

**Clarke County Public Hospital
Osceola, Iowa**

FINANCIAL REPORT

June 30, 2005

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**Clarke County Public Hospital
OFFICIALS
June 30, 2005**

BOARD OF TRUSTEES

Officers

Neville Clayton, Chair
Don Waltz, Vice Chair and Treasurer
Patricia Wright, Secretary

Members

Rick Buesch
Brian Oswald
Sally Riekema
James Schipper

Expiration of term

December 31, 2008
December 31, 2010
December 31, 2006

December 31, 2008
December 31, 2006
December 31, 2010
December 31, 2008

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF OPERATING OFFICER/CHIEF FINANCIAL OFFICER

Michael Thilges

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the accompanying balance sheets of Clarke County Public Hospital as of June 30, 2005 and 2004, 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 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 Clarke County Public Hospital as of June 30, 2005 and 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2005 on our consideration of Clarke County Public 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.

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 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.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 28, 2005

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public 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, 2005 and 2004. 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, the independent auditor's report, 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 increased by \$206,550 or 1% to \$16,341,080
- Total noncurrent assets whose use is limited increased by \$887,701 to \$2,083,150
- Total property and equipment decreased by \$772,367 to \$10,140,708
- Total fund equity increased by \$198,939 to \$6,848,542
- Total long-term debt decreased by \$305,087 to \$7,017,769
- Net patient service revenue increased by \$307,359, or 3% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status
- Expenses increased by \$233,631, or 2% to \$10,798,433

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity 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 fund equity 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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current assets	\$ 2,864,764	\$ 2,766,409	\$ 2,994,246
Noncurrent assets whose use is limited	2,083,150	1,195,449	870,689
Property and equipment	10,140,708	10,913,075	11,680,374
Other assets	<u>1,252,458</u>	<u>1,259,597</u>	<u>1,060,000</u>
Total assets	<u>\$16,341,080</u>	<u>\$16,134,530</u>	<u>\$16,605,309</u>
Current liabilities	\$ 1,726,354	\$ 1,385,512	\$ 1,477,477
Long-term debt, less current maturities	6,626,184	6,959,415	7,093,091
Other noncurrent liabilities	<u>1,140,000</u>	<u>1,140,000</u>	<u>1,060,000</u>
Total liabilities	<u>\$ 9,492,538</u>	<u>\$ 9,484,927</u>	<u>\$ 9,630,568</u>
Invested in capital assets, net of related debt	\$ 3,122,939	\$ 3,590,219	\$ 4,259,400
Restricted	697,363	697,442	777,806
Unrestricted	<u>3,028,240</u>	<u>2,361,942</u>	<u>1,937,535</u>
Total fund equity	<u>\$ 6,848,542</u>	<u>\$ 6,649,603</u>	<u>\$ 6,974,741</u>

As depicted in Table 1, total assets increased in fiscal year 2005 to \$16,341,080. The change in total assets results primarily from an increase in noncurrent assets whose use is limited.

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		
	2005	2004	2003
Net patient service revenue	\$ 9,716,845	\$ 9,409,486	\$ 6,922,780
Other revenue	258,361	174,961	189,533
Total revenue	<u>9,975,206</u>	<u>9,584,447</u>	<u>7,112,313</u>
Salaries	4,100,800	3,728,647	3,490,263
Other expenses	5,379,166	5,552,118	4,761,457
Provision for depreciation	1,318,467	1,284,037	662,931
Total expenses	<u>10,798,433</u>	<u>10,564,802</u>	<u>8,914,651</u>
Operating (loss)	<u>(823,227)</u>	<u>(980,355)</u>	<u>(1,802,338)</u>
County taxes	1,138,198	1,040,288	866,884
Investment income	70,861	54,369	31,726
Unrestricted contributions	144,034	10,857	1,997
Interest expense	<u>(438,791)</u>	<u>(450,297)</u>	<u>(47,278)</u>
Total nonoperating gains	<u>914,302</u>	<u>655,217</u>	<u>853,329</u>
Excess (deficiency) of revenues over expenses before contributions	91,075	(325,138)	(949,009)
Restricted contributions	<u>107,864</u>	<u>—</u>	<u>—</u>
Change in fund equity	198,939	(325,138)	(949,009)
Total fund equity, beginning	<u>6,649,603</u>	<u>6,974,741</u>	<u>7,923,750</u>
Total fund equity, ending	<u>\$ 6,848,542</u>	<u>\$ 6,649,603</u>	<u>\$ 6,974,741</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2005 and 2004.

