

**Clarke County Public Hospital
Osceola, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Clarke County Public Hospital
OFFICIALS
June 30, 2006**

BOARD OF TRUSTEES

Officers

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

Members

Rick Buesch
Brian Oswald
Sally Riekema
James Schipper

Expiration of term

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

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

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the accompanying balance sheets of Clarke County Public Hospital as of June 30, 2006 and 2005, 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarke County Public Hospital as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 28, 2006 on our consideration of Clarke County Public Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 28, 2006

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$1,078,353 or 1% to \$17,419,433
- Total noncurrent assets whose use is limited increased by \$1,603,654 to \$3,686,804
- Total property and equipment decreased by \$112,228 to \$10,028,480
- Total fund equity increased by \$669,032 to \$7,517,574
- Total long-term debt decreased by \$391,577 to \$6,626,192
- Net patient service revenue increased by \$1,994,638, or 21% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status
- Expenses increased by \$1,326,892, or 12% to \$12,125,325

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

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

Table 1
Condensed Balance Sheets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current assets	\$ 2,490,434	\$ 2,864,764	\$ 2,766,409
Noncurrent assets whose use is limited	3,686,804	2,083,150	1,195,449
Property and equipment	10,028,480	10,140,708	10,913,075
Other assets	<u>1,213,715</u>	<u>1,252,458</u>	<u>1,259,597</u>
Total assets	<u>\$17,419,433</u>	<u>\$16,341,080</u>	<u>\$16,134,530</u>
Current liabilities	\$ 2,563,556	\$ 1,726,354	\$ 1,385,512
Long-term debt, less current maturities	6,218,303	6,626,184	6,959,415
Other noncurrent liabilities	<u>1,120,000</u>	<u>1,140,000</u>	<u>1,140,000</u>
Total liabilities	<u>\$ 9,901,859</u>	<u>\$ 9,492,538</u>	<u>\$ 9,484,927</u>
Invested in capital assets, net of related debt	\$ 3,402,288	\$ 3,122,939	\$ 3,590,219
Restricted	699,818	697,363	697,442
Unrestricted	<u>3,415,468</u>	<u>3,028,240</u>	<u>2,361,942</u>
Total fund equity	<u>\$ 7,517,574</u>	<u>\$ 6,848,542</u>	<u>\$ 6,649,603</u>

As depicted in Table 1, total assets increased in fiscal year 2006 to \$17,419,433. The change in total assets results primarily from an increase in noncurrent assets whose use is limited.

Revenues, Expenses, and Changes in Fund Equity

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

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

	Year ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net patient service revenue	\$11,711,483	\$ 9,716,845	\$ 9,409,486
Other revenue	<u>213,896</u>	<u>258,361</u>	<u>174,961</u>
Total revenue	<u>11,925,379</u>	<u>9,975,206</u>	<u>9,584,447</u>
Salaries	4,689,337	4,100,800	3,728,647
Other expenses	5,956,486	5,379,166	5,552,118
Provision for depreciation	<u>1,479,502</u>	<u>1,318,467</u>	<u>1,284,037</u>
Total expenses	<u>12,125,325</u>	<u>10,798,433</u>	<u>10,564,802</u>
Operating (loss)	<u>(199,946)</u>	<u>(823,227)</u>	<u>(980,355)</u>
County taxes	1,113,732	1,138,198	1,040,288
Investment income	164,031	70,861	54,369
Unrestricted contributions	3,383	144,034	10,857
Interest expense	<u>(435,844)</u>	<u>(438,791)</u>	<u>(450,297)</u>
Total nonoperating gains	<u>845,302</u>	<u>914,302</u>	<u>655,217</u>
Excess (deficiency) of revenues over expenses before contributions	645,356	91,075	(325,138)
Restricted contributions	<u>23,676</u>	<u>107,864</u>	<u>—</u>
Change in fund equity	669,032	198,939	(325,138)
Total fund equity, beginning	<u>6,848,542</u>	<u>6,649,603</u>	<u>6,974,741</u>
Total fund equity, ending	<u>\$ 7,517,574</u>	<u>\$ 6,848,542</u>	<u>\$ 6,649,603</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2006 and 2005.

