

**Crawford County Memorial Hospital
Denison, Iowa**

FINANCIAL REPORT

June 30, 2006

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**Crawford County Memorial Hospital
OFFICIALS
June 30, 2006**

BOARD OF TRUSTEES

Expiration of term

Officers

Steve Vary, President

December 31, 2008

Allen Nepper, Vice President

December 31, 2010

Marsha Losh, Secretary

December 31, 2008

LaVerne Ambrose, Treasurer

December 31, 2010

Members

Virgil Johnson

December 31, 2006

Roger Lorenger

December 31, 2006

Scott Tibben

December 31, 2006

CHIEF EXECUTIVE OFFICER

Ed Gast

CHIEF FINANCIAL OFFICER

Larry Brown

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the accompanying balance sheets of Crawford County Memorial 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 Crawford County Memorial 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 a report dated August 25, 2006 on our consideration of Crawford County Memorial 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 5-9 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 25, 2006

Crawford County Memorial Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Crawford County Memorial 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 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 \$1,662,365 or 11% to \$16,920,067
- Total assets whose use is limited increased by \$1,871,749 to \$5,382,340
- Total property and equipment decreased by \$218,495 to \$6,683,308
- Total fund equity increased by \$1,420,191 to \$13,415,434
- Total long-term debt increased by \$171,013 to \$1,313,598
- Net patient service revenue increased by \$2,653,900, or 21%, due to a combination of a significant increase in volume and continuing increased reimbursement during the Hospital's first full year under Critical Access Hospital status
- Expenses increased by \$1,585,997, or 12%, primarily due to a significant increase in volume in the 2006 fiscal year

Financial Analysis of the Hospital

The balance sheet and the statement 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, 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

	June 30		
	2006	2005	2004
Current assets	\$ 4,294,419	\$ 4,285,308	\$ 3,817,508
Assets whose use is limited	5,382,340	3,510,591	3,564,644
Property and equipment	6,683,308	6,901,803	6,582,030
Other asset	<u>560,000</u>	<u>560,000</u>	<u>560,000</u>
Total assets	<u>\$16,920,067</u>	<u>\$15,257,702</u>	<u>\$14,524,182</u>
Current liabilities	\$ 2,099,288	\$ 1,908,862	\$ 1,556,257
Long-term debt, less current maturities	845,345	793,597	648,523
Other noncurrent liabilities	<u>560,000</u>	<u>560,000</u>	<u>560,000</u>
Total liabilities	<u>\$ 3,504,633</u>	<u>\$ 3,262,459</u>	<u>\$ 2,764,780</u>
Invested in capital assets, net of related debt	\$ 5,369,710	\$ 5,759,218	\$ 5,712,337
Unrestricted	<u>8,045,724</u>	<u>6,236,025</u>	<u>6,047,065</u>
Total fund equity	<u>\$13,415,434</u>	<u>\$11,995,243</u>	<u>\$11,759,402</u>

As depicted in Table 1, total assets increased in fiscal year 2006 to \$16,920,067. The change in total assets results primarily from an increase in assets whose use is limited 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

	Year ended June 30		
	2006	2005	2004
Net patient service revenue	\$15,039,586	\$12,385,686	\$11,221,667
Other revenue	<u>210,765</u>	<u>200,990</u>	<u>205,058</u>
Total revenue	<u>15,250,351</u>	<u>12,586,676</u>	<u>11,426,725</u>
Salaries	6,772,831	6,245,885	6,178,693
Other expenses	6,697,314	5,778,583	5,390,961
Provision for depreciation	<u>1,110,836</u>	<u>970,516</u>	<u>927,243</u>
Total expenses	<u>14,580,981</u>	<u>12,994,984</u>	<u>12,496,897</u>
Operating income (loss)	<u>669,370</u>	<u>(408,308)</u>	<u>(1,070,172)</u>
County taxes	575,851	575,568	573,901
Investment income	204,243	97,589	82,934
Unrestricted contributions	12,226	-	15,000
Interest expense	<u>(41,499)</u>	<u>(29,008)</u>	<u>(33,626)</u>
Total nonoperating gains (losses)	<u>750,821</u>	<u>644,149</u>	<u>638,209</u>
Change in fund equity	1,420,191	235,841	(431,963)
Total fund equity, beginning	<u>11,995,243</u>	<u>11,759,402</u>	<u>12,191,365</u>
Total fund equity, ending	<u>\$13,415,434</u>	<u>\$11,995,243</u>	<u>\$11,759,402</u>