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

Volume: Acute discharges for fiscal year 2005 were 379 compared to 439 in fiscal year 2004. Average length of stay decreased slightly and patient days declined to 1,166 from 1,434 in 2004. Volume on the outpatient side indicated positive growth in 2005. In 2005, gross outpatient charges increased to \$8,002,660 compared to \$7,827,289 in 2004.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2005. Overall, gross patient service revenue decreased to \$11,239,763 from \$11,526,534 in 2004.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts declined significantly from \$1,522,918 in 2005 compared to \$2,117,048 in 2004.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2005</u>	<u>2004</u>	<u>2003</u>
Medicare	51%	48%	50%
Medicaid	7	8	5
Wellmark	16	17	12
Commercial insurance	15	16	19
Self pay	<u>11</u>	<u>11</u>	<u>14</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$258,361 in 2005 compared to \$174,961 in 2004, primarily due to increased miscellaneous income.

Expenses

Approximately 40% of Hospital's expenses are for salaries. Total salaries increased by 10% to \$4,100,800 in 2005 from \$3,728,647 in 2004. The Hospital department experiencing the most significant increase in 2005 was medical and surgical.

Approximately 50% of Hospital's expenses are for supplies and expenses. Total supplies and expenses decreased by 3% to \$5,379,166 in 2005 from \$5,552,118 in 2004. The Hospital departments experiencing the most significant decrease was emergency room and outpatient services.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,318,467 in 2005 from \$1,284,037 in 2004.

Nonoperating Gains

Nonoperating gains increased to \$914,302 from \$655,217 in 2004, primarily due to an increase in county taxes and unrestricted contributions.

Property and Equipment

At the end of 2005, the Hospital had \$10,140,708 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 2005, \$637,864 was spent to acquire property and equipment.

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

**Table 4
Property and Equipment**

	June 30		
	2005	2004	2003
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	189,772	189,772	202,823
Building	8,453,347	8,545,110	8,434,345
Fixed equipment	2,918,586	2,872,848	2,744,040
Major movable equipment	4,218,475	3,934,772	3,955,980
Medical office building	<u>1,098,085</u>	<u>1,098,085</u>	<u>1,075,413</u>
Subtotal	16,887,815	16,650,137	16,422,151
Less accumulated depreciation	<u>(6,747,107)</u>	<u>(5,737,062)</u>	<u>(4,741,777)</u>
Property and equipment	<u>\$10,140,708</u>	<u>\$10,913,075</u>	<u>\$11,680,374</u>

Debt Administration

At year end, the Hospital had \$6,575,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2001. This has decreased by \$230,000 in fiscal year 2005, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2005. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 70% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$442,769 in current and long-term notes payable. This has decreased in fiscal year 2005. This decrease is the result of the required payments made on the outstanding notes for fiscal year 2005, offset by the purchase of equipment by issuance of note payable. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 5% 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 2005 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	\$ 1,308,228	\$ 1,269,477	\$ 38,751
Other revenues/receipts	<u>9,859,174</u>	<u>10,327,857</u>	<u>(468,683)</u>
	11,167,402	11,597,334	(429,932)
Expenses/expenditures	<u>10,452,386</u>	<u>12,844,058</u>	<u>(2,391,672)</u>
Net	<u>\$ 715,016</u>	<u>\$ (1,236,724)</u>	<u>\$ 1,961,740</u>

Expenses/expenditures were lower than the 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 2006 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors, especially Blue Cross
- Cost of supplies
- Facility expansion
- Technology advancements

