

**Greater Community Hospital  
Creston, Iowa**

**FINANCIAL REPORT**

**June 30, 2005**

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**Greater Community Hospital  
OFFICIALS  
June 30, 2005**

**BOARD OF TRUSTEES**

**Officers**

Dave Driskell, Chair  
Dennis Nelson, Vice Chair  
Carolyn Dillenburg, Secretary  
Tom Dunphy, Treasurer

**Members**

Jack Davis  
Sherry McKie  
Lores Stewart

**Expiration of term**

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

December 31, 2006  
December 31, 2010  
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, 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 Greater Community 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 August 5, 2005 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.

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  
August 5, 2005

## **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, 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 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 increased by \$2,070,358 or 7% to \$33,035,271
- Total noncurrent assets whose use is limited increased by \$574,392 to \$6,149,516
- Total property and equipment decreased by \$902,241 to \$17,881,034
- Total fund equity increased by \$1,262,686 to \$21,771,312
- Total long-term debt decreased by \$73,536 to \$8,140,684
- Net patient service revenue increased by \$1,323,461, or 8% primarily due to increased reimbursement by third-party payors due to Hospital's Critical Access Hospital status, effective December 1, 2004
- Expenses increased by \$303,866, or 2% to \$20,067,378

### **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**

|   | <b>June 30</b>                 |                                |                                |
|---|--------------------------------|--------------------------------|--------------------------------|
|   | <u><b>2005</b></u>             | <u><b>2004</b></u>             | <u><b>2003</b></u>             |
| Current assets                                  | \$ 7,774,945                   | \$ 5,377,608                   | \$ 6,528,304                   |
| Noncurrent assets whose use is limited          | 6,149,516                      | 5,575,124                      | 5,319,620                      |
| Property and equipment                          | 17,881,034                     | 18,783,275                     | 19,081,771                     |
| Other assets                                    | <u>1,229,776</u>               | <u>1,228,906</u>               | <u>1,223,662</u>               |
| <br>Total assets                                | <br><u><b>\$33,035,271</b></u> | <br><u><b>\$30,964,913</b></u> | <br><u><b>\$32,153,357</b></u> |
| Current liabilities                             | \$ 2,592,995                   | \$ 1,626,555                   | \$ 2,606,216                   |
| Long-term debt, less current maturities         | 7,600,964                      | 7,769,732                      | 8,027,430                      |
| Other noncurrent liabilities                    | <u>1,070,000</u>               | <u>1,060,000</u>               | <u>1,050,000</u>               |
| <br>Total liabilities                           | <br><u><b>\$11,263,959</b></u> | <br><u><b>\$10,456,287</b></u> | <br><u><b>\$11,683,646</b></u> |
| Invested in capital assets, net of related debt | \$ 9,740,350                   | \$10,569,055                   | \$10,658,806                   |
| Restricted                                      | 692,143                        | 681,593                        | 626,560                        |
| Unrestricted                                    | <u>11,338,819</u>              | <u>9,257,978</u>               | <u>9,184,345</u>               |
| <br>Total fund equity                           | <br><u><b>\$21,771,312</b></u> | <br><u><b>\$20,508,626</b></u> | <br><u><b>\$20,469,711</b></u> |

As depicted in Table 1, total assets increased in fiscal year 2005 to \$33,035,271. The change in total assets results primarily from an increase in cash and investments as a result of significant change in operating income.

## **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**

|                                   | <b>Year ended June 30</b> |                     |                     |
|-----------------------------------|---------------------------|---------------------|---------------------|
|                                   | <b>2005</b>               | <b>2004</b>         | <b>2003</b>         |
| Net patient service revenue       | \$18,932,144              | \$17,608,683        | \$16,828,451        |
| Other revenue                     | <u>1,457,472</u>          | <u>1,337,169</u>    | <u>868,192</u>      |
| Total revenue                     | <u>20,389,616</u>         | <u>18,945,852</u>   | <u>17,696,643</u>   |
| Salaries                          | 8,146,142                 | 8,173,801           | 8,302,241           |
| Other expenses                    | 10,245,041                | 10,045,781          | 9,508,475           |
| Provision for depreciation        | <u>1,676,195</u>          | <u>1,543,930</u>    | <u>1,280,740</u>    |
| Total expenses                    | <u>20,067,378</u>         | <u>19,763,512</u>   | <u>19,091,456</u>   |
| Operating income (loss)           | <u>322,238</u>            | <u>(817,660)</u>    | <u>(1,394,813)</u>  |
| County taxes                      | 1,147,284                 | 1,149,753           | 837,252             |
| Investment income                 | 158,984                   | 100,866             | 270,400             |
| Unrestricted contributions        | 13,500                    | –                   | 20,091              |
| Interest expense                  | <u>(379,320)</u>          | <u>(394,044)</u>    | <u>(385,988)</u>    |
| Total nonoperating gains (losses) | <u>940,448</u>            | <u>856,575</u>      | <u>741,755</u>      |
| Change in fund equity             | 1,262,686                 | 38,915              | (653,058)           |
| Total fund equity, beginning      | <u>20,508,626</u>         | <u>20,469,711</u>   | <u>21,122,769</u>   |
| Total fund equity, ending         | <u>\$21,771,312</u>       | <u>\$20,508,626</u> | <u>\$20,469,711</u> |

## **Operating and Financial Performance**

The following summarizes the Hospital's statements 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:** Medical, surgical and obstetrical discharges for fiscal year 2005 were 1,326 compared to 1,335 in fiscal year 2004. Average length of stay increased slightly and patient days increased to 4,146 from 4,069 in 2004. Volume on the outpatient side declined slightly in 2005. In 2005, gross outpatient charges decreased to \$18,598,037 compared to \$18,763,312 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 \$28,555,332 from \$29,122,938 in 2004.

**Payor Mix:** Effective December 1, 2004, the Hospital was 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 new designation, contractual adjustments and bad debts decreased to \$9,623,188 in 2005 from \$11,514,255 in 2004. This represents 34% of gross patient charges.