Operating and Financial Performance

The following summarizes the Hospital's statements 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: Medical, surgical and obstetrical discharges for fiscal year 2006 were 795 compared to 697 in fiscal year 2005. Average length of stay increased slightly as patient days increased to 2,232 from 1,892 in 2005. Volume on the outpatient side indicated positive growth in 2006. In 2006, gross outpatient charges increased to \$19,293,397 compared to \$16,577,170 in 2005. Operating room, emergency service, laboratory, radiology, ultrasound and pharmacy ancillary services reflected the most significant growth in 2006.

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 \$23,904,890 from \$20,398,008 in 2005.

Payor Mix: Effective March 1, 2005, 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. Contractual adjustments and bad debts were \$8,865,304 in 2006 compared to \$8,012,322 in 2005, representing 37% 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>2006</u>	<u>2005</u>	<u>2004</u>
Medicare	54%	52%	51%
Medicaid	8	9	9
Wellmark	23	14	15
Commercial insurance	11	15	14
Self pay	<u>4</u>	<u>10</u>	<u>11</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased to \$210,765 in 2006 compared to \$200,990 in 2005, primarily due to increased wellness income.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 8% to \$6,772,831 in 2006 from \$6,245,885 in 2005.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 16% to \$6,697,314 in 2006 from \$5,778,853 in 2005. The most significant increase related to group health and life insurance costs.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,110,836 in 2006 from \$970,516 in 2005.

Nonoperating Gains

Nonoperating gains increased to \$750,821 from \$644,149 in 2005, primarily due to an increase in investment income.

Property and Equipment

At the end of 2006, the Hospital had \$6,683,308 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, \$893,622 was spent to acquire new equipment.

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	\$ 15,350	\$ 15,350	\$ 15,350
Land improvements	807,767	807,767	475,053
Building	4,067,733	4,054,203	3,995,124
Fixed equipment	3,734,222	3,724,702	3,550,811
Major movable equipment	8,249,081	7,824,641	7,252,967
Medical office building	<u>1,390,587</u>	<u>1,390,587</u>	<u>1,390,030</u>
Subtotal	18,264,740	17,817,250	16,679,335
Less accumulated depreciation	<u>(11,581,432)</u>	<u>(10,915,447)</u>	<u>(10,097,305)</u>
Property and equipment	<u>\$ 6,683,308</u>	<u>\$ 6,901,803</u>	<u>\$ 6,582,030</u>

Debt Administration

At year end, the Hospital had \$1,313,598 in current and long-term debt related to notes payable, equipment, an increase of \$171,013 from 2005. 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 2006. More detailed information about the Hospital's outstanding notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 45% of the Hospital's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on the 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 Budget

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 575,851	\$ 560,025	\$ 15,826
Other revenues/receipts	<u>15,957,083</u>	<u>14,362,164</u>	<u>1,594,919</u>
	16,532,934	14,922,189	1,610,745
Expenses/expenditures	<u>14,807,514</u>	<u>15,450,764</u>	<u>(643,250)</u>
Net	<u>\$ 1,725,420</u>	<u>\$ (528,575)</u>	<u>\$2,253,995</u>

Performance Compared to County Hospital Budget (continued)

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue due to enhanced reimbursement under Critical Access Hospital status and positive outpatient growth. Expenses/expenditures were lower than County Hospital budget primarily due to less acquisition of equipment.

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 and growth in demand for services
- Technology advancements

Contacting 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 Crawford County Memorial Hospital at (712) 263-5021 or write care of: Chief Financial Officer, Crawford County Memorial Hospital, 2020 First Avenue South, Denison, Iowa 51442.