Contacting Clarke County Public 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 Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Operating Officer/Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2005	2004
CURRENT ASSETS		
Cash	\$ 1,022,140	\$ 440,581
Assets whose use is limited-required for current liabilities	273,481	547,854
Patient receivables, less allowances for contractual adjustments and uncollectibles 2005 \$710,000; 2004 \$820,000	1,182,628	1,099,222
Other receivables	33,064	27,652
Estimated third-party payor settlements	-	420,000
Inventories	196,173	163,159
Prepaid expenses	157,278	67,941
Total current assets	<u>2,864,764</u>	<u>2,766,409</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	762,943	605,179
Certificates of deposit	745,796	438,478
Interest receivable	7,660	2,204
Designated by board for special purpose		
Cash	142,869	-
	<u>1,659,268</u>	<u>1,045,861</u>
Restricted for payment of long-term debt and interest		
Cash	53,488	53,567
Certificate of deposit	643,875	643,875
Total assets whose use is limited	<u>2,356,631</u>	<u>1,743,303</u>
Less assets whose use is limited and that are required for current liabilities	273,481	547,854
Noncurrent assets whose use is limited	<u>2,083,150</u>	<u>1,195,449</u>
PROPERTY AND EQUIPMENT	16,887,815	16,650,137
Less accumulated depreciation	6,747,107	5,737,062
Total property and equipment	<u>10,140,708</u>	<u>10,913,075</u>
OTHER ASSETS		
Unamortized financing costs	112,458	119,597
Succeeding year property tax receivable	1,140,000	1,140,000
Total other assets	<u>1,252,458</u>	<u>1,259,597</u>
 Totals	 <u>\$16,341,080</u>	 <u>\$16,134,530</u>

See Notes to Financial Statements.

Clarke County Public Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2005	2004
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2005 \$550,046; 2004 \$768,174	\$ 9,716,845	\$ 9,409,486
OTHER REVENUE	<u>258,361</u>	<u>174,961</u>
Total revenue	<u>9,975,206</u>	<u>9,584,447</u>
EXPENSES		
Nursing service	3,196,154	3,349,440
Other professional service	2,561,552	2,469,834
General service	1,007,481	1,051,247
Fiscal and administrative service and unassigned expenses	2,714,779	2,410,244
Provision for depreciation	<u>1,318,467</u>	<u>1,284,037</u>
Total expenses	<u>10,798,433</u>	<u>10,564,802</u>
Operating (loss)	<u>(823,227)</u>	<u>(980,355)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,138,198	1,040,288
Investment income	70,861	54,369
Unrestricted contributions	144,034	10,857
Interest expense	<u>(438,791)</u>	<u>(450,297)</u>
Total nonoperating gains (losses)	<u>914,302</u>	<u>655,217</u>
Excess (deficiency) of revenues over expenses before contributions	91,075	(325,138)
RESTRICTED CONTRIBUTIONS	<u>107,864</u>	<u>—</u>
Change in fund equity	198,939	(325,138)
TOTAL FUND EQUITY		
Beginning	<u>6,649,603</u>	<u>6,974,741</u>
Ending	<u>\$ 6,848,542</u>	<u>\$ 6,649,603</u>

See Notes to Financial Statements.

**Clarke County Public Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$10,483,439	\$9,831,896
Cash paid to suppliers for goods and services	(5,455,752)	(5,516,990)
Cash paid to employees for services	(4,037,806)	(3,710,808)
Other operating revenue received	258,361	174,961
Net cash provided by operating activities	1,248,242	779,059
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,138,198	1,040,288
Unrestricted contributions	144,034	10,857
Net cash provided by noncapital financing activities	1,282,232	1,051,145
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(776,681)	(718,781)
Proceeds from issuance of long-term debt	65,474	110,755
Principal payments on long-term debt	(370,561)	(328,470)
Interest paid on long-term debt	(432,544)	(451,122)
Contributions received, restricted for purchase of equipment	107,864	-
Net cash (used in) capital and related financing activities	(1,406,448)	(1,387,618)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	65,405	52,281
Purchase of certificates of deposit	(307,318)	(202,914)
Net cash (used in) investing activities	(241,913)	(150,633)
NET INCREASE IN CASH	882,113	291,953
CASH		
Beginning	1,099,327	807,374
Ending	\$ 1,981,440	\$1,099,327

See Notes to Financial Statements.

**Clarke County Public Hospital
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2005	2004
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (823,227)	\$ (980,355)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,318,467	1,284,037
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(83,406)	642,410
(Increase) in other receivables	(5,412)	(6,400)
(Increase) decrease in net estimated third-party payor settlements	850,000	(220,000)
(Increase) in inventories	(33,014)	(16,258)
(Increase) decrease in prepaid expenses	(89,337)	280
Increase in accounts payable, net of amounts for property and equipment	41,730	92,773
Increase in accrued employee compensation	62,994	17,839
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>9,447</u>	<u>(35,267)</u>
Net cash provided by operating activities	<u>\$1,248,242</u>	<u>\$ 779,059</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$1,022,140	\$ 440,581
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	762,943	605,179
Designated by board for special purpose, cash	142,869	-
Restricted for payment of long-term debt and interest, cash	<u>53,488</u>	<u>53,567</u>
Totals per statement of cash flows	<u>\$1,981,440</u>	<u>\$1,099,327</u>

See Notes to Financial Statements.