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>2005</u>               | <u>2004</u> | <u>2003</u> |
| Medicare             | 51%                       | 54%         | 58%         |
| Medicaid             | 8                         | 6           | 7           |
| Wellmark             | 21                        | 15          | 16          |
| Commercial insurance | 14                        | 14          | 10          |
| Self pay             | <u>6</u>                  | <u>11</u>   | <u>9</u>    |
| Totals               | <u>100%</u>               | <u>100%</u> | <u>100%</u> |

**Other Revenue**

Other revenue increased to \$1,457,472 in 2005 compared to \$1,337,169 in 2004, primarily due to rental income derived from Medical Arts Plaza and Crestridge Estates.

**Expenses**

Approximately 40% of the Hospital's expenses are for salaries. Total salaries decreased slightly to \$8,146,142 in 2005 from \$8,173,801 in 2004. The Hospital departments experiencing the most significant decrease in 2005 included Lenox Clinic and GCH clinic.

Approximately 50% of the Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 2% to \$10,245,041 in 2005 from \$10,045,781 in 2004. The most significant increase related to group health and life insurance costs, which increased by \$395,064 in 2005.

Approximately 10% of the Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,676,195 in 2005 from \$1,543,930 in 2004.

**Nonoperating Gains**

Nonoperating gains increased to \$940,448 from \$856,575 in 2004, primarily due to an increase in investment income.

**Property and Equipment**

At the end of 2005, the Hospital had \$17,881,034 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, \$799,613 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**

|                               | <b>June 30</b>      |                     |                     |
|-------------------------------|---------------------|---------------------|---------------------|
|                               | <b>2005</b>         | <b>2004</b>         | <b>2003</b>         |
| Land                          | \$ 185,260          | \$ 185,260          | \$ 185,260          |
| Land improvements             | 1,899,903           | 1,896,708           | 1,885,408           |
| Building and improvements     | 6,086,997           | 6,061,479           | 5,801,810           |
| Fixed equipment               | 4,886,075           | 4,886,075           | 4,873,667           |
| Major movable equipment       | 8,640,014           | 9,189,372           | 8,716,088           |
| Buildings leased to others    | 7,246,108           | 7,246,108           | 7,246,108           |
| Crestridge Estates            | 3,363,382           | 3,363,382           | -                   |
| Construction in progress      | -                   | -                   | <u>3,125,553</u>    |
| Subtotal                      | <u>32,307,739</u>   | <u>32,828,384</u>   | <u>31,833,894</u>   |
| Less accumulated depreciation | <u>(14,426,705)</u> | <u>(14,045,109)</u> | <u>(12,752,123)</u> |
| Property and equipment        | <u>\$17,881,034</u> | <u>\$18,783,275</u> | <u>\$19,081,771</u> |

**Debt Administration**

At year end, the Hospital had \$6,995,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2002. This has decreased by \$275,000 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 60% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$1,145,684 in current and long-term notes payable, an increase of \$201,464 from 2004. This increase is the result of the issuance of debt to purchase equipment, offset by the required payments made on the outstanding notes for fiscal year 2005. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 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 2005 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5**  
**Actual vs County Hospital Budget**

|                                 | <b>Actual<br/>budget<br/>basis</b> | <b>Annual<br/>County<br/>Hospital<br/>budget</b> | <b>Variance</b>    |
|---------------------------------|------------------------------------|--|--------------------|
| Amount to be raised by taxation | \$ 1,147,284                       | \$ 1,063,344                                     | \$ 83,940          |
| Other revenues/receipts         | <u>20,579,615</u>                  | <u>20,504,205</u>                                | <u>75,410</u>      |
|                                 | 21,726,899                         | 21,567,549                                       | 159,350            |
| Expenses/expenditures           | <u>19,661,167</u>                  | <u>26,117,840</u>                                | <u>(6,456,673)</u> |
| Net                             | <u>\$ 2,065,732</u>                | <u>\$ (4,550,291)</u>                            | <u>\$6,616,023</u> |

Actual other revenues/receipts results were higher than County Hospital budget primarily due to 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 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 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**

| <b>ASSETS</b>   | <b>June 30</b>          |                         |
|---|-------------------------|-------------------------|
|   | <b>2005</b>             | <b>2004</b>             |
| <b>CURRENT ASSETS</b>   |                         |                         |
| Cash  | \$ 2,956,550            | \$ 1,218,803            |
| Assets whose use is limited, required for current liabilities                               | 312,703                 | 303,482                 |
| Certificates of deposit   | 669,919                 | 661,075                 |
| Patient receivables, less allowances for contractual adjustments and uncollectible accounts | 2,562,178               | 2,062,809               |
| Other receivables   | 47,910                  | 140,818                 |
| Estimated third-party payor settlements   | 490,000                 | 250,000                 |
| Inventories   | 478,087                 | 482,798                 |
| Prepaid expenses  | <u>257,598</u>          | <u>257,823</u>          |
| Total current assets  | <u>7,774,945</u>        | <u>5,377,608</u>        |
| <b>ASSETS WHOSE USE IS LIMITED</b>  |                         |                         |
| Designated by board for plant replacement and expansion                                     |                         |                         |
| Cash  | 1,910,945               | 1,416,299               |
| Certificates of deposit   | 2,557,847               | 2,512,425               |
| U.S. Government Agency securities   | 1,284,000               | 1,254,000               |
| Interest receivable   | <u>17,284</u>           | <u>14,289</u>           |
|   | 5,770,076               | 5,197,013               |
| Restricted for payment of long-term debt and interest                                       |                         |                         |
| Cash, debt service reserve fund   | <u>692,143</u>          | <u>681,593</u>          |
| Total assets whose use is limited   | 6,462,219               | 5,878,606               |
| Less assets whose use is limited and that are required for current liabilities              | <u>312,703</u>          | <u>303,482</u>          |
| Noncurrent assets whose use is limited  | <u>6,149,516</u>        | <u>5,575,124</u>        |
| <b>PROPERTY AND EQUIPMENT</b>   |                         |                         |
| Less accumulated depreciation   | 32,307,739              | 32,828,384              |
| Total property and equipment  | <u>14,426,705</u>       | <u>14,045,109</u>       |
|   | <u>17,881,034</u>       | <u>18,783,275</u>       |
| <b>OTHER ASSETS</b>   |                         |                         |
| Unamortized financing costs   | 159,776                 | 168,906                 |
| Succeeding year property tax receivable   | <u>1,070,000</u>        | <u>1,060,000</u>        |
| Total other assets  | <u>1,229,776</u>        | <u>1,228,906</u>        |
| <br>Totals  | <br><u>\$33,035,271</u> | <br><u>\$30,964,913</u> |