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

Volume: Acute discharges for fiscal year 2006 were 320 compared to 379 in fiscal year 2005. Average length of stay increased slightly and patient days declined to 995 from 1,166 in 2005. Volume on the outpatient side indicated positive growth in 2006. In 2006, gross outpatient charges increased to \$9,875,261 compared to \$8,002,660 in 2005.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporate certain price increases in 2006. Overall, gross patient service revenue increased to \$12,674,283 from \$11,239,763 in 2005. Operating and recovery rooms, laboratory and physical therapy departments reflected the most significant growth in 2006.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts declined significantly to \$962,800 in 2006 compared to \$1,522,918 in 2005.

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

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	50%	51%	48%
Medicaid	7	7	8
Wellmark	17	16	17
Commercial insurance	15	15	16
Self pay	<u>11</u>	<u>11</u>	<u>11</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$213,896 in 2006 compared to \$258,361 in 2005, primarily due to decreased miscellaneous income.

Expenses

Approximately 40% of Hospital's expenses are for salaries. Total salaries increased by 14% to \$4,689,337 in 2006 from \$4,100,800 in 2005. The Hospital departments experiencing the most significant increase in 2006 were medical and surgical, and operating and recovery rooms.

Approximately 50% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 11% to \$5,956,486 in 2006 from \$5,379,166 in 2005. The Hospital departments experiencing the most significant increase were laboratory, diagnostic imaging and physical therapy.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,479,502 in 2006 from \$1,318,467 in 2005.

Nonoperating Gains

Nonoperating gains decreased to \$845,302 from \$914,302 in 2005, primarily due to a decrease in unrestricted contributions.

Property and Equipment

At the end of 2006, the Hospital had \$10,028,480 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 2006, \$1,367,270 was spent to acquire property and equipment, including \$116,727 to begin a construction project consisting of renovation of a portion of the existing Hospital. Assets whose use is limited, designated by Board for plant replacement and expansion, will be used to fund the costs of the project.

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

**Table 4
Property and Equipment**

	June 30		
	2006	2005	2004
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	207,072	189,772	189,772
Building	8,524,438	8,453,347	8,545,110
Fixed equipment	2,912,882	2,918,586	2,872,848
Major movable equipment	5,194,713	4,218,475	3,934,772
Medical office building	1,105,415	1,098,085	1,098,085
Construction in progress	116,727	-	-
Subtotal	<u>18,070,797</u>	<u>16,887,815</u>	<u>16,650,137</u>
Less accumulated depreciation	<u>(8,042,317)</u>	<u>(6,747,107)</u>	<u>(5,737,062)</u>
Property and equipment	<u>\$10,028,480</u>	<u>\$10,140,708</u>	<u>\$10,913,075</u>

Debt Administration

At year end, the Hospital had \$6,335,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2001. This has decreased by \$240,000 in fiscal year 2006, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2006. 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 \$291,192 in current and long-term notes payable. This has decreased in fiscal year 2006. This decrease is the result of the required payments made on the outstanding notes for fiscal year 2006. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 5% of the Hospital's total liabilities at year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2006 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 1,284,172	\$ 1,264,569	\$ 19,603
Other revenues/receipts	<u>11,680,625</u>	<u>10,583,887</u>	<u>1,096,738</u>
	12,964,797	11,848,456	1,116,341
Expenses/expenditures	<u>12,575,114</u>	<u>12,853,800</u>	<u>(278,686)</u>
Net	<u>\$ 389,683</u>	<u>\$ (1,005,344)</u>	<u>\$1,395,027</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue under Critical Access Hospital Status and positive outpatient growth.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2007 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
- Cost of supplies
- Facility expansion
- Technology advancements

