

**Greater Community Hospital
Creston, Iowa**

FINANCIAL REPORT

June 30, 2004

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**Greater Community Hospital
OFFICIALS
June 30, 2004**

BOARD OF TRUSTEES

Officers

Dave Driskell, Chair
Dennis Nelson, Vice Chair
Carolyn Dillenburg, Secretary
Lores Stewart, Treasurer

Members

Jack Davis
Tom Dunphy
Sherry McKie

Expiration of term

December 31, 2006
December 31, 2006
December 31, 2008
December 31, 2004

December 31, 2006
December 31, 2004
December 31, 2008

CHIEF EXECUTIVE OFFICER

Monte Neitzel

CHIEF FINANCIAL OFFICER

Dave Brokaw

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Greater Community Hospital
Creston, Iowa

We have audited the accompanying balance sheets of Greater Community Hospital as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in fund equity, 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, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions 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 Greater Community Hospital as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by the Government 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 6, 2004 on our consideration of Greater Community Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 6, 2004

Greater Community Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Greater Community Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2004, 2003 and 2002. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's reports, the basic financial statements of the Hospital, and supplementary information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

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

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

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

Financial Highlights

- Total assets decreased by \$1,188,444 or 4% to \$30,964,913
- Total noncurrent assets whose use is limited increased by \$255,504 to \$5,575,124
- Total property and equipment decreased by \$298,496 to \$18,783,275
- Total fund equity increased by \$38,915 to \$20,508,626
- Total long-term debt decreased by \$208,745 to \$8,214,220
- Net patient service revenue increased by \$780,232, or 5% primarily due to an increase in certain ancillary services
- Expenses increased by \$672,056, or 4% to \$19,763,512

Financial Analysis of the Hospital

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

A summary of the Hospital's balance sheets is presented in Table 1.

Table 1
Condensed Balance Sheets

	June 30		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Current assets	\$ 5,377,608	\$ 6,528,304	\$ 7,419,819
Noncurrent assets whose use is limited	5,575,124	5,319,620	4,890,368
Property and equipment	18,783,275	19,081,771	15,479,855
Other assets	<u>1,228,906</u>	<u>1,223,662</u>	<u>807,043</u>
Total assets	<u>\$30,964,913</u>	<u>\$32,153,357</u>	<u>\$28,597,085</u>
Current liabilities	\$ 1,626,555	\$ 2,606,216	\$ 3,115,315
Long-term debt, less current maturities	7,769,732	8,027,430	3,589,001
Other noncurrent liabilities	<u>1,060,000</u>	<u>1,050,000</u>	<u>770,000</u>
Total liabilities	<u>\$10,456,287</u>	<u>\$11,683,646</u>	<u>\$ 7,474,316</u>
Invested in capital assets, net of related debt	\$10,569,055	\$10,658,806	\$11,193,360
Restricted	681,593	626,560	81,948
Unrestricted	<u>9,257,978</u>	<u>9,184,345</u>	<u>9,847,461</u>
Total fund equity	<u>\$20,508,626</u>	<u>\$20,469,711</u>	<u>\$21,122,769</u>

As depicted in Table 1, total assets decreased in fiscal year 2004 to \$30,964,913. The change in total assets results primarily from a reduction in cash and investments due to payment of current liabilities recorded at June 30, 2003.

During fiscal year 2004, the Hospital completed the construction of the Crestridge Estates located nearby to the Hospital. Construction costs were funded using a combination of issuance of long-term debt as well as assets limited as to use by the Board of Trustees for plant replacement and expansion.

Revenues, Expenses, and Changes in Fund Equity

A summary of the Hospital's historical revenues, expenses, and changes in fund equity is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Net patient service revenue	\$17,608,683	\$16,828,451	\$15,943,338
Other revenue	<u>1,337,169</u>	<u>868,192</u>	<u>476,971</u>
Total revenue	<u>18,945,852</u>	<u>17,696,643</u>	<u>16,420,309</u>
Salaries	8,173,801	8,302,241	7,283,129
Other expenses	10,045,781	9,508,475	8,636,953
Provision for depreciation	<u>1,543,930</u>	<u>1,280,740</u>	<u>1,105,381</u>
Total expenses	<u>19,763,512</u>	<u>19,091,456</u>	<u>17,025,463</u>
Operating (loss)	<u>(817,660)</u>	<u>(1,394,813)</u>	<u>(605,154)</u>
County taxes	1,149,753	837,252	682,311
Investment income	100,866	270,400	467,992
Unrestricted contributions	-	20,091	-
Interest expense	<u>(394,044)</u>	<u>(385,988)</u>	<u>(241,809)</u>
Total nonoperating gains (losses)	<u>856,575</u>	<u>741,755</u>	<u>908,494</u>
Change in fund equity	38,915	(653,058)	303,340
Total fund equity, beginning	<u>20,469,711</u>	<u>21,122,769</u>	<u>20,819,429</u>
Total fund equity, ending	<u>\$20,508,626</u>	<u>\$20,469,711</u>	<u>\$21,122,769</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2004, 2003 and 2002.