See Notes to Financial Statements.

|   | <b>June 30</b>      |                     |
|---|---------------------|---------------------|
|   | <b>2005</b>         | <b>2004</b>         |
| <b>LIABILITIES AND FUND EQUITY</b>                                      |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Current maturities of long-term debt                                    | \$ 539,720          | \$ 444,488          |
| Accounts payable  | 757,514             | 475,295             |
| Accrued employee compensation   | 662,400             | 632,678             |
| Payroll taxes and amounts withheld from employees                       | 95,658              | 45,612              |
| Accrued interest  | 27,703              | 28,482              |
| Estimated third-party payor settlements                                 | 510,000             | -                   |
|   | <u>2,592,995</u>    | <u>1,626,555</u>    |
| <b>LONG-TERM DEBT</b> , less current maturities                         | <u>7,600,964</u>    | <u>7,769,732</u>    |
| <b>DEFERRED REVENUE FOR SUCCEEDING YEAR<br/>PROPERTY TAX RECEIVABLE</b> | <u>1,070,000</u>    | <u>1,060,000</u>    |
| <b>FUND EQUITY</b>  |                     |                     |
| Invested in capital assets, net of related debt                         | 9,740,350           | 10,569,055          |
| Restricted  | 692,143             | 681,593             |
| Unrestricted  | <u>11,338,819</u>   | <u>9,257,978</u>    |
| Total fund equity   | <u>21,771,312</u>   | <u>20,508,626</u>   |
| Totals  | <u>\$33,035,271</u> | <u>\$30,964,913</u> |

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

|  | <b>Year ended June 30</b> |                     |
|--|---------------------------|---------------------|
|  | <b>2005</b>               | <b>2004</b>         |
| <b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2005 \$766,706; 2004 \$938,342 | \$18,932,144              | \$17,608,683        |
| <b>OTHER REVENUE</b>   | <u>1,457,472</u>          | <u>1,337,169</u>    |
| Total revenue  | <u>20,389,616</u>         | <u>18,945,852</u>   |
| <b>EXPENSES</b>  |                           |                     |
| Nursing service  | 5,688,891                 | 5,552,922           |
| Other professional service   | 5,131,898                 | 5,513,396           |
| General service  | 1,758,057                 | 1,865,454           |
| Fiscal and administrative service and unassigned expenses  | 5,812,337                 | 5,287,810           |
| Provision for depreciation   | <u>1,676,195</u>          | <u>1,543,930</u>    |
| Total expenses   | <u>20,067,378</u>         | <u>19,763,512</u>   |
| Operating income (loss)  | <u>322,238</u>            | <u>(817,660)</u>    |
| <b>NONOPERATING GAINS (LOSSES)</b>   |                           |                     |
| County taxes   | 1,147,284                 | 1,149,753           |
| Investment income  | 158,984                   | 100,866             |
| Unrestricted contributions   | 13,500                    | -                   |
| Interest expense   | <u>(379,320)</u>          | <u>(394,044)</u>    |
| Total nonoperating gains (losses)  | <u>940,448</u>            | <u>856,575</u>      |
| Change in fund equity  | 1,262,686                 | 38,915              |
| <b>TOTAL FUND EQUITY</b>   |                           |                     |
| Beginning  | <u>20,508,626</u>         | <u>20,469,711</u>   |
| Ending   | <u>\$21,771,312</u>       | <u>\$20,508,626</u> |

**Greater Community Hospital  
STATEMENTS OF CASH FLOWS**

|   | <b>Year ended June 30</b> |                     |
|---|---------------------------|---------------------|
|   | <b>2005</b>               | <b>2004</b>         |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                     |                           |                     |
| Cash received from patients and third-party payors              | \$18,702,775              | \$17,832,012        |
| Cash paid to suppliers for goods and services                   | (9,814,932)               | (9,952,036)         |
| Cash paid to employees for services                             | (8,116,420)               | (8,344,588)         |
| Other operating revenue received                                | <u>1,457,472</u>          | <u>1,337,169</u>    |
| Net cash provided by operating activities                       | <u>2,228,895</u>          | <u>872,557</u>      |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>          |                           |                     |
| County taxes received   | 1,147,284                 | 1,149,753           |
| Contributions received  | <u>13,500</u>             | <u>—</u>            |
| Net cash provided by noncapital financing activities            | <u>1,160,784</u>          | <u>1,149,753</u>    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b> |                           |                     |
| Acquisition of property and equipment                           | (773,954)                 | (1,762,023)         |
| Proceeds from issuance of long-term debt                        | 396,835                   | 189,900             |
| Principal payments on long-term debt                            | (470,371)                 | (398,645)           |
| Interest paid on long-term debt                                 | <u>(370,969)</u>          | <u>(389,460)</u>    |
| Net cash (used in) capital and related financing activities     | <u>(1,218,459)</u>        | <u>(2,360,228)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                     |                           |                     |
| Interest received   | 155,989                   | 101,401             |
| Purchase of investments   | (447,694)                 | (1,243,621)         |
| Proceeds from maturities of investments                         | <u>363,428</u>            | <u>1,185,000</u>    |
| Net cash provided by investing activities                       | <u>71,723</u>             | <u>42,780</u>       |
| <b>NET INCREASE (DECREASE) IN CASH</b>                          | 2,242,943                 | (295,138)           |
| <b>CASH</b>   |                           |                     |
| Beginning   | <u>3,316,695</u>          | <u>3,611,833</u>    |
| Ending  | <u>\$ 5,559,638</u>       | <u>\$ 3,316,695</u> |

See Notes to Financial Statements.