Contacting Clarke County Public Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2006	2005
CURRENT ASSETS		
Cash	\$ 310,312	\$ 1,022,140
Assets whose use is limited-required for current liabilities	282,521	273,481
Patient receivables, less allowances for contractual adjustments and uncollectibles 2006 \$980,000; 2005 \$710,000	1,636,820	1,182,628
Other receivables	24,613	33,064
Inventories	214,649	196,173
Prepaid expenses	21,519	157,278
Total current assets	<u>2,490,434</u>	<u>2,864,764</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,293,301	762,943
Certificates of deposit	1,764,583	745,796
Interest receivable	63,894	7,660
Designated by board for special purpose		
Cash	147,729	142,869
	<u>3,269,507</u>	<u>1,659,268</u>
Restricted for payment of long-term debt and interest		
Cash	55,943	53,488
Certificate of deposit	643,875	643,875
Total assets whose use is limited	<u>3,969,325</u>	<u>2,356,631</u>
Less assets whose use is limited and that are required for current liabilities	282,521	273,481
Noncurrent assets whose use is limited	<u>3,686,804</u>	<u>2,083,150</u>
PROPERTY AND EQUIPMENT	18,070,797	16,887,815
Less accumulated depreciation	8,042,317	6,747,107
Total property and equipment	<u>10,028,480</u>	<u>10,140,708</u>
OTHER ASSETS		
Unamortized financing costs	93,715	112,458
Succeeding year property tax receivable	1,120,000	1,140,000
Total other assets	<u>1,213,715</u>	<u>1,252,458</u>
 Totals	 <u>\$17,419,433</u>	 <u>\$16,341,080</u>

See Notes to Financial Statements.

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

	Year ended June 30	
	2006	2005
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2006 \$657,167; 2005 \$550,046	\$11,711,483	\$ 9,716,845
OTHER REVENUE	<u>213,896</u>	<u>258,361</u>
Total revenue	<u>11,925,379</u>	<u>9,975,206</u>
EXPENSES		
Nursing service	3,708,540	3,175,751
Other professional service	2,843,015	2,581,955
General service	1,146,247	1,007,481
Fiscal and administrative service and unassigned expenses	2,948,021	2,714,779
Provision for depreciation	<u>1,479,502</u>	<u>1,318,467</u>
Total expenses	<u>12,125,325</u>	<u>10,798,433</u>
Operating (loss)	<u>(199,946)</u>	<u>(823,227)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,113,732	1,138,198
Investment income	164,031	70,861
Unrestricted contributions	3,383	144,034
Interest expense	<u>(435,844)</u>	<u>(438,791)</u>
Total nonoperating gains (losses)	<u>845,302</u>	<u>914,302</u>
Excess of revenues over expenses before contributions	645,356	91,075
RESTRICTED CONTRIBUTIONS	<u>23,676</u>	<u>107,864</u>
Change in fund equity	669,032	198,939
TOTAL FUND EQUITY		
Beginning	<u>6,848,542</u>	<u>6,649,603</u>
Ending	<u>\$ 7,517,574</u>	<u>\$ 6,848,542</u>

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

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$11,947,291	\$10,483,439
Cash paid to suppliers for goods and services	(5,844,153)	(5,455,752)
Cash paid to employees for services	(4,575,856)	(4,037,806)
Other operating revenue received	<u>213,896</u>	<u>258,361</u>
Net cash provided by operating activities	<u>1,741,178</u>	<u>1,248,242</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,113,732	1,138,198
Unrestricted contributions	<u>3,383</u>	<u>144,034</u>
Net cash provided by noncapital financing activities	<u>1,117,115</u>	<u>1,282,232</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(1,335,496)	(776,681)
Proceeds from issuance of long-term debt	-	65,474
Principal payments on long-term debt	(391,577)	(370,561)
Interest paid on long-term debt	(418,061)	(432,544)
Contributions received, restricted for purchase of equipment	<u>23,676</u>	<u>107,864</u>
Net cash (used in) capital and related financing activities	<u>(2,121,458)</u>	<u>(1,406,448)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	107,797	65,405
Purchase of certificates of deposit	(1,522,387)	(307,318)
Proceeds from maturities of certificates of deposit	<u>503,600</u>	<u>-</u>
Net cash (used in) investing activities	<u>(910,990)</u>	<u>(241,913)</u>
NET INCREASE (DECREASE) IN CASH	(174,155)	882,113
CASH		
Beginning	<u>1,981,440</u>	<u>1,099,327</u>
Ending	<u>\$ 1,807,285</u>	<u>\$ 1,981,440</u>

See Notes to Financial Statements.