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

Volume: Medical, surgical and obstetrical discharges for fiscal year 2004 were 1,335 compared to 1,454 in fiscal year 2003. Average length of stay decreased slightly and patient days declined to 4,069 from 4,546 in 2003. Volume on the outpatient side indicated positive growth in 2004. In 2004, gross outpatient charges increased to \$18,763,312 compared to \$15,945,628 in 2003. Operating room, recovery room, central services, CT scans and pharmacy ancillary services reflected the most significant growth in 2004.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2004. Overall, gross patient service revenue increased to \$29,122,938 from \$26,659,756 in 2003.

Payor Mix: Medicare reimburses hospitals and health systems under the prospective payment system. Payments are determined in advance for inpatients using a DRG, diagnostic related groups, system and outpatients are assigned to an APC, ambulatory payment classification. 60% of the prospectively determined rate, is comprised of labor costs, wage index, and the remaining 40% is the nonlabor portion. These rates are adjusted annually, based on information compiled from cost reports on file with the Medicare program. Historically, the rate adjustments have been slightly behind the Hospital's price increases, resulting in a higher contractual adjustments or the difference between charges and the payment rate. Contractual adjustments increased to \$11,514,255 from \$9,831,305 in 2003. This represents 39% of gross patient charges. Medicaid and Wellmark employ similar payment methodologies.

A summary of the percentages of gross charges for patient services by payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Medicare	54%	58%	60%
Medicaid	6	7	9
Wellmark	15	16	15
Commercial insurance	14	10	9
Self pay	<u>11</u>	<u>9</u>	<u>7</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$1,337,169 in 2004 compared to \$868,192 in 2003, primarily due to rental income derived from Crestridge Estates during its first year of operation.

Expenses

Approximately 40% of the Hospital's expenses are for salaries. Total salaries decreased by 2% to \$8,173,801 in 2004 from \$8,302,241 in 2003. The Hospital departments experiencing the most significant decrease in 2004 included Lenox Clinic and GCH clinic.

Approximately 50% of the Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 6% to \$10,045,781 in 2004 from \$9,508,475 in 2003. The most significant increase related to group health and life insurance costs, which increased by \$418,280 in 2004.

Approximately 10% of the Hospital's expenses relate to provision for depreciation. This provision for depreciation increased to \$1,543,930 in 2004 from \$1,280,740 in 2003.

Nonoperating Gains

Nonoperating gains increased to \$856,575 from \$741,755 in 2003, primarily due to an increase in county taxes.

Property and Equipment

At the end of 2004, the Hospital had \$18,783,275 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2004, \$1,245,434 was spent to acquire new equipment and complete the construction of Crestridge Estates located near the Hospital.

A summary of the Hospital's property and equipment is presented in Table 4.

Table 4
Property and Equipment

	June 30		
	2004	2003	2002
Land	\$ 185,260	\$ 185,260	\$ 185,260
Land improvements	1,896,708	1,885,408	760,566
Building and improvements	6,061,479	5,801,810	4,305,260
Fixed equipment	4,886,075	4,873,667	4,606,139
Major movable equipment	9,189,372	8,716,088	8,419,232
Buildings leased to others	7,246,108	7,246,108	729,838
Crestridge Estates	3,363,382	-	-
Construction in progress	-	3,125,553	7,944,943
Subtotal	<u>32,828,384</u>	<u>31,833,894</u>	<u>26,951,238</u>
Less accumulated depreciation	<u>(14,045,109)</u>	<u>(12,752,123)</u>	<u>(11,471,383)</u>
Property and equipment	<u>\$18,783,275</u>	<u>\$19,081,771</u>	<u>\$15,479,855</u>

Debt Administration

At year end, the Hospital had \$7,270,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2002. This has decreased by \$270,000 in fiscal year 2004, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2004. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent 70% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$944,220 in current and long-term notes payable. This has increased in fiscal year 2004. This increase is the result of the purchase of equipment. This increase was offset by the required payments made on the outstanding notes for fiscal year 2004. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent 10% of the Hospital's total liabilities at year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP basis are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2004 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

Table 5
Actual vs County Hospital Budget

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 1,149,753	\$ 1,054,313	\$ 95,440
Other revenues/receipts	<u>18,842,574</u>	<u>23,819,959</u>	<u>(4,977,385)</u>
	19,992,327	24,874,272	(4,881,945)
Expenses/expenditures	<u>19,863,661</u>	<u>26,950,177</u>	<u>7,086,516</u>
Net	<u>\$ 128,666</u>	<u>\$ (2,075,905)</u>	<u>\$ 2,204,571</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to less proceeds from issuance of long-term debt. Expenses/expenditures were lower than County Hospital budget primarily due to less acquisition of property and equipment.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2005 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payers, especially Wellmark Blue Cross
- Cost of supplies
- Privacy legislation, HIPAA
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Greater Community Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Greater Community Hospital at (641) 782-7091 or write care of: Chief Financial Officer, Greater Community Hospital, 1700 West Townline, Creston, Iowa 50801.