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

|   | <b>Year ended June 30</b> |                    |
|---|---------------------------|--------------------|
|   | <b>2005</b>               | <b>2004</b>        |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                           |                    |
| Operating income (loss)   | \$ 322,238                | \$ (817,660)       |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities |                           |                    |
| Depreciation  | 1,676,195                 | 1,543,930          |
| Changes in assets and liabilities   |                           |                    |
| (Increase) decrease in patient receivables  | (499,369)                 | 323,329            |
| Decrease in other receivables   | 92,908                    | 335,449            |
| (Increase) decrease in net estimated third-party payor settlements                            | 270,000                   | (100,000)          |
| (Increase) decrease in inventories  | 4,711                     | (1,149)            |
| (Increase) decrease in prepaid expenses   | 225                       | (139,489)          |
| Increase (decrease) in accounts payable   | 282,219                   | (18,942)           |
| Increase (decrease) in accrued employee compensation  | 29,722                    | (170,787)          |
| Increase (decrease) in payroll taxes and amounts withheld from employees                      | 50,046                    | (82,124)           |
| Net cash provided by operating activities   | <b>\$2,228,895</b>        | <b>\$ 872,557</b>  |
| <b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>                |                           |                    |
| Per balance sheet   |                           |                    |
| Current assets, cash  | \$2,956,550               | \$1,218,803        |
| Assets whose use is limited   |                           |                    |
| Designated by board for plant replacement and expansion, cash                                 | 1,910,945                 | 1,416,299          |
| Restricted for payment of long-term debt and interest, cash                                   | 692,143                   | 681,593            |
| Total per statement of cash flows   | <b>\$5,559,638</b>        | <b>\$3,316,695</b> |

See Notes to Financial Statements.

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

| <u>Type</u>  | <u>Method</u>  |
|--|--|
| Interest-earning investment contracts<br>Nonnegotiable certificates of deposit   | Cost   |
| Debt securities<br>U.S. Government Agency securities<br>Maturity of one year or less when purchased<br>Maturity of more than one year when purchased | Amortized cost<br>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 four 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 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 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, 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.

The Hospital's investments, consisting of U.S. Government Agency securities, at June 30, 2005 are as follows:

| <u>Maturity</u> | <u>Fair value</u>  |
|-----------------|--------------------|
| July, 2005      | \$ 69,000          |
| August, 2006    | 125,000            |
| August, 2006    | 45,000             |
| September, 2006 | 395,000            |
| December, 2006  | 420,000            |
| September, 2007 | 200,000            |
| November, 2007  | <u>30,000</u>      |
| Total           | <u>\$1,284,000</u> |

As to interest rate risk, the Hospital's investment policy limits the investment of operating funds in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

**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>2005</u>               | <u>2004</u>        |
| Patients   | \$1,138,032               | \$ 551,107         |
| Insurance carriers   | 1,621,716                 | 2,028,132          |
| Medicare   | 1,224,728                 | 1,743,488          |
| Medicaid   | <u>359,603</u>            | <u>223,444</u>     |
| Total patient receivables  | 4,344,079                 | 4,546,171          |
| Less unapplied Medicare periodic interim payments                      | (421,901)                 | (763,362)          |
| Less allowances for contractual adjustments and uncollectible accounts | <u>(1,360,000)</u>        | <u>(1,720,000)</u> |
| Net patient receivables  | <u>\$2,562,178</u>        | <u>\$2,062,809</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 and Medicaid**

Effective December 1, 2004, the Hospital was 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 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<br/>depreciation</u> | <u>Cost</u>          | <u>Accumulated<br/>depreciation</u> |
| Land                       | \$ 185,260           | \$ —                                | \$ 185,260           | \$ —                                |
| Land improvements          | 1,899,903            | 798,958                             | 1,896,708            | 709,399                             |
| Buildings and improvements | 6,086,997            | 2,126,794                           | 6,061,479            | 1,927,700                           |
| Fixed equipment            | 4,886,075            | 3,544,625                           | 4,886,075            | 3,340,679                           |
| Major movable equipment    | 8,640,014            | 6,281,881                           | 9,189,372            | 6,931,504                           |
| Buildings leased to others | 7,246,108            | 1,397,817                           | 7,246,108            | 1,046,699                           |
| Crestridge Estates         | <u>3,363,382</u>     | <u>276,630</u>                      | <u>3,363,382</u>     | <u>89,128</u>                       |
| Totals                     | <u>\$32,307,739</u>  | <u>\$14,426,705</u>                 | <u>\$32,828,384</u>  | <u>\$14,045,109</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, 2005 follows:

|                               | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Deletions</u>   | <u>Ending<br/>balance</u> |
|-------------------------------|------------------------------|---------------------|--------------------|---------------------------|
| Land                          | \$ 185,260                   | \$ —                | \$ —               | \$ 185,260                |
| Land improvements             | 1,896,708                    | 3,195               | —                  | 1,899,903                 |
| Building and improvements     | 6,061,479                    | 25,518              | —                  | 6,086,997                 |
| Fixed equipment               | 4,886,075                    | —                   | —                  | 4,886,075                 |
| Major movable equipment       | 9,189,372                    | 770,900             | 1,320,258          | 8,640,014                 |
| Buildings leased to others    | 7,246,108                    | —                   | —                  | 7,246,108                 |
| Crestridge Estates            | <u>3,363,382</u>             | <u>—</u>            | <u>—</u>           | <u>3,363,382</u>          |
| Totals                        | 32,828,384                   | 799,613             | 1,320,258          | 32,307,739                |
| Less accumulated depreciation | <u>(14,045,109)</u>          | <u>(1,676,195)</u>  | <u>(1,294,599)</u> | <u>(14,426,705)</u>       |
| Net property and equipment    | <u>\$18,783,275</u>          | <u>\$ (876,582)</u> | <u>\$ 25,659</u>   | <u>\$17,881,034</u>       |

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

|                               | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Deletions</u> | <u>Transfer</u>    | <u>Ending<br/>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>       |

**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, 2005 and 2004 included \$540,413 and \$468,205, 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:

|   | <b>Year ended June 30</b> |                    |
|---|---------------------------|--------------------|
|   | <b>2005</b>               | <b>2004</b>        |
| Hospital Revenue Bonds, Series 2002       | \$6,995,000               | \$7,270,000        |
| Notes payable, equipment                  | 684,817                   | 467,791            |
| Note payable, real estate                 | <u>460,867</u>            | <u>476,429</u>     |
| Total                                     | 8,140,684                 | 8,214,220          |
| Less current maturities                   | <u>539,720</u>            | <u>444,488</u>     |
| Long-term debt, net of current maturities | <u>\$7,600,964</u>        | <u>\$7,769,732</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 3.65% 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, 2005, the remaining balance on this note is \$164,535.