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

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (199,946)	\$ (823,227)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,479,502	1,318,467
Changes in assets and liabilities		
(Increase) in patient receivables	(454,192)	(83,406)
(Increase) decrease in other receivables	8,451	(5,412)
(Increase) in inventories	(18,476)	(33,014)
(Increase) decrease in prepaid expenses	135,759	(89,337)
Increase in accounts payable, net of amounts for property and equipment	27,566	41,730
Increase in accrued employee compensation	113,481	62,994
Increase (decrease) in payroll taxes and amounts withheld from employees	(40,967)	9,447
Increase in estimated third-party payor settlements	<u>690,000</u>	<u>850,000</u>
Net cash provided by operating activities	<u>\$1,741,178</u>	<u>\$1,248,242</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 310,312	\$1,022,140
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,293,301	762,943
Designated by board for special purpose, cash	147,729	142,869
Restricted for payment of long-term debt and interest, cash	<u>55,943</u>	<u>53,488</u>
Totals per statement of cash flows	<u>\$1,807,285</u>	<u>\$1,981,440</u>

Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

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

Investment income is reported as nonoperating gains.

Inventories

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

Property and Equipment

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Unamortized Financing Costs

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

Property Tax Receivable

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

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

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

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2006 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.

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:

	June 30	
	2006	2005
Patients	\$ 828,256	\$ 518,350
Insurance carriers	638,190	507,586
Medicare	993,932	732,062
Medicaid	<u>156,442</u>	<u>134,630</u>
Total patient receivables	2,616,820	1,892,628
Less allowances for contractual adjustments and uncollectible accounts	<u>(980,000)</u>	<u>(710,000)</u>
Net patient receivables	<u>\$1,636,820</u>	<u>\$1,182,628</u>

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

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2004.

Other

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

NOTE 5 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2006:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance , beginning	\$ 53,488	\$ 643,875	\$ 697,363
Transfers from current assets, cash	638,024	-	638,024
Interest earned	6,208	-	6,208
Payments for principal and interest	<u>(641,777)</u>	<u>-</u>	<u>(641,777)</u>
Balance , ending	<u>\$ 55,943</u>	<u>\$ 643,875</u>	<u>\$ 699,818</u>

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	207,072	158,537	189,772	155,179
Building	8,524,438	2,457,789	8,453,346	1,958,835
Fixed equipment	2,912,882	1,945,518	2,918,587	1,824,746
Major movable equipment	5,194,713	3,023,789	4,218,475	2,402,027
Medical office building	1,105,415	456,684	1,098,085	406,320
Construction in progress	<u>116,727</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$18,070,797</u>	<u>\$8,042,317</u>	<u>\$16,887,815</u>	<u>\$6,747,107</u>

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

NOTE 6 PROPERTY AND EQUIPMENT (continued)

Construction in progress at June 30, 2006 consists primarily of progress billings for architect and engineering fees related to a proposed construction project. The proposed project includes renovation of a portion of the existing Hospital. The estimated total cost of the project is approximately \$3 million and is to be funded from the Hospital's assets whose use is limited, designated by Board for plant replacement and expansion. As of June 30, 2006, the Hospital has entered into a contract to provide architect services.

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ —	\$ —	\$ 9,550
Land improvements	189,772	19,126	1,826	207,072
Building	8,453,346	75,000	3,908	8,524,438
Fixed equipment	2,918,587	17,609	23,314	2,912,882
Major movable equipment	4,218,475	1,131,482	155,244	5,194,713
Medical office building	1,098,085	7,330	—	1,105,415
Construction in progress	—	<u>116,727</u>	<u>—</u>	<u>116,727</u>
Totals	16,887,815	1,367,274	184,292	18,070,797
Less accumulated depreciation	<u>(6,747,107)</u>	<u>(1,479,502)</u>	<u>(184,292)</u>	<u>(8,042,317)</u>
Net property and equipment	<u>\$10,140,708</u>	<u>\$ (112,228)</u>	<u>\$ —</u>	<u>\$10,028,480</u>

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

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

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Hospital Revenue Bonds, Series 2001	\$6,335,000	\$6,575,000
Notes payable, equipment	<u>291,192</u>	<u>442,769</u>
	6,626,192	7,017,769
Less current maturities	<u>407,889</u>	<u>391,585</u>
Long-term debt, net of current maturities	<u>\$6,218,303</u>	<u>\$6,626,184</u>

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

NOTE 7 LONG-TERM DEBT (continued)

Hospital Revenue Bonds, Series 2001

The Hospital has issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2022, at remaining interest rates ranging from 5.0% to 6.5%.