**Greater Community Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2004	2003
CURRENT ASSETS		
Cash	\$ 1,218,803	\$ 1,210,447
Assets whose use is limited, required for current liabilities	303,482	815,243
Certificates of deposit	661,075	650,226
Patient receivables, less allowances for contractual adjustments and uncollectible accounts	2,062,809	2,386,138
Other receivables	140,818	476,267
Estimated third-party payor settlements	250,000	390,000
Inventories	482,798	481,649
Prepaid expenses	<u>257,823</u>	<u>118,334</u>
Total current assets	<u>5,377,608</u>	<u>6,528,304</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,416,299	1,774,826
Certificates of deposit	2,512,425	2,464,653
U.S. Government Agency securities	1,254,000	1,254,000
Interest receivable	<u>14,289</u>	<u>14,824</u>
	5,197,013	5,508,303
Restricted for payment of long-term debt and interest		
Cash, debt service reserve fund	<u>681,593</u>	<u>626,560</u>
Total assets whose use is limited	5,878,606	6,134,863
Less assets whose use is limited and that are required for current liabilities	<u>303,482</u>	<u>815,243</u>
Noncurrent assets whose use is limited	<u>5,575,124</u>	<u>5,319,620</u>
PROPERTY AND EQUIPMENT	32,828,384	31,833,894
Less accumulated depreciation	<u>14,045,109</u>	<u>12,752,123</u>
Total property and equipment	<u>18,783,275</u>	<u>19,081,771</u>
OTHER ASSETS		
Unamortized financing costs	168,906	173,662
Succeeding year property tax receivable	<u>1,060,000</u>	<u>1,050,000</u>
Total other assets	<u>1,228,906</u>	<u>1,223,662</u>
 Totals	 <u>\$30,964,913</u>	 <u>\$32,153,357</u>

See Notes to Financial Statements.

	June 30	
	<u>2004</u>	<u>2003</u>
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 444,488	\$ 395,535
Accounts payable		
Trade	475,295	494,237
Construction	-	516,589
Accrued employee compensation	632,678	803,465
Payroll taxes and amounts withheld from employees	45,612	127,736
Accrued interest	28,482	28,654
Estimated third-party payor settlements	-	240,000
	<u>1,626,555</u>	<u>2,606,216</u>
LONG-TERM DEBT , less current maturities	<u>7,769,732</u>	<u>8,027,430</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>1,060,000</u>	<u>1,050,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	10,569,055	10,658,806
Restricted	681,593	626,560
Unrestricted	<u>9,257,978</u>	<u>9,184,345</u>
Total fund equity	<u>20,508,626</u>	<u>20,469,711</u>
Totals	<u>\$30,964,913</u>	<u>\$32,153,357</u>

Greater Community Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2004	2003
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2004 \$938,342; 2003 \$703,353	\$17,608,683	\$16,828,451
OTHER REVENUE	<u>1,337,169</u>	<u>868,192</u>
Total revenue	<u>18,945,852</u>	<u>17,696,643</u>
EXPENSES		
Nursing service	5,552,922	5,746,858
Other professional service	5,513,396	5,528,378
General service	1,865,454	1,824,027
Fiscal and administrative service and unassigned expenses	5,287,810	4,711,453
Provision for depreciation	<u>1,543,930</u>	<u>1,280,740</u>
Total expenses	<u>19,763,512</u>	<u>19,091,456</u>
Operating (loss)	<u>(817,660)</u>	<u>(1,394,813)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,149,753	837,252
Investment income	100,866	270,400
Unrestricted contributions	-	20,091
Interest expense	<u>(394,044)</u>	<u>(385,988)</u>
Total nonoperating gains (losses)	<u>856,575</u>	<u>741,755</u>
Change in fund equity	38,915	(653,058)
TOTAL FUND EQUITY		
Beginning	<u>20,469,711</u>	<u>21,122,769</u>
Ending	<u>\$20,508,626</u>	<u>\$20,469,711</u>

**Greater Community Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$17,832,012	\$17,740,432
Cash paid to suppliers for goods and services	(9,952,036)	(10,177,760)
Cash paid to employees for services	(8,344,588)	(8,225,080)
Other operating revenue received	<u>1,337,169</u>	<u>868,192</u>
Net cash provided by operating activities	<u>872,557</u>	<u>205,784</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,149,753	837,252
Contributions received	—	20,091
Net cash provided by noncapital financing activities	<u>1,149,753</u>	<u>857,343</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,762,023)	(4,913,828)
Proceeds from issuance of long-term debt	189,900	8,136,419
Principal payments on long-term debt	(398,645)	(4,168,530)
Interest paid on long-term debt	<u>(389,460)</u>	<u>(385,988)</u>
Net cash (used in) capital and related financing activities	<u>(2,360,228)</u>	<u>(1,331,927)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	101,401	291,117
Purchase of investments	(1,243,621)	(1,266,009)
Proceeds from maturities of investments	<u>1,185,000</u>	<u>2,456,049</u>
Net cash provided by investing activities	<u>42,780</u>	<u>1,481,157</u>
NET INCREASE (DECREASE) IN CASH	(295,138)	1,212,357
CASH		
Beginning	<u>3,611,833</u>	<u>2,399,476</u>
Ending	<u>\$ 3,316,695</u>	<u>\$ 3,611,833</u>

See Notes to Financial Statements.