Clarke County Public 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 Clarke 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, Clarke County Public 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's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposits are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

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 three to forty years.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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.

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 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.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Reclassifications

Certain reclassifications have been made in the June 30, 2004 financial statements to conform to the June 30, 2005 presentation. These reclassifications had no impact on the total fund equity or the change in fund equity.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2005 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.

NOTE 3 PATIENT RECEIVABLES

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

	June 30	
	2005	2004
Patients	\$ 518,350	\$ 644,993
Insurance carriers	507,586	534,856
Medicare	732,062	606,988
Medicaid	<u>134,630</u>	<u>132,385</u>
Total patient receivables	1,892,628	1,919,222
Less allowances for contractual adjustments and uncollectible accounts	<u>(710,000)</u>	<u>(820,000)</u>
Net patient receivables	<u>\$1,182,628</u>	<u>\$1,099,222</u>

**Clarke County Public 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 and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

Other

The Hospital 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 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2005:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance , beginning	\$ 53,567	\$ 643,875	\$ 697,442
Transfers from current assets, cash	639,471	-	639,471
Interest earned	2,923	-	2,923
Payments for principal and interest	<u>(642,473)</u>	<u>-</u>	<u>(642,473)</u>
Balance , ending	<u>\$ 53,488</u>	<u>\$ 643,875</u>	<u>\$ 697,363</u>

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2005</u>		<u>June 30, 2004</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	189,772	155,179	189,772	150,543
Building	8,453,346	1,958,835	8,545,110	1,453,816
Fixed equipment	2,918,587	1,824,746	2,872,848	1,685,256
Major movable equipment	4,218,475	2,402,027	3,934,772	2,091,125
Medical office building	<u>1,098,085</u>	<u>406,320</u>	<u>1,098,085</u>	<u>356,322</u>
Totals	<u>\$16,887,815</u>	<u>\$6,747,107</u>	<u>\$16,650,137</u>	<u>\$5,737,062</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ 9,550
Land improvements	189,772	-	-	189,772
Building	8,545,110	-	91,764	8,453,346
Fixed equipment	2,872,848	51,946	6,207	2,918,587
Major movable equipment	3,934,772	585,918	302,215	4,218,475
Medical office building	<u>1,098,085</u>	<u>-</u>	<u>-</u>	<u>1,098,085</u>
Totals	16,650,137	637,864	400,186	16,887,815
Less accumulated depreciation	<u>(5,737,062)</u>	<u>(1,318,467)</u>	<u>(308,422)</u>	<u>(6,747,107)</u>
Net property and equipment	<u>\$10,913,075</u>	<u>\$ (680,603)</u>	<u>\$ 91,764</u>	<u>\$10,140,708</u>

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>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ 9,550
Land improvements	202,823	-	13,051	189,772
Building	8,434,345	120,830	10,065	8,545,110
Fixed equipment	2,744,040	202,653	73,845	2,872,848
Major movable equipment	3,955,980	170,583	191,791	3,934,772
Medical office building	<u>1,075,413</u>	<u>22,672</u>	<u>-</u>	<u>1,098,085</u>
Totals	16,422,151	516,738	288,752	16,650,137
Less accumulated depreciation	<u>(4,741,777)</u>	<u>(1,284,037)</u>	<u>(288,752)</u>	<u>(5,737,062)</u>
Net property and equipment	<u>\$11,680,374</u>	<u>\$ (767,299)</u>	<u>\$ -</u>	<u>\$10,913,075</u>

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2005</u>	<u>2004</u>
Hospital Revenue Bonds, Series 2001	\$6,575,000	\$6,805,000
Notes payable, equipment	<u>442,769</u>	<u>517,856</u>
	7,017,769	7,322,856
Less current maturities	<u>391,585</u>	<u>363,441</u>
Long-term debt, net of current maturities	<u>\$6,626,184</u>	<u>\$6,959,415</u>

Hospital Revenue Bonds, Series 2001

The Hospital has issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. 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 4.8% to 6.5%.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Hospital Revenue Bonds, Series 2001 (continued)

The Hospital Revenue Bonds, Series 2001, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2006 \$641,651; 2007 \$640,466; 2008 \$642,453; 2009 \$639,145; 2010 \$639,897.