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

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2007 \$640,466; 2008 \$642,453; 2009 \$639,145; 2010 \$639,897; 2011 \$643,704.

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

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bonds at June 30, 2006.

The Bonds contain a number of covenants regarding the operation of the Hospital, and the Hospital is in substantial compliance with those covenants.

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$10,629, including interest at 4.15%, with the final payment due December, 2007. At June 30, 2006, the remaining balance on this note is \$185,174.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,028, including interest at 4%, with the final payment due May, 2009. At June 30, 2006, the remaining balance on this note is \$33,007.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,014, including interest at 3.5%, with the final payment due October, 2008. At June 30, 2006, the remaining balance on this note is \$27,234.

The Hospital has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,224, including interest at 4%, with the final payment due October, 2009. At June 30, 2006, the remaining balance on this note is \$45,777.

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

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 250,000	\$ 157,889	\$ 407,889	\$ 399,119	\$ 807,008
2008	265,000	100,128	365,128	380,607	745,735
2009	275,000	28,314	303,314	364,829	668,143
2010	290,000	4,861	294,861	349,573	644,434
2011	310,000	-	310,000	333,875	643,875
2012 - 2016	1,840,000	-	1,840,000	1,368,188	3,208,188
2017 - 2021	2,505,000	-	2,505,000	703,625	3,208,625
2022	600,000	-	600,000	39,000	639,000
Total	6,335,000	291,192	6,626,192	3,938,816	10,565,008
Less current maturities	250,000	157,889	407,889	399,119	807,008
Total long-term debt	<u>\$6,085,000</u>	<u>\$ 133,303</u>	<u>\$6,218,303</u>	<u>\$3,539,697</u>	<u>\$ 9,758,000</u>

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

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$6,575,000	\$ —	\$ 240,000	\$6,335,000	\$ 250,000
Notes payable	<u>442,769</u>	<u>—</u>	<u>151,577</u>	<u>291,192</u>	<u>157,889</u>
Totals	<u>\$7,017,769</u>	<u>\$ —</u>	<u>\$ 391,577</u>	<u>\$6,626,192</u>	<u>\$ 407,889</u>

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

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$6,805,000	\$ —	\$ 230,000	\$6,575,000	\$ 240,000
Notes payable	<u>517,856</u>	<u>65,474</u>	<u>140,561</u>	<u>442,769</u>	<u>151,585</u>
Totals	<u>\$7,322,856</u>	<u>\$ 65,474</u>	<u>\$ 370,561</u>	<u>\$7,017,769</u>	<u>\$ 391,585</u>

NOTE 8 MEDICAL OFFICE BUILDING

The Hospital and a medical group practice entered into a lease agreement covering a substantial portion of the medical office building. The noncancelable lease began in 1997 for a ten year period, and provides guaranteed annual rents of \$51,113, payable monthly at \$12.50 per leased square foot. The lease also grants the medical group practice options to extend the lease for an additional term of five years and to expand the space included in the agreement, at specified new rates. Other revenue for the years ended June 30, 2006 and 2005 included \$54,872 and \$54,987, respectively, received under the lease agreement.

NOTE 9 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$254,701, \$233,335 and \$209,615, respectively, equal to the required contributions for each year.

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

NOTE 10 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2006 and 2005.