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, 2005.

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, 2005, the remaining balance on this note is \$149,330.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$6,772, including interest at .93% with the final payment due February, 2010. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2005, the remaining balance on this note is \$370,952.

**Note Payable, Real Estate**

The Hospital has a 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<br/>Bonds</u> | <u>Notes<br/>payable,<br/>equipment</u> | <u>Note<br/>payable,<br/>real estate</u> | <u>Total<br/>principal</u> | <u>Interest</u>    | <u>Total</u>        |
|----------------------------|--------------------------|---|--|----------------------------|--------------------|---------------------|
| 2006                       | \$ 285,000               | \$ 238,240                              | \$ 16,480                                | \$ 539,720                 | \$ 366,186         | \$ 905,906          |
| 2007                       | 295,000                  | 159,026                                 | 17,452                                   | 471,478                    | 349,028            | 820,506             |
| 2008                       | 305,000                  | 117,882                                 | 18,482                                   | 441,364                    | 335,043            | 776,407             |
| 2009                       | 320,000                  | 115,681                                 | 19,572                                   | 455,253                    | 320,577            | 775,830             |
| 2010                       | 335,000                  | 53,988                                  | 20,727                                   | 409,715                    | 305,133            | 714,848             |
| 2011 to 2015               | 1,910,000                | -                                       | 123,487                                  | 2,033,487                  | 1,265,741          | 3,299,228           |
| 2016 to 2020               | 2,405,000                | -                                       | 164,476                                  | 2,569,476                  | 725,029            | 3,294,505           |
| 2021 to 2022               | 1,140,000                | -                                       | 80,191                                   | 1,220,191                  | 94,893             | 1,315,084           |
| Totals                     | <u>6,995,000</u>         | <u>684,817</u>                          | <u>460,867</u>                           | <u>8,140,684</u>           | <u>3,761,630</u>   | <u>11,902,314</u>   |
| Less current maturities    | <u>285,000</u>           | <u>238,240</u>                          | <u>16,480</u>                            | <u>539,720</u>             | <u>366,186</u>     | <u>905,906</u>      |
| Total long-term debt       | <u>\$6,710,000</u>       | <u>\$ 446,577</u>                       | <u>\$ 444,387</u>                        | <u>\$7,600,964</u>         | <u>\$3,395,444</u> | <u>\$10,996,408</u> |

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

|                                     | <u>Beginning<br/>balance</u> | <u>Additions</u>  | <u>Principal<br/>payments</u> | <u>Ending<br/>balance</u> | <u>Amount<br/>due within<br/>one year</u> |
|-------------------------------------|------------------------------|-------------------|-------------------------------|---------------------------|---|
| Hospital Revenue Bonds, Series 2002 | \$7,270,000                  | \$ -              | \$ 275,000                    | \$6,995,000               | \$ 285,000                                |
| Notes payable, equipment            | 467,791                      | 396,835           | 179,809                       | 684,817                   | 238,240                                   |
| Note payable, real estate           | 476,429                      | -                 | 15,562                        | 460,867                   | 16,480                                    |
| Totals                              | <u>\$8,214,220</u>           | <u>\$ 396,835</u> | <u>\$ 470,371</u>             | <u>\$8,140,684</u>        | <u>\$ 539,720</u>                         |

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

|                                     | <u>Beginning<br/>balance</u> | <u>Additions</u>  | <u>Principal<br/>payments</u> | <u>Ending<br/>balance</u> | <u>Amount<br/>due within<br/>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           | 491,124                      | -                 | 14,695                        | 476,429                   | 15,562                                    |
| Totals                              | <u>\$8,422,965</u>           | <u>\$ 189,900</u> | <u>\$ 398,645</u>             | <u>\$8,214,220</u>        | <u>\$ 444,488</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, 2005, 2004 and 2003 were \$455,991, \$461,880 and \$467,922, 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, 2005 and 2004.

|   | <u>2005</u>      | <u>2004</u>      |
|---|------------------|------------------|
| Charges foregone, based on established rates                          | \$ <u>70,079</u> | \$ <u>73,702</u> |
| Equivalent percentage of charity care patients to all patients served | <u>.2%</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, 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 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 basis, 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<br/>basis</u> | <u>Budget<br/>basis<br/>adjustments</u> | <u>Budget<br/>basis</u> | <u>County<br/>Hospital<br/>Budget</u> |
|---------------------------------|-----------------------|---|-------------------------|---------------------------------------|
| Amount to be raised by taxation | \$ 1,147,284          | \$ -                                    | \$ 1,147,284            | \$ 1,063,344                          |
| Other revenues/receipts         | <u>20,182,780</u>     | <u>396,835</u>                          | <u>20,579,615</u>       | <u>20,504,205</u>                     |
|                                 | 21,330,064            | 396,835                                 | 21,726,899              | 21,567,549                            |
| Expenses/expenditures           | <u>20,067,378</u>     | <u>(406,211)</u>                        | <u>19,661,167</u>       | <u>26,117,840</u>                     |
| Net                             | 1,262,686             | 803,046                                 | 2,065,732               | (4,550,291)                           |
| Balance, beginning              | <u>20,508,626</u>     | <u>(11,242,892)</u>                     | <u>9,265,734</u>        | <u>8,924,882</u>                      |
| Balance, ending                 | <u>\$21,771,312</u>   | <u>\$(10,439,846)</u>                   | <u>\$11,331,466</u>     | <u>\$ 4,374,591</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 \$2,200,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2005 and 2004 were \$2,250,965 and \$1,888,373, 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 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  
August 5, 2005