A Debt Service Reserve Fund in an amount equal to the maximum annual amount of principal and interest due in any succeeding fiscal year.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bonds at June 30, 2005.

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 \$10,629, including interest at 4.15%, with the final payment due December, 2007. At June 30, 2005, the remaining balance on this note is \$302,380.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,028, including interest at 4%, with the final payment due May, 2009. At June 30, 2005, the remaining balance on this note is \$43,792.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,014, including interest at 3.5%, with the final payment due October, 2008. At June 30, 2005, the remaining balance on this note is \$38,242.

The Hospital has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,224, including interest at 4.0%, with the final payment due October, 2009. At June 30, 2005, the remaining balance on this note is \$58,355.

Aggregate maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 240,000	\$ 151,585	\$ 391,585	\$ 416,943	\$ 808,528
2007	250,000	157,889	407,889	399,119	807,008
2008	265,000	100,125	365,125	380,610	745,735
2009	275,000	28,314	303,314	364,830	668,144
2010	290,000	4,856	294,856	349,576	644,432
2011 - 2015	635,000	-	635,000	1,474,300	2,109,300
2016 - 2020	1,515,000	-	1,515,000	855,663	2,370,663
2021 - 2022	<u>3,105,000</u>	<u>-</u>	<u>3,105,000</u>	<u>114,725</u>	<u>3,219,725</u>
Total	6,575,000	442,769	7,017,769	4,355,766	11,373,535
Less current maturities	<u>240,000</u>	<u>151,585</u>	<u>391,585</u>	<u>416,943</u>	<u>808,528</u>
Total long-term debt	<u>\$6,335,000</u>	<u>\$ 291,184</u>	<u>\$6,626,184</u>	<u>\$3,938,823</u>	<u>\$10,565,007</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2005 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$6,805,000	\$ -	\$ 230,000	\$6,575,000	\$ 240,000
Notes payable	<u>517,856</u>	<u>65,474</u>	<u>140,561</u>	<u>442,769</u>	<u>151,585</u>
Totals	<u>\$7,322,856</u>	<u>\$ 65,474</u>	<u>\$ 370,561</u>	<u>\$7,017,769</u>	<u>\$ 391,585</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>Amounts due within one year</u>
Hospital Revenue Bonds	\$7,025,000	\$ -	\$ 220,000	\$6,805,000	\$ 230,000
Notes payable	<u>522,712</u>	<u>110,755</u>	<u>115,611</u>	<u>517,856</u>	<u>133,441</u>
Totals	<u>\$7,547,712</u>	<u>\$ 110,755</u>	<u>\$ 335,611</u>	<u>\$7,322,856</u>	<u>\$ 363,441</u>

NOTE 8 MEDICAL OFFICE BUILDING

The Hospital and a medical group practice entered into a lease agreement covering a substantial portion of the medical office building. The noncancelable lease began in 1997 for a ten year period, and provides guaranteed annual rents of \$51,113, payable monthly at \$12.50 per leased square foot. The lease also grants the medical group practice options to extend the lease for an additional term of five years and to expand the space included in the agreement, at specified new rates. Other revenue for each of the years ended June 30, 2005 and 2004 included \$54,987 received under the lease agreement.

NOTE 9 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, 2005, 2004 and 2003 were \$233,335, \$209,615 and \$196,481, respectively, equal to the required contributions for each year.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 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, 2005 and 2004.

	2005	2004
Charges foregone, based on established rates	\$ <u>24,862</u>	\$ <u>13,682</u>
Equivalent percentage of charity care patients to all patients served	<u>.2%</u>	<u>.1%</u>

NOTE 11 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.

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2005 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 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

In accordance with the Code of Iowa, the Board of Trustees annually adopts a County Hospital budget following required public notice and hearings for all funds. The annual County Hospital budget may be amended during the year utilizing similar statutorily prescribed procedures. The Hospital prepares its annual budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between 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 payments are recorded as expenditures on the County Hospital budget basis.