**Crawford County Memorial Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2006	2005
CURRENT ASSETS		
Cash	\$ 1,059,618	\$ 1,099,083
Patient receivables, less allowances for contractual adjustments and uncollectible accounts	2,876,810	2,679,912
Other receivables	9,640	9,440
Estimated third-party payor settlements	-	200,000
Inventories	171,846	154,267
Prepaid expenses	166,220	110,641
Notes receivable	10,285	31,965
Total current assets	<u>4,294,419</u>	<u>4,285,308</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Certificates of deposit	5,321,648	3,473,634
Interest receivable	60,692	36,957
Total assets whose use is limited	<u>5,382,340</u>	<u>3,510,591</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	18,264,740	17,817,250
Total property and equipment	<u>11,581,432</u>	<u>10,915,447</u>
OTHER ASSET		
Succeeding year property tax receivable	<u>560,000</u>	<u>560,000</u>
Totals	<u>\$16,920,067</u>	<u>\$15,257,702</u>

	June 30	
	2006	2005
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 468,253	\$ 348,988
Accounts payable	645,086	846,851
Accrued employee compensation	665,871	561,629
Payroll taxes and amounts withheld from employees	20,078	31,394
Estimated third-party payor settlements	300,000	120,000
	<u>2,099,288</u>	<u>1,908,862</u>
LONG-TERM DEBT , less current maturities	<u>845,345</u>	<u>793,597</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>560,000</u>	<u>560,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	5,369,710	5,759,218
Unrestricted	<u>8,045,724</u>	<u>6,236,025</u>
Total fund equity	<u>13,415,434</u>	<u>11,995,243</u>
Totals	<u>\$16,920,067</u>	<u>\$15,257,702</u>

Crawford County Memorial 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 \$427,767; 2005 \$502,500	\$15,039,586	\$12,385,686
OTHER REVENUE	<u>210,765</u>	<u>200,990</u>
Total revenue	<u>15,250,351</u>	<u>12,586,676</u>
EXPENSES		
Nursing service	3,029,751	2,693,276
Other professional service	5,929,991	5,381,901
General service	1,202,117	1,092,741
Fiscal and administrative service and unassigned expenses	3,308,286	2,856,550
Provision for depreciation	<u>1,110,836</u>	<u>970,516</u>
Total operating expenses	<u>14,580,981</u>	<u>12,994,984</u>
Operating income (loss)	<u>669,370</u>	<u>(408,308)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	575,851	575,568
Investment income	204,243	97,589
Unrestricted contributions	12,226	-
Interest expense	<u>(41,499)</u>	<u>(29,008)</u>
Total nonoperating gains (losses)	<u>750,821</u>	<u>644,149</u>
Change in fund equity	1,420,191	235,841
TOTAL FUND EQUITY		
Beginning	<u>11,995,243</u>	<u>11,759,402</u>
Ending	<u>\$13,415,434</u>	<u>\$11,995,243</u>

**Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$15,222,688	\$12,300,546
Cash paid to suppliers for goods and services	(6,761,734)	(5,611,968)
Cash paid to employees for services	(6,668,589)	(6,240,178)
Other operating revenue received	<u>210,765</u>	<u>200,990</u>
Net cash provided by operating activities	<u>2,003,130</u>	<u>649,390</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	575,851	575,568
Contributions received	<u>12,226</u>	<u>—</u>
Net cash provided by noncapital financing activities	<u>588,077</u>	<u>575,568</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	573,261	528,840
Principal payments on long-term debt	(402,248)	(255,948)
Interest paid on long-term debt	(41,499)	(29,008)
Acquisition of property and equipment	<u>(1,092,680)</u>	<u>(1,293,118)</u>
Net cash (used in) capital and related financing activities	<u>(963,166)</u>	<u>(1,049,234)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	180,508	78,948
Purchase of certificates of deposit	(5,426,757)	(3,144,239)
Proceeds from maturities of certificates of deposit	3,578,743	3,216,933
Advances representing issuance of notes receivable	<u>—</u>	<u>(30,269)</u>
Net cash provided by (used in) investing activities	<u>(1,667,506)</u>	<u>121,373</u>
NET INCREASE (DECREASE) IN CASH	(39,465)	297,097
CASH		
Beginning	<u>1,099,083</u>	<u>801,986</u>
Ending	<u>\$ 1,059,618</u>	<u>\$ 1,099,083</u>

**Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2006	2005
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income (loss)	\$ 669,370	\$ (408,308)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,110,836	970,516
Notes receivable paid by services performed	21,680	48,804
Changes in assets and liabilities		
(Increase) in patient receivables	(196,898)	(5,140)
(Increase) in other receivables	(200)	(108)
(Increase) decrease in net estimated third-party payor settlements	380,000	(80,000)
(Increase) in inventories	(17,579)	(2,725)
(Increase) decrease in prepaid expenses	(55,579)	18,735
Increase (decrease) in accounts payable, net of amounts for property and equipment	(1,426)	92,901
Increase in accrued employee compensation	104,242	5,707
Increase (decrease) in payroll taxes and amounts withheld from employees	(11,316)	9,008
Net cash provided by operating activities	\$ 2,003,130	\$ 649,390

See Notes to Financial Statements.