**Greater Community Hospital  
ANALYSIS OF PATIENT RECEIVABLES**

| <u>Age of accounts<br/>(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>    |
| 0 – 30 days (includes patients in Hospital at end of year)                       | \$2,309,829        | \$2,375,943        | 53.17%                  | 52.26%         |
| 31 – 60 days   | 718,027            | 821,658            | 16.53                   | 18.07          |
| 61 – 90 days   | 323,417            | 338,818            | 7.45                    | 7.46           |
| 91 – 120 days  | 254,156            | 180,332            | 5.85                    | 3.97           |
| Over 120 days  | <u>738,650</u>     | <u>829,420</u>     | <u>17.00</u>            | <u>18.24</u>   |
|  | 4,344,079          | 4,546,171          | <u>100.00%</u>          | <u>100.00%</u> |
| Unapplied Medicare periodic interim payments                                     | <u>(421,901)</u>   | <u>(763,362)</u>   |                         |                |
| Totals   | <u>3,922,178</u>   | <u>3,782,809</u>   |                         |                |
| Allowances   |                    |                    |                         |                |
| Contractual  |                    |                    |                         |                |
| Medicare   | 570,000            | 920,000            |                         |                |
| Medicaid   | 130,000            | 140,000            |                         |                |
| Other  | 160,000            | 160,000            |                         |                |
| Uncollectibles   | <u>500,000</u>     | <u>500,000</u>     |                         |                |
| Total allowances   | <u>1,360,000</u>   | <u>1,720,000</u>   |                         |                |
| Totals   | <u>\$2,562,178</u> | <u>\$2,062,809</u> |                         |                |
| <b>NET PATIENT SERVICE REVENUE<br/>PER CALENDAR DAY</b>                          | <u>\$ 51,869</u>   | <u>\$ 48,111</u>   |                         |                |
| <b>NUMBER OF DAYS NET PATIENT SERVICE<br/>REVENUE IN NET PATIENT RECEIVABLES</b> | <u>49</u>          | <u>43</u>          |                         |                |

**ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES**

|   | <u>Amounts</u>            |                   | <u>Percent of net patient<br/>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> |
| <b>BALANCE</b> , beginning                    | \$ 500,000                | \$ 400,000        |   |             |
| <b>ADD</b>                                    |                           |                   |   |             |
| Provision for bad debts                       | 766,706                   | 938,342           | 4.05%   | 5.33%       |
| Recoveries of accounts previously written off | <u>365,061</u>            | <u>306,242</u>    | 1.93  | 1.74        |
|   | 1,631,767                 | 1,644,584         |   |             |
| <b>DEDUCT</b>                                 |                           |                   |   |             |
| Accounts written off                          | <u>1,131,767</u>          | <u>1,144,584</u>  | 5.98  | 6.50        |
| <b>BALANCE</b> , ending                       | <u>\$ 500,000</u>         | <u>\$ 500,000</u> |   |             |

**Greater Community Hospital**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2005, with comparative totals for 2004

|   | <b>2005</b>         |                     |                     | <b>2004</b>         |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <u>Inpatient</u>    | <u>Outpatient</u>   | <u>Total</u>        | <u>Total</u>        |
| <b>DAILY PATIENT SERVICES</b>                             |                     |                     |                     |                     |
| Medical, surgical and obstetrical                         | \$ 1,933,723        | \$ —                | \$ 1,933,723        | \$ 1,681,074        |
| Special care  | 107,940             | —                   | 107,940             | 107,260             |
| Swing bed   | 274,987             | —                   | 274,987             | 317,923             |
| Behavioral health   | 1,020,550           | —                   | 1,020,550           | 894,152             |
| Cardiac monitors  | 142,625             | 4,200               | 146,825             | 153,125             |
| Nursery   | 271,719             | —                   | 271,719             | 184,699             |
|   | <u>3,751,544</u>    | <u>4,200</u>        | <u>3,755,744</u>    | <u>3,338,233</u>    |
| <b>OTHER NURSING SERVICES</b>                             |                     |                     |                     |                     |
| Same day surgery  | —                   | 102,460             | 102,460             | 233,120             |
| Operating room  | 952,708             | 2,252,751           | 3,205,459           | 3,486,700           |
| Recovery room   | 339,965             | 861,160             | 1,201,125           | 1,220,750           |
| Delivery and labor rooms                                  | 270,400             | —                   | 270,400             | 261,050             |
| Central services and supply                               | 507,103             | 861,278             | 1,368,381           | 1,425,684           |
| Emergency room  | 150,444             | 1,752,692           | 1,903,136           | 1,880,477           |
| Outpatient clinics  | —                   | 471,436             | 471,436             | 349,998             |
| Ambulance   | —                   | 485,016             | 485,016             | 437,354             |
| Home health services                                      | —                   | 713,906             | 713,906             | 829,196             |
| Hospice   | —                   | 384,576             | 384,576             | 357,386             |
|   | <u>2,220,620</u>    | <u>7,885,275</u>    | <u>10,105,895</u>   | <u>10,481,715</u>   |
| <b>OTHER PROFESSIONAL SERVICES</b>                        |                     |                     |                     |                     |
| Laboratory and blood service                              | 991,124             | 2,076,309           | 3,067,433           | 3,271,025           |
| Electroencephalography                                    | —                   | 6,570               | 6,570               | 11,680              |
| Electrocardiology   | 146,692             | 269,685             | 416,377             | 448,540             |
| Cardiology and vascular testing                           | 82,820              | 662,446             | 745,266             | 578,480             |
| Radiology and ultrasound                                  | 216,536             | 2,126,687           | 2,343,223           | 2,466,014           |
| Radiation therapy   | 9,678               | —                   | 9,678               | 5,224               |
| Nuclear medicine  | 10,658              | 170,145             | 180,803             | 180,778             |
| CT scans  | 236,104             | 1,516,727           | 1,752,831           | 1,890,434           |
| Magnetic resonance imaging                                | 42,821              | 601,369             | 644,190             | 603,492             |
| Pharmacy and intravenous therapy                          | 1,618,303           | 2,199,647           | 3,817,950           | 3,338,563           |
| Anesthesiology  | —                   | —                   | —                   | 196                 |
| Respiratory therapy                                       | 486,405             | 264,628             | 751,033             | 819,161             |
| Physical therapy  | 147,011             | 300,276             | 447,287             | 617,308             |
| Speech, occupational and recreational therapy             | 67,058              | 58,846              | 125,904             | 158,276             |
| Cardiac rehabilitation                                    | —                   | 201,413             | 201,413             | 170,780             |
| Lenox clinic  | —                   | 130,524             | 130,524             | 215,354             |
| GCH clinic  | —                   | 123,290             | 123,290             | 601,387             |
|   | <u>4,055,210</u>    | <u>10,708,562</u>   | <u>14,763,772</u>   | <u>15,376,692</u>   |
| Totals  | <u>\$10,027,374</u> | <u>\$18,598,037</u> | 28,625,411          | 29,196,640          |
| Charity care charges foregone, based on established rates |                     |                     | (70,079)            | (73,702)            |
| Total gross patient service revenue                       |                     |                     | 28,555,332          | 29,122,938          |
| Provision for contractual adjustments and bad debts       |                     |                     | (9,623,188)         | (11,514,255)        |
| Total net patient service revenue                         |                     |                     | <u>\$18,932,144</u> | <u>\$17,608,683</u> |