**Greater Community Hospital
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2004	2003
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (817,660)	\$(1,394,813)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,543,930	1,280,740
Changes in assets and liabilities		
Decrease in patient receivables	323,329	571,981
(Increase) decrease in other receivables	335,449	(424,752)
(Increase) decrease in net estimated third-party payor settlements	(100,000)	340,000
(Increase) in inventories	(1,149)	(96,873)
(Increase) in prepaid expenses	(139,489)	(24,531)
Increase (decrease) in accounts payable, net of amounts for property and equipment	(18,942)	(123,129)
Increase (decrease) in accrued employee compensation	(170,787)	68,358
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(82,124)</u>	<u>8,803</u>
Net cash provided by operating activities	<u>\$ 872,557</u>	<u>\$ 205,784</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,218,803	\$1,210,447
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,416,299	1,774,826
Restricted for payment of long-term debt and interest, cash	<u>681,593</u>	<u>626,560</u>
Total per statement of cash flows	<u>\$3,316,695</u>	<u>\$3,611,833</u>

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The Hospital is a county public hospital organized under Chapter 347, Code of Iowa, not subject to taxes on income or property, and receives tax support from Union County, Iowa. The Hospital is governed by a seven member Board of Trustees elected for terms of six years.

Reporting Entity

For financial reporting purposes, Greater Community Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. These criteria also include organizations that are fiscally dependent on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Investments and Investment Income

The Hospital has adopted the provisions of GASB Statement No. 31, *Accounting and Reporting for Certain Investments and For External Investment Pools*.

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

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities U.S. Government Agency securities Maturity of one year or less when purchased Maturity of more than one year when purchased	Amortized cost Fair value based on quoted market prices

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income (continued)

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

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

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is five to forty years.

Unamortized Financing Costs

Unamortized financing costs are amortized over the life of the issue, using the straight-line method.

Property Tax Receivable

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 year 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 the 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.

Deferred Revenue

Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

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

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

Revenues, Expenses and Changes in Fund Equity

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

Credit Policy

The Hospital grants credit to patients, substantially all of whom are residents of the County.

Accounting Estimates and Assumptions

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

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2004 were entirely covered by federal depository insurance or by 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.

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's investments are categorized to give an indication of the level of risk assumed by the Hospital at year end. The Hospital's U.S. Government Agency securities are all category 1, which means that the investments are insured or registered or for which the securities are held by the Hospital or its agent in the Hospital's name.

The Hospital's investments at June 30, 2004 are as follows:

Fair value

U.S. Government Agency securities	\$ <u>1,254,000</u>
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NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Patients	\$ 551,107	\$ 427,274
Insurance carriers	2,028,132	2,122,869
Medicare	1,743,488	1,598,583
Medicaid	<u>223,444</u>	<u>259,392</u>
Total patient receivables	4,546,171	4,408,118
Less unapplied Medicare periodic interim payments	(763,362)	(751,980)
Less allowances for contractual adjustments and uncollectible accounts	<u>(1,720,000)</u>	<u>(1,270,000)</u>
Net patient receivables	<u>\$2,062,809</u>	<u>\$2,386,138</u>

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates per patient classification. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. However, inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Under a provision of the Balanced Budget Refinement Act, as amended by the Medicare Prescription Drug Improvement and Modernization Act of 2003, for services furnished before January 1, 2006, the Hospital's prospectively determined payments for certain outpatient services cannot be less than reimbursement based on annual costs and payment-to-cost ratios of their June 30, 1996 year. Final settlement is determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2001.

Medicaid

Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per patient classification.

Other

The Hospital also has payment agreements with Blue Cross and other commercial insurance carriers. The basis for reimbursement under these agreements includes discounts from established charges and prospectively determined rates.

NOTE 5 PROPERTY AND EQUIPMENT

A summary of property and equipment and related accumulated depreciation follows:

	<u>June 30, 2004</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 185,260	\$ —	\$ 185,260	\$ —
Land improvements	1,896,708	709,399	1,885,408	619,448
Buildings and improvements	6,061,479	1,927,700	5,801,810	1,899,188
Fixed equipment	4,886,075	3,340,679	4,873,667	3,114,303
Major movable equipment	9,189,372	6,931,504	8,716,088	6,588,318
Buildings leased to others	7,246,108	1,046,699	7,246,108	530,866
Crestridge Estates	3,363,382	89,128	—	—
Construction in progress	—	—	<u>3,125,553</u>	—
Totals	<u>\$32,828,384</u>	<u>\$14,045,109</u>	<u>\$31,833,894</u>	<u>\$12,752,123</u>

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 PROPERTY AND EQUIPMENT (continued)