**Crawford County Memorial 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 Crawford 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, the 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 recorded at cost. The nonnegotiable certificates of deposit 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.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Fund Equity

Fund equity is presented in the following three components:

Investment 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 long-term debt 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.

**Crawford County Memorial 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 revenues 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 in banks 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:

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Patients	\$ 926,181	\$ 821,682
Insurance carriers	1,354,568	1,352,042
Medicare	1,501,023	1,159,292
Medicaid	<u>375,038</u>	<u>346,896</u>
Total patient receivables	4,156,810	3,679,912
Less allowances for contractual adjustments and uncollectible accounts	(1,280,000)	(1,000,000)
Net patient receivables	<u>\$2,876,810</u>	<u>\$2,679,912</u>

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 NOTES RECEIVABLE

The Hospital has entered into employment agreements with several physicians. The agreements call for reimbursement of outstanding student loans. The Hospital paid the remaining outstanding balances of all student loans for the physicians and received a signed promissory note from each of the physicians. The promissory notes have various repayment schedules but call for forgiveness of principal and interest as the physicians faithfully perform duties.

For the years ended June 30, 2006 and 2005, the Hospital forgave \$21,680 and \$48,804, respectively, on these physician notes, which are included in fiscal and administrative service and unassigned expenses. Repayment or forgiveness on the notes is to be completed in the year ending June 30, 2007.

In addition, a management arrangement between the Hospital and a physicians' clinic practice exists. The Hospital is to provide facilities, equipment, staff, and billing and collection services for the physicians, and has received assignment of the revenues collected as compensation.

Pursuant to the management and employment agreements, the Hospital incurred total expenses of \$2,473,215 and \$2,261,268 for the years ended June 30, 2006 and 2005, respectively, reported as other professional service expenses, and recognized net revenue of \$2,126,009 and \$1,905,448 for the years ended June 30, 2006 and 2005, respectively, included in net patient service revenue.

NOTE 5 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	\$ 15,350	\$ —	\$ 15,350	\$ —
Land improvements	807,767	308,282	807,767	273,256
Building	4,067,733	2,252,200	4,054,203	2,146,217
Fixed equipment	3,734,222	2,606,329	3,724,702	2,454,584
Major movable equipment	8,249,081	5,792,273	7,824,641	5,463,552
Medical office building	<u>1,390,587</u>	<u>622,348</u>	<u>1,390,587</u>	<u>577,838</u>
Totals	<u>\$18,264,740</u>	<u>\$11,581,432</u>	<u>\$17,817,250</u>	<u>\$10,915,447</u>

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	\$ 15,350	\$ —	\$ —	\$ 15,350
Land improvements	807,767	—	—	807,767
Building	4,054,203	13,530	—	4,067,733
Fixed equipment	3,724,702	9,520	—	3,734,222
Major movable equipment	7,824,641	870,572	446,132	8,249,081
Medical office building	<u>1,390,587</u>	<u>—</u>	<u>—</u>	<u>1,390,587</u>
Totals	17,817,250	893,622	446,132	18,264,740
Less accumulated depreciation	<u>(10,915,447)</u>	<u>(1,110,836)</u>	<u>(444,851)</u>	<u>(11,581,432)</u>
Net property and equipment	<u>\$ 6,901,803</u>	<u>\$ (217,214)</u>	<u>\$ 1,281</u>	<u>\$ 6,683,308</u>