	2006	2005
Charges foregone, based on established rates	\$ <u>46,207</u>	\$ <u>24,862</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</u>	<u>.2%</u>

NOTE 11 MALPRACTICE CLAIMS

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

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2006 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

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

	GAAP basis	Budget basis adjustments	Budget basis	County Hospital budget
Amount to be raised by taxation	\$ 1,113,732	\$ 170,440	\$ 1,284,172	\$ 1,264,569
Other revenues/receipts	<u>11,680,625</u>	<u>—</u>	<u>11,680,625</u>	<u>10,583,887</u>
	12,794,357	170,440	12,964,797	11,848,456
Expenses/expenditures	<u>12,125,325</u>	<u>449,789</u>	<u>12,575,114</u>	<u>12,853,800</u>
Net	669,032	(279,349)	389,683	(1,005,344)
Balance, beginning	<u>6,848,542</u>	<u>—</u>	<u>6,848,542</u>	<u>2,363,134</u>
Balance, ending	\$ <u>7,517,574</u>	\$ <u>(279,349)</u>	\$ <u>7,238,225</u>	\$ <u>1,357,790</u>

NOTE 13 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

Our report on our audits of the basic financial statements of Clarke County Public Hospital for 2006 and 2005 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 28, 2006

**Clarke County Public Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Unbilled (includes patients in Hospital at end of year)	\$ 441,579	\$ 488,110	16.87%	25.79%
0 - 60 days	744,008	856,491	28.43	45.26
61 - 180 days	940,150	295,101	35.93	15.59
181 - 365 days	332,327	105,643	12.70	5.58
366 and over	<u>158,756</u>	<u>147,283</u>	<u>6.07</u>	<u>7.78</u>
Totals	<u>2,616,820</u>	<u>1,892,628</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	160,000	150,000		
Medicaid	50,000	80,000		
Other	220,000	120,000		
Uncollectibles	<u>550,000</u>	<u>360,000</u>		
Total allowances	<u>980,000</u>	<u>710,000</u>		
Totals	<u>\$1,636,820</u>	<u>\$1,182,628</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 32,086</u>	<u>\$ 26,621</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>51</u>	<u>44</u>		

ANALYSIS OF ALLOWANCE FOR UNCOLLECTIBLES

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
BALANCE , beginning	\$ 360,000	\$ 420,000		
ADD				
Provision for bad debts	657,167	550,046	5.61%	5.66%
Recoveries of accounts previously written off	<u>133,270</u>	<u>126,989</u>	1.14	1.31
	1,150,437	1,097,035		
DEDUCT				
Accounts written off	<u>600,437</u>	<u>737,035</u>	5.13	7.59
BALANCE , ending	<u>\$ 550,000</u>	<u>\$ 360,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$ 782,369	\$ -	\$ 782,369	\$ 818,340
Skilled care	262,850	-	262,850	166,835
Extended care	594,230	-	594,230	683,980
	<u>1,639,449</u>	<u>-</u>	<u>1,639,449</u>	<u>1,669,155</u>
OTHER NURSING SERVICE				
Operating and recovery rooms	39,271	1,643,589	1,682,860	948,463
Emergency service	4,519	1,184,858	1,189,377	1,202,043
Central supply	28,666	464,350	493,016	367,517
Ambulance	19,145	712,403	731,548	641,965
Observation	-	133,587	133,587	151,380
	<u>91,601</u>	<u>4,138,787</u>	<u>4,230,388</u>	<u>3,311,368</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	272,612	1,411,029	1,683,641	1,561,264
Cardiopulmonary	14,564	118,042	132,606	133,004
Cardiac rehabilitation	-	192,125	192,125	148,960
Respiratory therapy	-	17,936	17,936	44,870
Diagnostic imaging	153,770	2,440,653	2,594,423	2,546,766
Pharmacy	507,323	719,632	1,226,955	1,048,870
Anesthesiology	11,304	268,170	279,474	195,546
Speech therapy	13,446	7,616	21,062	17,780
Physical therapy	123,733	549,207	672,940	568,755
Occupational therapy	17,427	12,064	29,491	18,287
	<u>1,114,179</u>	<u>5,736,474</u>	<u>6,850,653</u>	<u>6,284,102</u>
Totals	<u>\$2,845,229</u>	<u>\$9,875,261</u>	12,720,490	11,264,625
Charity care charges foregone, based on established rates			(46,207)	(24,862)
Total gross patient service revenue			12,674,283	11,239,763
Provisions for contractual adjustments and bad debts			(962,800)	(1,522,918)
Total net patient service revenue			<u>\$11,711,483</u>	<u>\$ 9,716,845</u>

**Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare and Medicaid	\$ (529,413)	\$ 397,398
Other	835,046	575,474
Provision for bad debts	<u>657,167</u>	<u>550,046</u>
Totals	<u>\$ 962,800</u>	<u>\$1,522,918</u>

OTHER REVENUE

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
Meals	\$ 27,684	\$ 26,204
Community fitness center fees	17,760	16,275
Medical office building		
Rental income	54,872	54,987
Other income	29,258	27,401
Miscellaneous	<u>84,322</u>	<u>133,494</u>
Totals	<u>\$ 213,896</u>	<u>\$ 258,361</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2006, with comparative totals for 2005

	<u>2006</u>			<u>2005</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 106,537	\$ 3,586	\$ 110,123	\$ 93,871
Medical and surgical	1,683,094	296,505	1,979,599	1,675,120
Operating and recovery rooms	325,278	138,173	463,451	400,136
Emergency service	549,487	375,683	925,170	750,377
Central supply	-	137,129	137,129	185,252
Ambulance	38,993	54,075	93,068	70,995
Total nursing service	<u>2,703,389</u>	<u>1,005,151</u>	<u>3,708,540</u>	<u>3,175,751</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	301,976	325,301	627,277	540,704
Cardiopulmonary	1,129	11,963	13,092	12,625
Cardiac rehabilitation	64,040	19,502	83,542	62,648
Respiratory therapy	2,083	2,698	4,781	50,963
Diagnostic imaging	241,333	382,858	624,191	609,351
Pharmacy	19,843	503,184	523,027	495,330
Anesthesiology	-	139,981	139,981	100,830
Speech therapy	-	13,550	13,550	8,430
Physical therapy	-	395,812	395,812	339,765
Occupational therapy	-	17,561	17,561	5,937
Specialty clinic	24,204	37	24,241	20,403
Medical office building	-	26,713	26,713	25,312
Health information	130,376	74,825	205,201	189,527
Quality improvement and utilization management	119,419	24,627	144,046	120,130
Total other professional service	<u>904,403</u>	<u>1,938,612</u>	<u>2,843,015</u>	<u>2,581,955</u>
GENERAL SERVICE				
Dietary	169,713	137,844	307,557	295,937
Plant operation	143,644	374,184	517,828	399,940
Environmental services	217,749	24,143	241,892	229,229
Laundry and linen	-	78,970	78,970	82,375
Total general service	<u>531,106</u>	<u>615,141</u>	<u>1,146,247</u>	<u>1,007,481</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	162,130	628,208	790,338	798,339
Business office	274,615	100,300	374,915	354,709
Information services	46,502	204,509	251,011	202,342
Purchasing	67,192	30,666	97,858	71,067
Community fitness center	-	15,557	15,557	18,190
FICA	-	331,696	331,696	289,692
IPERS	-	254,701	254,701	233,335
Group health, life, and disability insurance	-	636,860	636,860	573,115
Insurance	-	195,085	195,085	173,990
Total fiscal and administrative service and unassigned expenses	<u>550,439</u>	<u>2,397,582</u>	<u>2,948,021</u>	<u>2,714,779</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,479,502</u>	<u>1,479,502</u>	<u>1,318,467</u>
Total expenses	<u>\$4,689,337</u>	<u>\$7,435,988</u>	<u>\$12,125,325</u>	<u>\$10,798,433</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Adult and pediatric	995	1,166
Swing bed	751	547
Extended care	<u>4,964</u>	<u>6,215</u>
Totals	<u><u>6,710</u></u>	<u><u>7,928</u></u>
DISCHARGES		
Adult and pediatric	320	379
Swing bed	82	68
Extended care	<u>10</u>	<u>40</u>
Totals	<u><u>412</u></u>	<u><u>487</u></u>
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.11	3.08
Swing bed	9.16	8.04
Extended care	496.40	155.38

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

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the financial statements of Clarke County Public Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated July 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
July 28, 2006

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

Part I—Findings Related to the Financial Statements

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

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A 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, 2006.

06-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

06-II-C TRAVEL EXPENSES

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

06-II-D BUSINESS TRANSACTIONS

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

06-II-E BOARD MINUTES

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

06-II-F 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.