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer</u>	<u>Ending balance</u>
Land	\$ 185,260	\$ —	\$ —	\$ —	\$ 185,260
Land improvements	1,885,408	11,300	—	—	1,896,708
Building and improvements	5,801,810	1,131	—	258,538	6,061,479
Fixed equipment	4,873,667	12,408	—	—	4,886,075
Major movable equipment	8,716,088	610,036	250,944	114,192	9,189,372
Buildings leased to others	7,246,108	—	—	—	7,246,108
Crestridge Estates	—	—	—	3,363,382	3,363,382
Construction in progress	<u>3,125,553</u>	<u>610,559</u>	<u>—</u>	<u>(3,736,112)</u>	<u>—</u>
Totals	31,833,894	1,245,434	250,944	—	32,828,384
Less accumulated depreciation	<u>(12,752,123)</u>	<u>(1,543,930)</u>	<u>(250,944)</u>	<u>—</u>	<u>(14,045,109)</u>
Net property and equipment	<u>\$19,081,771</u>	<u>\$ (298,496)</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$18,783,275</u>

A summary of changes in property and equipment for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfer</u>	<u>Ending balance</u>
Land	\$ 185,260	\$ —	\$ —	\$ —	\$ 185,260
Land improvements	760,566	89,591	—	1,035,251	1,885,408
Building and improvements	4,305,260	1,263,851	—	232,699	5,801,810
Fixed equipment	4,606,139	142,453	—	125,075	4,873,667
Major movable equipment	8,419,232	296,856	—	—	8,716,088
Buildings leased to others	729,838	—	—	6,516,270	7,246,108
Construction in progress	<u>7,944,943</u>	<u>3,089,905</u>	<u>—</u>	<u>(7,909,295)</u>	<u>3,125,553</u>
Totals	26,951,238	4,882,656	—	—	31,833,894
Less accumulated depreciation	<u>(11,471,383)</u>	<u>(1,280,740)</u>	<u>—</u>	<u>—</u>	<u>(12,752,123)</u>
Net property and equipment	<u>\$15,479,855</u>	<u>\$3,601,916</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$19,081,771</u>

NOTE 6 BUILDINGS LEASED TO OTHERS

The Hospital, through various agreements, leases an attached medical office building and spaces within the Medical Arts Plaza located adjacent to the Hospital. The leases, which are for various terms, each call for base rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2004 and 2003 included \$468,205 and \$433,103, respectively, of aggregate rental income under the lease agreements.

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Hospital Revenue Bonds, Series 2002	\$7,270,000	\$7,540,000
Notes payable, equipment	467,791	391,841
Note payable, real estate	<u>476,429</u>	<u>491,124</u>
Total	8,214,220	8,422,965
Less current maturities	<u>444,488</u>	<u>395,535</u>
Long-term debt, net of current maturities	<u>\$7,769,732</u>	<u>\$8,027,430</u>

Hospital Revenue Bonds, Series 2002

The Hospital has issued Hospital Revenue Bonds, Series 2002 in the original amount of \$7,800,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2022, at interest rates ranging from 3.4% to 5.4%. In addition, the Bonds require a Debt Service Reserve Fund be maintained at a minimum level of \$620,000. The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$10,649, including interest at 4.96%, with the final payment due November, 2006. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2004, the remaining balance on this note is \$281,001.

This note agreement includes a provision allowing the Hospital to terminate the note in the event no funds or insufficient funds are appropriated or budgeted to make all payments for a subsequent fiscal period. This option must be exercised by the Hospital prior to the end of a fiscal period to allow for proper termination of the note. Consequently, this obligation does not constitute indebtedness of the Hospital under the laws of the State of Iowa, however, generally accepted accounting principles require the asset and liability to be recorded on the balance sheet at June 30, 2004.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,223, including interest at .72% with the final payment due May, 2009. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2004, the remaining balance on this note is \$186,790.

Note Payable, Real Estate

The Hospital has a third note agreement to finance the purchase of real estate. The note requires annual payments of \$41,238, including interest at 5.4%, with the final payment due in June, 2022. The note is collateralized by the real estate purchased by the Hospital.

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable, equipment</u>	<u>Note payable, real estate</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 275,000	\$ 153,926	\$ 15,562	\$ 444,488	\$ 379,691	\$ 824,179
2006	285,000	160,106	16,480	461,586	363,053	824,639
2007	295,000	80,159	17,452	392,611	346,628	739,239
2008	305,000	38,274	18,482	361,756	333,383	695,139
2009	320,000	35,326	19,572	374,898	319,666	694,564
2010 to 2014	1,830,000	-	116,607	1,946,607	1,355,846	3,302,453
2015 to 2019	2,290,000	-	155,313	2,445,313	846,835	3,292,148
2020 to 2022	<u>1,670,000</u>	<u>-</u>	<u>116,961</u>	<u>1,786,961</u>	<u>187,926</u>	<u>1,974,887</u>
Totals	7,270,000	467,791	476,429	8,214,220	4,133,028	12,347,248
Less current maturities	<u>275,000</u>	<u>153,926</u>	<u>15,562</u>	<u>444,488</u>	<u>379,691</u>	<u>824,179</u>
Total long-term debt	<u>\$6,995,000</u>	<u>\$ 313,865</u>	<u>\$ 460,867</u>	<u>\$7,769,732</u>	<u>\$3,753,337</u>	<u>\$11,523,069</u>