**Crawford County Memorial 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 balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 15,350	\$ —	\$ —	\$ 15,350
Land improvements	475,053	332,714	—	807,767
Building	3,995,124	59,079	—	4,054,203
Fixed equipment	3,550,811	173,891	—	3,724,702
Major movable equipment	7,252,967	724,048	152,374	7,824,641
Medical office building	<u>1,390,030</u>	<u>557</u>	<u>—</u>	<u>1,390,587</u>
Totals	16,679,335	1,290,289	152,374	17,817,250
Less accumulated depreciation	<u>(10,097,305)</u>	<u>(970,516)</u>	<u>(152,374)</u>	<u>(10,915,447)</u>
Net property and equipment	<u>\$ 6,582,030</u>	<u>\$ 319,773</u>	<u>\$ —</u>	<u>\$ 6,901,803</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Notes payable, equipment	\$1,313,598	\$1,142,585
Less current maturities	<u>468,253</u>	<u>348,988</u>
Long-term debt, net of current maturities	<u>\$ 845,345</u>	<u>\$ 793,597</u>

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires a monthly payment of \$20,616, including interest at 3.41%, with the final payment due March, 2008. The note is collateralized by the equipment purchased by the Hospital.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires a monthly payment of \$9,053, including interest at 4.23%, with the final payment due March, 2009. The note is collateralized by the equipment purchased by the Hospital.

The Hospital has a third note agreement to finance the purchase of certain equipment. This noninterest bearing note requires a monthly payment of \$2,162, with the final payment due September, 2009. The note is collateralized by the equipment purchased by the Hospital.

The Hospital has a fourth note agreement to finance the purchase of certain equipment. The note requires a monthly payment of \$10,545, including interest at 4.09%, with the final payment due January, 2011. The note is collateralized by the equipment purchased by the Hospital.

Each 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 sixty days prior to the end of a fiscal period to allow for proper termination of the Notes. Consequently, these obligations do not constitute indebtedness of the Hospital under the laws of the State of Iowa, however, generally accepted accounting principles require the assets and liabilities to be recorded on the balance sheet at June 30, 2006.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 LONG-TERM DEBT (continued)

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

<u>Year ending June 30</u>	<u>Notes payable, equipment</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 468,253	\$ 43,856	\$ 512,109
2008	423,141	23,520	446,661
2009	222,033	11,927	233,960
2010	127,351	5,674	133,025
2011	<u>72,820</u>	<u>996</u>	<u>73,816</u>
Totals	1,313,598	85,973	1,399,571
Less current maturities	<u>468,253</u>	<u>43,856</u>	<u>512,109</u>
Total long-term debt	<u>\$ 845,345</u>	<u>\$ 42,117</u>	<u>\$ 887,462</u>

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>Amount due within one year</u>
Notes payable, equipment	<u>\$1,142,585</u>	<u>\$ 573,261</u>	<u>\$ 402,248</u>	<u>\$1,313,598</u>	<u>\$ 468,253</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>Amount due within one year</u>
Notes payable, equipment	<u>\$ 869,693</u>	<u>\$ 528,840</u>	<u>\$ 255,948</u>	<u>\$1,142,585</u>	<u>\$ 348,988</u>

NOTE 7 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 March 1, 2005, 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 the period ended February 28, 2005.

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.

**Crawford County Memorial 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, 2006, 2005 and 2004 were \$372,378, \$341,657 and \$347,601, 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, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Charges foregone, based on established rates	\$ <u>53,395</u>	\$ <u>65,205</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, 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 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.

**Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)

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

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 575,851	\$ -	\$ 575,851	\$ 560,025
Other revenues/receipts	<u>15,425,321</u>	<u>531,762</u>	<u>15,957,083</u>	<u>14,362,164</u>
	16,001,172	531,762	16,532,934	14,922,189
Expenses/expenditures	<u>14,580,981</u>	<u>226,533</u>	<u>14,807,514</u>	<u>15,450,764</u>
Net	1,420,191	305,229	1,725,420	(528,575)
Balance, beginning	<u>11,995,243</u>	<u>(8,302,135)</u>	<u>3,693,108</u>	<u>4,518,251</u>
Balance, ending	<u>\$13,415,434</u>	<u>\$(7,996,906)</u>	<u>\$ 5,418,528</u>	<u>\$ 3,989,676</u>

NOTE 12 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.