**Greater Community Hospital**  
**PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

|                         | <u>Year ended June 30</u> |                         |
|-------------------------|---------------------------|-------------------------|
|                         | <u>2005</u>               | <u>2004</u>             |
| Contractual adjustments |                           |                         |
| Medicare                | \$6,208,628               | \$ 6,597,913            |
| Medicaid                | 778,800                   | 1,691,380               |
| Other adjustments       | 1,869,054                 | 2,286,620               |
| Provision for bad debts | <u>766,706</u>            | <u>938,342</u>          |
| <br>Totals              | <br><u>\$9,623,188</u>    | <br><u>\$11,514,255</u> |

**OTHER REVENUE**

|  | <u>Year ended June 30</u> |                        |
|--|---------------------------|------------------------|
|  | <u>2005</u>               | <u>2004</u>            |
| Rental income  |                           |                        |
| Medical Arts Plaza   | \$ 540,413                | \$ 468,205             |
| Crestridge Estates   | 429,464                   | 335,520                |
| Linear accelerator space   | 11,550                    | 15,400                 |
| Equipment  | 42,136                    | 55,986                 |
| Pharmacy revenue, employee   | 90,192                    | 119,869                |
| Cafeteria sales  | 155,806                   | 163,179                |
| Meals on wheels  | 33,900                    | 29,585                 |
| Sale of supplies and miscellaneous<br>services to employees and others | 33,142                    | 38,380                 |
| Wellness   | 31,754                    | 32,651                 |
| Lifeline   | 74,004                    | 71,399                 |
| Miscellaneous  | <u>15,111</u>             | <u>6,995</u>           |
| <br>Totals   | <br><u>\$1,457,472</u>    | <br><u>\$1,337,169</u> |

**Greater Community 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>     |
| <b>NURSING SERVICE</b>                         |                  |                  |                  |                  |
| Nursing administration                         | \$ 90,699        | \$ 1,933         | \$ 92,632        | \$ 134,651       |
| Medical and surgical                           | 1,310,359        | 138,692          | 1,449,051        | 1,482,885        |
| Special care                                   | 102,706          | 32,178           | 134,884          | 105,460          |
| Obstetric nursing, delivery and labor rooms    | 337,215          | 44,939           | 382,154          | 304,457          |
| Behavioral health                              | 469,696          | 139,216          | 608,912          | 748,675          |
| Operating and recovery rooms                   | 386,409          | 330,200          | 716,609          | 657,671          |
| Central services and supply                    | -                | 270,069          | 270,069          | 234,870          |
| Emergency room                                 | 431,295          | 469,520          | 900,815          | 813,903          |
| Outpatient clinic                              | 98,140           | 31,882           | 130,022          | 113,296          |
| Ambulance                                      | 79,113           | 33,730           | 112,843          | 107,227          |
| Home health services                           | 523,909          | 80,361           | 604,270          | 597,800          |
| Hospice  | <u>140,809</u>   | <u>145,821</u>   | <u>286,630</u>   | <u>252,027</u>   |
| Total nursing service                          | <u>3,970,350</u> | <u>1,718,541</u> | <u>5,688,891</u> | <u>5,552,922</u> |
| <b>OTHER PROFESSIONAL SERVICE</b>              |                  |                  |                  |                  |
| Laboratory                                     | 286,858          | 411,965          | 698,823          | 652,101          |
| Pathology                                      | 42,893           | 18,648           | 61,541           | 65,127           |
| Blood service                                  | -                | 96,075           | 96,075           | 90,947           |
| Electroencephalography                         | -                | 1,220            | 1,220            | 2,268            |
| Electrocardiology                              | -                | -                | -                | 58               |
| Cardiology and vascular testing                | -                | 176,100          | 176,100          | 284,515          |
| Radiology and ultrasound                       | 420,497          | 210,012          | 630,509          | 759,666          |
| Nuclear medicine                               | -                | 36,727           | 36,727           | 31,999           |
| CT scans                                       | -                | 107,834          | 107,834          | 99,556           |
| Magnetic resonance imaging                     | -                | 129,730          | 129,730          | 127,230          |
| Pharmacy                                       | 262,907          | 1,169,185        | 1,432,092        | 1,239,967        |
| Intravenous therapy                            | -                | 24,727           | 24,727           | 24,039           |
| Anesthesiology                                 | -                | 2,135            | 2,135            | 325              |
| Respiratory therapy                            | 119,460          | 77,071           | 196,531          | 167,192          |
| Physical therapy                               | 276,970          | 32,467           | 309,437          | 296,623          |
| Speech, occupational, and recreational therapy | 60,920           | 36,191           | 97,111           | 115,522          |
| Cardiac rehabilitation                         | 43,077           | 12,490           | 55,567           | 58,436           |
| Lenox clinic                                   | 96,027           | 36,142           | 132,169          | 230,074          |
| GCH clinic                                     | 114,593          | 23,750           | 138,343          | 515,733          |
| Medical Arts Plaza                             | -                | 115,895          | 115,895          | 87,568           |
| Crestridge Estates                             | 38,843           | 142,875          | 181,718          | 167,850          |
| Creston Medical Clinic                         | -                | 26,496           | 26,496           | 25,960           |
| Social services                                | 63,762           | 6,841            | 70,603           | 66,518           |
| Health information services                    | 291,072          | 49,848           | 340,920          | 329,339          |
| Quality assurance                              | <u>62,100</u>    | <u>7,495</u>     | <u>69,595</u>    | <u>74,783</u>    |
| Total other professional service               | <u>2,179,979</u> | <u>2,951,919</u> | <u>5,131,898</u> | <u>5,513,396</u> |