A summary of changes in long-term debt for the year ended June 30, 2004 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Bonds, Series 2002	\$7,540,000	\$ -	\$ 270,000	\$7,270,000	\$ 275,000
Notes payable, equipment	391,841	189,900	113,950	467,791	153,926
Note payable, real estate	<u>491,124</u>	<u>-</u>	<u>14,695</u>	<u>476,429</u>	<u>15,562</u>
Totals	<u>\$8,422,965</u>	<u>\$ 189,900</u>	<u>\$ 398,645</u>	<u>\$8,214,220</u>	<u>\$ 444,488</u>

A summary of changes in long-term debt for the year ended June 30, 2003 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amount due within one year</u>
Hospital Revenue Bonds, Series 2002	\$ -	\$7,800,000	\$ 260,000	\$7,540,000	\$ 270,000
Hospital Revenue Bond, Series 2000	3,789,169	-	3,789,169	-	-
Note payable, equipment	497,326	-	105,485	391,841	110,840
Note payable, real estate	<u>-</u>	<u>505,000</u>	<u>13,876</u>	<u>491,124</u>	<u>14,695</u>
Totals	<u>\$4,286,495</u>	<u>\$8,305,000</u>	<u>\$4,168,530</u>	<u>\$8,422,965</u>	<u>\$ 395,535</u>

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$461,880, \$467,922 and \$404,968, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2004 and 2003.

	2004	2003
Charges foregone, based on established rates	\$ <u>73,702</u>	\$ <u>83,900</u>
Equivalent percentage of charity care patients to all patients served	<u>.3%</u>	<u>.3%</u>

NOTE 10 MALPRACTICE CLAIMS

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

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

Incidents occurring through June 30, 2004 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget for all funds following required public notice and hearings. The annual County Hospital budget may be amended during the year utilizing similar statutorily-prescribed procedures. The Hospital prepares its annual County Hospital budget on a budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

**Greater Community Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)

The following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 1,149,753	\$ -	\$ 1,149,753	\$ 1,054,313
Other revenues/receipts	<u>18,652,674</u>	<u>189,900</u>	<u>18,842,574</u>	<u>23,819,959</u>
Expenses/expenditures	<u>19,763,512</u>	<u>100,149</u>	<u>19,863,661</u>	<u>26,950,177</u>
Net	38,915	89,751	128,666	(2,075,905)
Balance, beginning	<u>20,469,711</u>	<u>(11,272,200)</u>	<u>9,197,511</u>	<u>7,103,326</u>
Balance, ending	<u>\$20,508,626</u>	<u>\$(11,182,449)</u>	<u>\$ 9,326,177</u>	<u>\$ 5,027,421</u>

NOTE 12 EMPLOYEE BENEFITS

The Hospital has entered into a self-insured medical benefit plan for virtually all employees. The plan is funded by both Hospital and employee contributions. Claims for health care services for employees and their families are accrued when reported by the claims administrator. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$75,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$1,750,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2004 and 2003 were \$1,888,373 and \$1,471,039, respectively, included in fiscal and administrative and unassigned expenses.

NOTE 13 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Greater Community Hospital
Creston, Iowa

Our report on our audits of the basic financial statements of Greater Community Hospital for 2004 and 2003 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 6, 2004

**Greater Community Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
0 – 30 days (includes patients in Hospital at end of year)	\$2,375,943	\$2,154,569	52.26%	48.88%
31 – 60 days	821,658	732,214	18.07	16.61
61 – 90 days	338,818	437,169	7.46	9.92
91 – 120 days	180,332	267,719	3.97	6.07
Over 120 days	<u>829,420</u>	<u>816,447</u>	<u>18.24</u>	<u>18.52</u>
Unapplied Medicare periodic interim payments	4,546,171	4,408,118	<u>100.00%</u>	<u>100.00%</u>
Totals	<u>(763,362)</u>	<u>(751,980)</u>		
	<u>3,782,809</u>	<u>3,656,138</u>		
Allowances				
Contractual				
Medicare	920,000	700,000		
Medicaid	140,000	90,000		
Other	160,000	80,000		
Uncollectibles	<u>500,000</u>	<u>400,000</u>		
Total allowances	<u>1,720,000</u>	<u>1,270,000</u>		
Totals	<u>\$2,062,809</u>	<u>\$2,386,138</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 48,111</u>	<u>\$ 48,032</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>43</u>	<u>50</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
BALANCE , beginning	\$ 400,000	\$ 400,000		
ADD				
Provision for bad debts	938,342	703,353	5.33%	4.01%
Recoveries of accounts previously written off	<u>306,242</u>	<u>166,434</u>	1.74	.95
	1,644,584	1,269,787		
DEDUCT				
Accounts written off	<u>1,144,584</u>	<u>869,787</u>	6.50	4.96
BALANCE , ending	<u>\$ 500,000</u>	<u>\$ 400,000</u>		

Greater Community Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2004, with comparative totals for 2003