NOTE 13 EMPLOYEE BENEFITS

The Hospital has 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 \$55,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$730,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2006 and 2005 were \$605,156 and \$342,601, respectively, included in fiscal and administrative and unassigned expenses.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

Our report on our audits of the basic financial statements of Crawford County Memorial 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 following 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 25, 2006

**Crawford County Memorial 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>
0 - 30 days (includes patients in Hospital at end of year)	\$1,960,469	\$1,529,972	47.16%	41.58%
31 - 60 days	800,035	687,806	19.25	18.69
61 - 90 days	335,942	330,347	8.08	8.98
91 - 180 days	472,459	588,954	11.37	16.00
Over 180 days	<u>587,905</u>	<u>542,833</u>	<u>14.14</u>	<u>14.75</u>
Totals	<u>4,156,810</u>	<u>3,679,912</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	680,000	400,000		
Medicaid	160,000	200,000		
Other	150,000	100,000		
Uncollectibles	<u>290,000</u>	<u>300,000</u>		
Total allowances	<u>1,280,000</u>	<u>1,000,000</u>		
Totals	<u>\$2,876,810</u>	<u>\$2,679,912</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 41,204</u>	<u>\$ 33,933</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>70</u>	<u>79</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	\$ 300,000	\$ 300,000		
ADD				
Provision for bad debts	427,767	502,500	2.84%	4.06%
Recoveries of accounts previously written off	<u>155,697</u>	<u>139,747</u>	1.04	1.13
	883,464	942,247		
DEDUCT				
Accounts written off	<u>593,464</u>	<u>642,247</u>	3.95	5.19
BALANCE , ending	<u>\$ 290,000</u>	<u>\$ 300,000</u>		

Crawford County Memorial 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, surgical and obstetrical	\$1,386,416	\$ -	\$ 1,386,416	\$ 1,085,843
Swing bed	203,825	-	203,825	168,328
Nursery	64,477	-	64,477	55,429
	<u>1,654,718</u>	<u>-</u>	<u>1,654,718</u>	<u>1,309,600</u>
OTHER NURSING SERVICES				
Operating room	331,676	2,751,708	3,083,384	2,727,465
Recovery room	67,065	451,546	518,611	423,623
Delivery room	123,710	13,387	137,097	107,268
Emergency service	55,760	1,815,533	1,871,293	1,745,198
Observation room	-	71,527	71,527	52,918
Same day surgery	-	66,510	66,510	48,742
	<u>578,211</u>	<u>5,170,211</u>	<u>5,748,422</u>	<u>5,105,214</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	509,469	2,457,284	2,966,753	2,442,913
Electrocardiology	29,743	176,346	206,089	195,973
Radiology	93,124	1,398,317	1,491,441	1,156,645
CT scans	201,936	1,239,471	1,441,407	1,225,485
MRI	27,935	812,867	840,802	745,170
Ultrasound	94,897	963,816	1,058,713	739,884
Pharmacy	703,124	1,658,995	2,362,119	1,966,867
Anesthesiology	126,243	380,564	506,807	409,833
Respiratory therapy	449,469	249,575	699,044	579,066
Cardiac rehabilitation	85	131,401	131,486	101,936
Ambulance	114,031	600,197	714,228	583,989
Physical therapy	62,169	479,820	541,989	530,805
Occupational therapy	18,890	53,472	72,362	55,258
Speech therapy	844	1,277	2,121	-
Clinic	-	3,519,784	3,519,784	3,314,575
	<u>2,431,959</u>	<u>14,123,186</u>	<u>16,555,145</u>	<u>14,048,399</u>
Totals	<u>\$4,664,888</u>	<u>\$19,293,397</u>	23,958,285	20,463,213
Charity care charges foregone, based on established rates			(53,395)	(65,205)
Total gross patient service revenue			23,904,890	20,398,008
Provisions for contractual adjustments and bad debts			(8,865,304)	(8,012,322)
Total net patient service revenue			<u>\$15,039,586</u>	<u>\$12,385,686</u>

**Crawford County Memorial Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$5,310,466	\$4,707,129
Medicaid	1,098,670	1,039,575
Other adjustments	2,028,401	1,763,118
Provision for bad debts	<u>427,767</u>	<u>502,500</u>
 Totals	 <u>\$8,865,304</u>	 <u>\$8,012,322</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Cafeteria	\$ 33,042	\$ 32,493
Rental income	52,039	53,795
Sale of supplies and drugs	10,043	4,768
Wellness	36,663	31,471
Lifeline	27,835	20,754
Miscellaneous	<u>51,143</u>	<u>57,709</u>
 Totals	 <u>\$ 210,765</u>	 <u>\$ 200,990</u>

