u>

Hamilton County Public Hospital
Schedules of Insurance Coverage
Years Ended June 30, 2009

Employers Mutual

Policy No. 1x6-16-17-10, expiring January 1, 2010

Property blanket building and contents	\$	18,859,925
Loss of income and extra expense		9,432,124
Business contents, Jewell		58,526
Business contents, Stratford		58,710
Equipment breakdown		31,507,245
Data processing equipment		770,091

National Indemnit of Mid-America

Policy No.75 APN 359318, expiring July 2, 2010

Comprehensive automobile liability

Liability		1,000,000
Hired and non-owned auto physical damage		ACV w/ \$500 ded

PIC Wisconsin (Ruhl & Ruhl)

Comprehensive hospital liability, expiring February 1, 2010

Hospital professional liability, Policy No. 131280		1,000,000/3,000,000
General liability, Policy No. 131280		1,000,000/3,000,000
Employee benefits, Policy No. 131280		1,000,000/3,000,000
Excess liability, expiring February 1, 2010		
Excess medical liability, Policy No. 131280		5,000,000/5,000,000
Umbrella liability, Policy No. 131280		10,000,000/10,000,000

Chubb Group of Insurance Companies

Policy No. 6801-9588, expiring January 1, 2010

Directors' and officers' liability		3,000,000/3,000,000
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**Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

Board of Trustees
Hamilton County Public Hospital
Webster City, Iowa

We have audited the financial statements of Hamilton County Public Hospital as of and for the year ended June 30, 2009 and have issued our report thereon dated October 19, 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 audit 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 of 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 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 financial statements will not be prevented or detected by the Hospital's internal controls.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph in 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 disbursements 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 and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

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

Trustee Minutes

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

Deposits and Investments

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

Disbursements for Equipment and Supplies

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

Compensation of Hospital Administrator, Assistants and Employees

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

Internal Revenue Service Information Returns and Outside Services

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

Unclaimed Property

The Hospital is required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital filed the unclaimed property report for the year ended June 30, 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
October 19, 2009

Hamilton County Public Hospital
Schedule of Findings and Responses
Year Ended June 30, 2009

Reference Number	Finding
None	

Board of Trustees and Management
Hamilton County Public Hospital
Webster City, Iowa

In planning and performing our audit of the financial statements of Hamilton County Public 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 October 20, 2008.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting. Some individuals within the Hospital have incompatible duties in two financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. Following is a summary of various incompatible duties we identified:

Cash Disbursements Cycle

- Financial Analyst and Accountant have duties that include access to signed checks and recording responsibilities.

Payroll Cycle

- The Financial Analyst and the Accountant have access to signed checks and the ability to record payroll-related information.

Management should evaluate the costs versus the benefits of further segregating these duties or adding monitoring or other compensating controls.

Audit Adjustments

During the course of performing the audit, we identified misstatements resulting in audit journal entries to adjust the financial statement amounts. We proposed adjustments to management based on our testing related to the following accounts, including accounts receivable bad debt and contractual allowances, and debt and construction related costs.

Other Matters

Although not considered a material weakness, significant deficiency or other control deficiency in internal control over financial reporting, we observed the following matter and offer this comment. We can discuss this matter further at your convenience and may provide implementation assistance, if you require.

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's ability to meet debt covenants or maintain sufficient liquidity.

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

* * * * *

This communication is intended solely for the information and use of Management, the Board of Trustees 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
October 19, 2009