	<u>2004</u>			<u>2003</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 1,681,074	\$ —	\$ 1,681,074	\$ 1,719,241
Special care	107,260	—	107,260	151,560
Swing bed	317,923	—	317,923	360,039
Behavioral health	894,152	—	894,152	1,063,052
Cardiac monitors	148,050	5,075	153,125	162,960
Nursery	184,699	—	184,699	191,723
	<u>3,333,158</u>	<u>5,075</u>	<u>3,338,233</u>	<u>3,648,575</u>
OTHER NURSING SERVICES				
Same day surgery	—	233,120	233,120	228,890
Operating room	1,106,701	2,379,999	3,486,700	2,879,339
Recovery room	364,245	856,505	1,220,750	934,985
Delivery and labor rooms	261,050	—	261,050	239,600
Central services and supply	565,129	860,555	1,425,684	1,370,802
Emergency room	320,986	1,559,491	1,880,477	1,388,255
Outpatient clinics	—	349,998	349,998	260,550
Ambulance	—	437,354	437,354	359,816
Home health services	—	829,196	829,196	770,271
Hospice	—	357,386	357,386	333,571
	<u>2,618,111</u>	<u>7,863,604</u>	<u>10,481,715</u>	<u>8,766,079</u>
OTHER PROFESSIONAL SERVICES				
Laboratory and blood service	1,130,679	2,140,346	3,271,025	2,999,842
Electroencephalography	1,825	9,855	11,680	8,040
Electrocardiology	204,050	244,490	448,540	430,134
Cardiology and vascular testing	39,104	539,376	578,480	494,183
Radiology and ultrasound	275,575	2,190,439	2,466,014	2,248,647
Radiation therapy	5,224	—	5,224	4,951
Nuclear medicine	23,272	157,506	180,778	147,962
CT scans	307,225	1,583,209	1,890,434	1,687,905
Magnetic resonance imaging	28,419	575,073	603,492	491,546
Pharmacy and intravenous therapy	1,634,869	1,703,694	3,338,563	3,132,120
Anesthesiology	98	98	196	7,542
Respiratory therapy	561,239	257,922	819,161	761,124
Physical therapy	207,163	410,145	617,308	613,219
Speech, occupational and recreational therapy	63,317	94,959	158,276	148,697
Cardiac rehabilitation	—	170,780	170,780	230,123
Lenox clinic	—	215,354	215,354	280,726
GCH clinic	—	601,387	601,387	642,241
	<u>4,482,059</u>	<u>10,894,633</u>	<u>15,376,692</u>	<u>14,329,002</u>
Totals	<u>\$10,433,328</u>	<u>\$18,763,312</u>	29,196,640	26,743,656
Charity care charges foregone, based on established rates			(73,702)	(83,900)
Total gross patient service revenue			29,122,938	26,659,756
Provision for contractual adjustments and bad debts			(11,514,255)	(9,831,305)
Total net patient service revenue			<u>\$17,608,683</u>	<u>\$16,828,451</u>

Greater Community Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Contractual adjustments		
Medicare	\$ 6,597,913	\$6,387,151
Medicaid	1,691,380	973,860
Other adjustments	2,286,620	1,766,941
Provision for bad debts	<u>938,342</u>	<u>703,353</u>
 Totals	 <u>\$11,514,255</u>	 <u>\$9,831,305</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2004</u>	<u>2003</u>
Rental income		
Medical Arts Plaza	\$ 468,205	\$ 433,103
Crestridge Estates	335,520	-
Linear accelerator space	15,400	19,250
Equipment	55,986	30,203
Pharmacy revenue, employee	119,869	96,959
Cafeteria sales	163,179	120,090
Meals on wheels	29,585	17,977
Sale of supplies and miscellaneous services to employees and others	38,380	50,085
Wellness	32,651	34,019
Lifeline	71,399	64,741
Miscellaneous	<u>6,995</u>	<u>1,765</u>
 Totals	 <u>\$1,337,169</u>	 <u>\$ 868,192</u>

Greater Community Hospital
EXPENSES
Year ended June 30, 2004, with comparative totals for 2003