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

	GAAP basis	Budget basis adjustments	Budget basis	County Hospital budget
Amount to be raised by taxation	\$ 1,138,198	\$ 170,030	\$ 1,308,228	\$ 1,269,477
Other revenues/receipts	<u>9,859,174</u>	<u>—</u>	<u>9,859,174</u>	<u>10,327,857</u>
	10,997,372	170,030	11,167,402	11,597,334
Expenses/expenditures	<u>10,798,433</u>	<u>(346,047)</u>	<u>10,452,386</u>	<u>12,844,058</u>
Net	198,939	516,077	715,016	(1,246,724)
Balance, beginning	<u>6,649,603</u>	<u>—</u>	<u>6,649,603</u>	<u>3,228,371</u>
Balance, ending	<u>\$ 6,848,542</u>	<u>\$ 516,077</u>	<u>\$ 7,364,619</u>	<u>\$ 1,981,647</u>

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
Clarke County Public Hospital
Osceola, Iowa

Our report on our audits of the basic financial statements of Clarke County Public Hospital for 2005 and 2004 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
July 28, 2005

**Clarke County Public 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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Patients in Hospital at end of year	\$ 69,959	\$ 106,349	3.70%	5.54%
Unbilled	418,151	285,803	22.09	14.89
0 - 60 days	856,491	678,471	45.26	35.35
61 - 180 days	295,101	467,051	15.59	24.33
181 - 365 days	105,643	216,973	5.58	11.31
366 and over	<u>147,283</u>	<u>164,575</u>	<u>7.78</u>	<u>8.58</u>
Totals	<u>1,892,628</u>	<u>1,919,222</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	150,000	240,000		
Medicaid	80,000	80,000		
Other	120,000	80,000		
Uncollectibles	<u>360,000</u>	<u>420,000</u>		
Total allowances	<u>710,000</u>	<u>820,000</u>		
Totals	<u>\$1,182,628</u>	<u>\$1,099,222</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 26,621</u>	<u>\$ 25,709</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>44</u>	<u>43</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>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
BALANCE , beginning	\$ 420,000	\$ 300,000		
ADD				
Provision for bad debts	550,046	768,174	5.66%	8.16%
Recoveries of accounts previously written off	<u>126,989</u>	<u>96,630</u>	1.31	1.03
	1,097,035	1,164,804		
DEDUCT				
Accounts written off	<u>737,035</u>	<u>744,804</u>	7.59	7.92
BALANCE , ending	<u>\$ 360,000</u>	<u>\$ 420,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2005, with comparative totals for 2004

	<u>2005</u>			<u>2004</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$ 818,340	\$ —	\$ 818,340	\$ 883,550
Skilled care	166,835	—	166,835	180,144
Extended care	683,980	—	683,980	803,037
	<u>1,669,155</u>	<u>—</u>	<u>1,669,155</u>	<u>1,866,731</u>
OTHER NURSING SERVICES				
Operating and recovery rooms	64,515	751,928	816,443	1,199,383
Emergency room and outpatient services	140,464	1,344,979	1,485,443	1,890,093
Central supply	68,816	298,701	367,517	483,785
Ambulance	12,705	629,260	641,965	578,442
	<u>286,500</u>	<u>3,024,868</u>	<u>3,311,368</u>	<u>4,151,703</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	437,455	1,123,809	1,561,264	1,450,402
Cardiopulmonary	35,400	97,604	133,004	125,417
Cardiac rehabilitation	560	148,400	148,960	143,704
Respiratory therapy	37,740	7,130	44,870	84,700
Diagnostic imaging	293,149	2,253,617	2,546,766	1,983,731
Pharmacy	375,068	673,802	1,048,870	888,923
Anesthesiology	23,667	171,879	195,546	275,448
Speech therapy	4,490	13,290	17,780	25,620
Physical therapy	89,725	479,030	568,755	519,005
Occupational therapy	9,056	9,231	18,287	24,832
	<u>1,306,310</u>	<u>4,977,792</u>	<u>6,284,102</u>	<u>5,521,782</u>
Totals	<u>\$3,261,965</u>	<u>\$8,002,660</u>	11,264,625	11,540,216
Charity care charges foregone, based on established rates			(24,862)	(13,682)
Total gross patient service revenue			<u>11,239,763</u>	<u>11,526,534</u>
Provisions for contractual adjustments and bad debts			(1,522,918)	(2,117,048)
Total net patient service revenue			<u>\$ 9,716,845</u>	<u>\$ 9,409,486</u>

Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS

	Year ended June 30	
	2005	2004
Contractual adjustments		
Medicare and Medicaid	\$ 397,398	\$ 709,502
Other	575,474	639,372
Provision for bad debts	550,046	768,174
Totals	\$1,522,918	\$2,117,048

OTHER REVENUE

	Year ended June 30	
	2005	2004
Meals	\$ 26,204	\$ 22,329
Community fitness center fees	16,275	15,808
Medical office building		
Rental income	54,987	54,987
Other income	27,401	25,719
Miscellaneous	133,494	56,118
Totals	\$ 258,361	\$ 174,961

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2005, with comparative totals for 2004

	<u>2005</u>			<u>2004</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 80,885	\$ 12,986	\$ 93,871	\$ 79,582
Medical and surgical	1,106,980	119,474	1,226,454	835,885
Extended care	321,523	127,143	448,666	600,123
Operating and recovery rooms	236,897	109,619	346,516	382,188
Emergency room and outpatient services	455,717	368,683	824,400	973,501
Central supply	-	185,252	185,252	289,685
Ambulance	37,711	33,284	70,995	188,476
Total nursing service	<u>2,239,713</u>	<u>956,441</u>	<u>3,196,154</u>	<u>3,349,440</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	282,750	257,954	540,704	481,283
Cardiopulmonary	2,151	10,474	12,625	14,491
Cardiac rehabilitation	50,437	12,211	62,648	61,466
Respiratory therapy	48,134	2,829	50,963	47,630
Diagnostic imaging	266,965	342,386	609,351	615,146
Pharmacy	16,429	478,901	495,330	433,395
Anesthesiology	-	100,830	100,830	155,140
Speech therapy	-	8,430	8,430	12,125
Physical therapy	-	339,765	339,765	314,925
Occupational therapy	-	5,937	5,937	10,560
Medical office building	-	25,312	25,312	23,328
Health information	111,735	77,792	189,527	190,924
Quality improvement and utilization management	93,229	26,901	120,130	109,421
Total other professional service	<u>871,830</u>	<u>1,689,722</u>	<u>2,561,552</u>	<u>2,469,834</u>
GENERAL SERVICE				
Dietary	157,191	138,746	295,937	283,789
Plant operation	122,412	277,528	399,940	447,088
Environmental services	202,142	27,087	229,229	233,280
Laundry and linen	-	82,375	82,375	87,090
Total general service	<u>481,745</u>	<u>525,736</u>	<u>1,007,481</u>	<u>1,051,247</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	78,013	585,648	663,661	518,970
Accounting and business office	315,677	173,710	489,387	505,641
Information services	41,588	160,754	202,342	183,126
Purchasing	67,194	3,873	71,067	65,200
Community fitness center	5,040	13,150	18,190	24,140
FICA	-	289,692	289,692	267,590
IPERS	-	233,335	233,335	209,615
Group health, life, and disability insurance	-	573,115	573,115	495,366
Insurance	-	173,990	173,990	140,596
Total fiscal and administrative service and unassigned expenses	<u>507,512</u>	<u>2,207,267</u>	<u>2,714,779</u>	<u>2,410,244</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,318,467</u>	<u>1,318,467</u>	<u>1,284,037</u>
Total expenses	<u>\$4,100,800</u>	<u>\$6,697,633</u>	<u>\$10,798,433</u>	<u>\$10,564,802</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	2005	2004
PATIENT DAYS		
Adult and pediatric	1,166	1,434
Swing bed	547	648
Extended care	6,215	8,123
Totals	7,928	10,205
DISCHARGES		
Adult and pediatric	379	439
Swing bed	68	92
Extended care	40	52
Totals	487	583
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.08	3.27
Swing bed	8.04	7.04
Extended care	155.38	156.21

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
Clarke County Public Hospital
Osceola, Iowa

We have audited the financial statements of Clarke County Public Hospital as of and for the year ended June 30, 2005, and have issued our report thereon dated July 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over 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, 2005 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 Clarke 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
July 28, 2005

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

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.

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2005**

Part II—Findings Related to Required Statutory Reporting

05-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, 2005.

05-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, 2005.

05-II-C QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

05-II-D TRAVEL EXPENSES

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

05-II-E BUSINESS TRANSACTIONS

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

05-II-F BOARD MINUTES

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

05-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.