Crawford County Memorial 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	\$ 184,625	\$ 8,566	\$ 193,191	\$ 145,992
Medical and surgical	756,904	127,868	884,772	747,775
Obstetrical	168,519	18,633	187,152	180,720
Coronary care	25,615	1,262	26,877	26,616
Nursery	42,932	6,232	49,164	39,688
Operating room	273,466	270,824	544,290	507,687
Recovery room	24,577	-	24,577	17,768
Delivery room	33,986	9,262	43,248	34,829
Emergency and outpatient service	<u>385,989</u>	<u>690,491</u>	<u>1,076,480</u>	<u>992,201</u>
Total nursing service	<u>1,896,613</u>	<u>1,133,138</u>	<u>3,029,751</u>	<u>2,693,276</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	269,078	347,922	617,000	578,300
Electrocardiology	39,057	2,463	41,520	36,986
Radiology	235,926	135,201	371,127	352,719
CT scans	24,061	58,532	82,593	62,589
MRI	-	173,405	173,405	157,886
Ultrasound	55,610	65,845	121,455	86,899
Pharmacy	137,479	450,598	588,077	488,866
Anesthesiology	299,563	20,647	320,210	294,940
Respiratory therapy	93,310	52,371	145,681	133,096
Cardiac rehabilitation	29,086	7,516	36,602	34,165
Ambulance	333,280	28,687	361,967	337,910
Physical therapy	168,930	16,144	185,074	174,381
Occupational therapy	18,289	285	18,574	14,665
Speech therapy	-	948	948	4,484
Clinic	1,206,806	1,266,409	2,473,215	2,261,268
Health information management	241,788	30,380	272,168	248,892
Quality assurance	57,064	3,063	60,127	57,439
Utilization review	<u>60,060</u>	<u>188</u>	<u>60,248</u>	<u>56,416</u>
Total other professional service	<u>3,269,387</u>	<u>2,660,604</u>	<u>5,929,991</u>	<u>5,381,901</u>
GENERAL SERVICE				
Dietary	233,892	149,271	383,163	356,246
Plant engineering	237,127	353,977	591,104	510,305
Housekeeping	145,494	31,080	176,574	179,254
Laundry	<u>46,477</u>	<u>4,799</u>	<u>51,276</u>	<u>46,936</u>
Total general service	<u>662,990</u>	<u>539,127</u>	<u>1,202,117</u>	<u>1,092,741</u>

Crawford County Memorial Hospital
EXPENSES (continued)
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>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Fiscal and administrative service	\$ 943,841	\$ 600,995	\$ 1,544,836	\$ 1,448,047
FICA	-	442,162	442,162	413,610
IPERS	-	372,378	372,378	341,657
Group health and life insurance	-	676,250	676,250	401,678
Insurance	<u>-</u>	<u>272,660</u>	<u>272,660</u>	<u>251,558</u>
Total fiscal and administrative service and unassigned expenses	<u>943,841</u>	<u>2,364,445</u>	<u>3,308,286</u>	<u>2,856,550</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>1,110,836</u>	<u>1,110,836</u>	<u>970,516</u>
Total expenses	<u>\$6,772,831</u>	<u>\$7,808,150</u>	<u>\$14,580,981</u>	<u>\$12,994,984</u>

**Crawford County Memorial Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Medical, surgical and obstetrical	2,232	1,892
Swing bed		
Skilled care	673	602
Intermediate care	9	14
Nursery	<u>222</u>	<u>210</u>
Totals	<u>3,136</u>	<u>2,718</u>
DISCHARGES		
Medical, surgical and obstetrical	795	697
Swing bed		
Skilled care	102	90
Intermediate care	3	4
Nursery	<u>111</u>	<u>99</u>
Totals	<u>1,011</u>	<u>890</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.81	2.71
Swing bed		
Skilled care	6.60	6.69
Intermediate care	3.00	3.50
Nursery	2.00	2.12

**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
Crawford County Memorial Hospital
Denison, Iowa

We have audited the financial statements of Crawford County Memorial Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated August 25, 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 operation 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 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 Crawford 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 25, 2006

**Crawford County Memorial 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.

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2006**

Part II—Findings Related to Required Statutory Reporting

06-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its 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.