	<u>2004</u>			<u>2003</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 129,172	\$ 5,479	\$ 134,651	\$ 117,426
Medical and surgical	1,356,555	126,330	1,482,885	1,422,663
Special care	94,161	11,299	105,460	154,414
Obstetric nursing, delivery and labor rooms	274,789	29,668	304,457	356,901
Behavioral health	395,996	352,679	748,675	804,201
Nursery	-	-	-	1,458
Operating and recovery rooms	338,627	319,044	657,671	696,813
Central services and supply	-	234,870	234,870	315,779
Emergency room	356,797	457,106	813,903	780,521
Outpatient clinic	92,762	20,534	113,296	107,309
Ambulance	82,057	25,170	107,227	96,932
Home health services	531,219	66,581	597,800	607,020
Hospice	118,973	133,054	252,027	285,421
Total nursing service	<u>3,771,108</u>	<u>1,781,814</u>	<u>5,552,922</u>	<u>5,746,858</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	260,081	392,020	652,101	648,940
Pathology	46,714	18,413	65,127	64,915
Blood service	-	90,947	90,947	95,763
Electroencephalography	-	2,268	2,268	1,968
Electrocardiology	-	58	58	-
Cardiology and vascular testing	-	284,515	284,515	254,744
Radiology and ultrasound	406,960	352,706	759,666	791,422
Nuclear medicine	-	31,999	31,999	34,287
CT scans	-	99,556	99,556	77,920
Magnetic resonance imaging	-	127,230	127,230	108,435
Pharmacy	252,397	987,570	1,239,967	1,081,364
Intravenous therapy	-	24,039	24,039	28,425
Anesthesiology	-	325	325	7,112
Respiratory therapy	107,497	59,695	167,192	173,723
Physical therapy	267,218	29,405	296,623	294,905
Speech, occupational, and recreational therapy	42,630	72,892	115,522	149,014
Cardiac rehabilitation	44,323	14,113	58,436	56,019
Lenox clinic	175,324	54,750	230,074	332,243
GCH clinic	466,673	49,060	515,733	712,537
Medical Arts Plaza	-	87,568	87,568	92,471
Crestridge Estates	68,869	98,981	167,850	17,757
Creston Medical Clinic	-	25,960	25,960	17,568
Social services	64,624	1,894	66,518	68,794
Health information services	273,977	55,362	329,339	334,638
Quality assurance	72,438	2,345	74,783	83,414
Total other professional service	<u>2,549,725</u>	<u>2,963,671</u>	<u>5,513,396</u>	<u>5,528,378</u>

Greater Community Hospital
EXPENSES (continued)
Year ended June 30, 2004, with comparative totals for 2003

	<u>2004</u>			<u>2003</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
GENERAL SERVICE				
Dietary	\$ 426,217	\$ 229,977	\$ 656,194	\$ 622,860
Plant operation	147,458	619,611	767,069	749,754
Housekeeping	199,959	28,928	228,887	223,612
Laundry	52,105	6,874	58,979	61,035
Linen	-	5,872	5,872	10,135
Environmental services	-	148,453	148,453	156,631
Total general service	<u>825,739</u>	<u>1,039,715</u>	<u>1,865,454</u>	<u>1,824,027</u>
FISCAL AND ADMINISTRATIVE SERVICE				
Administrative	228,147	198,184	426,331	349,546
Accounting	161,401	20,357	181,758	200,101
Human resources	56,263	54,960	111,223	101,464
Business office	395,767	18,107	413,874	407,196
Purchasing	110,546	37,972	148,518	131,856
Public relations	-	21,825	21,825	34,812
Telephone	-	37,706	37,706	39,419
Professional fees	-	111,572	111,572	83,780
Computer support	-	235,563	235,563	264,787
Collection fees	-	80,236	80,236	40,205
Receivables management fee	-	94,343	94,343	80,727
Dues and subscriptions	-	18,970	18,970	19,338
Travel and mileage	-	9,726	9,726	6,828
Publication fees	-	1,764	1,764	811
Physician recruitment	-	19,366	19,366	75,965
UNASSIGNED EXPENSES				
Wellness	55,915	20,561	76,476	76,661
Lifeline	19,190	56,379	75,569	66,906
FICA	-	604,779	604,779	603,107
IPERS	-	461,880	461,880	467,922
Group health and life insurance	-	1,919,422	1,919,422	1,501,142
Workers' compensation insurance	-	108,674	108,674	71,246
Insurance	-	128,235	128,235	87,634
Total fiscal and administrative service and unassigned expenses	<u>1,027,229</u>	<u>4,260,581</u>	<u>5,287,810</u>	<u>4,711,453</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,543,930</u>	<u>1,543,930</u>	<u>1,280,740</u>
Total expenses	<u>\$ 8,173,801</u>	<u>\$11,589,711</u>	<u>\$19,763,512</u>	<u>\$19,091,456</u>

**Greater Community Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	2004	2003
PATIENT DAYS		
Medical, surgical and obstetrical	4,069	4,546
Swing bed		
Skilled care	1,420	1,613
Intermediate care	85	77
Nursery	351	411
Totals	5,925	6,647
 DISCHARGES		
Medical, surgical and obstetrical	1,335	1,454
Swing bed		
Skilled care	170	168
Intermediate care	13	10
Nursery	165	192
	1,683	1,824
 AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	3.05	3.13
Swing bed		
Skilled care	8.35	9.60
Intermediate care	6.54	7.70
Nursery	2.13	2.14

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

Board of Trustees
Greater Community Hospital
Creston, Iowa

We have audited the financial statements of Greater Community Hospital as of and for the year ended June 30, 2004, and have issued our report thereon dated August 6, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying schedule of findings.

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

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 6, 2004

**Greater Community Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part I—Findings Related to the Financial Statements

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

**Greater Community Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2004**

Part II—Findings Related to Required Statutory Reporting

04-II-A OFFICIAL DEPOSITORIES

A resolution naming official depositories has been adopted by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

04-II-B CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2004.

04-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

04-II-D TRAVEL EXPENSES

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

04-II-E BUSINESS TRANSACTIONS

No business transactions were found between the Hospital and Hospital officials and/or employees.

04-II-F BOARD MINUTES

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

04-II-G 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.