**Greater Community Hospital**  
**EXPENSES (continued)**  
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>        |
| <b>GENERAL SERVICE</b>   |                    |                     |                     |                     |
| Dietary  | \$ 472,749         | \$ 237,601          | \$ 710,350          | \$ 656,194          |
| Plant operation  | 176,654            | 499,371             | 676,025             | 767,069             |
| Housekeeping   | 205,451            | 69,492              | 274,943             | 228,887             |
| Laundry  | 51,619             | 15,242              | 66,861              | 58,979              |
| Linen  | -                  | 6,043               | 6,043               | 5,872               |
| Environmental services   | -                  | 23,835              | 23,835              | 148,453             |
| Total general service  | <u>906,473</u>     | <u>851,584</u>      | <u>1,758,057</u>    | <u>1,865,454</u>    |
| <b>FISCAL AND ADMINISTRATIVE SERVICE</b>                           |                    |                     |                     |                     |
| Administrative   | 269,565            | 188,121             | 457,686             | 426,331             |
| Accounting   | 169,451            | 42,340              | 211,791             | 181,758             |
| Human resources  | 58,221             | 61,417              | 119,638             | 111,223             |
| Business office  | 405,672            | 14,627              | 420,299             | 413,874             |
| Purchasing   | 121,569            | 36,623              | 158,192             | 148,518             |
| Public relations   | -                  | 33,613              | 33,613              | 21,825              |
| Telephone  | -                  | 35,173              | 35,173              | 37,706              |
| Professional fees  | -                  | 118,393             | 118,393             | 111,572             |
| Computer support   | -                  | 238,693             | 238,693             | 235,563             |
| Collection fees  | -                  | 96,100              | 96,100              | 80,236              |
| Receivables management fee   | -                  | 92,316              | 92,316              | 94,343              |
| Dues and subscriptions   | -                  | 27,154              | 27,154              | 18,970              |
| Travel and mileage   | -                  | 9,803               | 9,803               | 9,726               |
| Publication fees   | -                  | 1,994               | 1,994               | 1,764               |
| Physician recruitment  | -                  | 26,327              | 26,327              | 19,366              |
| <b>UNASSIGNED EXPENSES</b>   |                    |                     |                     |                     |
| Wellness   | 45,558             | 18,637              | 64,195              | 76,476              |
| Lifeline   | 19,304             | 60,794              | 80,098              | 75,569              |
| FICA   | -                  | 600,321             | 600,321             | 604,779             |
| IPERS  | -                  | 455,991             | 455,991             | 461,880             |
| Group health and life insurance                                    | -                  | 2,314,486           | 2,314,486           | 1,919,422           |
| Workers' compensation insurance                                    | -                  | 144,608             | 144,608             | 108,674             |
| Insurance  | -                  | 105,466             | 105,466             | 128,235             |
| Total fiscal and administrative service<br>and unassigned expenses | <u>1,089,340</u>   | <u>4,722,997</u>    | <u>5,812,337</u>    | <u>5,287,810</u>    |
| <b>PROVISION FOR DEPRECIATION</b>                                  |                    |                     |                     |                     |
|  | <u>-</u>           | <u>1,676,195</u>    | <u>1,676,195</u>    | <u>1,543,930</u>    |
| Total expenses   | <u>\$8,146,142</u> | <u>\$11,921,236</u> | <u>\$20,067,378</u> | <u>\$19,763,512</u> |

**Greater Community Hospital  
COMPARATIVE STATISTICS**

|                                   | <b>Year ended June 30</b> |              |
|-----------------------------------|---------------------------|--------------|
|                                   | <b>2005</b>               | <b>2004</b>  |
| <b>PATIENT DAYS</b>               |                           |              |
| Medical, surgical and obstetrical | 4,146                     | 4,069        |
| Behavioral health                 | 1,256                     | 1,187        |
| Swing bed                         |                           |              |
| Skilled care                      | 994                       | 1,420        |
| Intermediate care                 | 15                        | 85           |
| Nursery                           | 473                       | 351          |
| Totals                            | <b>6,884</b>              | <b>7,112</b> |
| <br><b>DISCHARGES</b>             |                           |              |
| Medical, surgical and obstetrical | 1,326                     | 1,335        |
| Behavioral health                 | 117                       | 119          |
| Swing bed                         |                           |              |
| Skilled care                      | 127                       | 170          |
| Intermediate care                 | 6                         | 13           |
| Nursery                           | 212                       | 165          |
|                                   | <b>1,788</b>              | <b>1,802</b> |
| <br><b>AVERAGE LENGTH OF STAY</b> |                           |              |
| Medical, surgical and obstetrical | 3.13                      | 3.05         |
| Behavioral health                 | 10.74                     | 9.97         |
| Swing bed                         |                           |              |
| Skilled care                      | 7.83                      | 8.35         |
| Intermediate care                 | 2.50                      | 6.54         |
| Nursery                           | 2.23                      | 2.13         |

**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, 2005, and have issued our report thereon dated August 5, 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 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, 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 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 5, 2005

**Greater Community 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.

**Greater Community 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.