

**FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005**

**HANCOCK COUNTY
MEMORIAL HOSPITAL**

HANCOCK COUNTY MEMORIAL HOSPITAL

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**HANCOCK COUNTY MEMORIAL HOSPITAL
BOARD OF TRUSTEES AND HOSPITAL OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Board of Trustees</u>		
Mary Kopacek	Chairperson	December 31, 2010
Alvin Denny	Vice-Chairperson/Treasurer	December 31, 2008
Brian Cataldo	Secretary	December 31, 2006
Bill Paulus	Member	December 31, 2006
DeAnna Kelly	Member	December 31, 2008
Rob Willms	Member	December 31, 2010
Ron Eden	Member	December 31, 2010

Hospital Officials

Vance Jackson	Administrator
Laura Zwiefel	DON/Clinical Services
Julie Damm	Chief Financial Officer



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheet of **Hancock County Memorial Hospital** (HCMH) as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of HCMH's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of **Hancock County Memorial Hospital** as of and for the year ended June 30, 2005, were audited by other auditors whose report dated September 1, 2005, expressed an unqualified opinion on those financial statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of **Hancock County Memorial Hospital** as of June 30, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As indicated in HCMH's Summary of Significant Accounting Policies in Note 1 to the financial statements, management has elected to report interest expense as an operating expense in the Statement of Revenues, Expenses, and Changes in Net Assets. *Governmental Auditing Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* does not establish a definition of operating revenues and expenses versus nonoperating revenues and expenses. Rather, governments are required to establish their own policy defining operating revenues and expenses and apply the policy consistently. The common practice for governmental health care entities is to include interest expense in nonoperating revenues and expenses.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2006, on our consideration of **Hancock 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 4 and 5 and the Budgetary Comparison Information on pages 24 and 25 are not required parts of the basic financial statements but are 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. We did not audit the information and express no opinion on it.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Dubuque, Iowa
September 14, 2006

Hancock County Memorial Hospital

Management's Discussion and Analysis

This section of Hancock County Memorial Hospital's annual financial report presents background information and management's analysis of the financial performance during the fiscal year that ended June 30, 2006. We encourage readers to read this analysis in conjunction with the financial statements in this report.

Financial Highlights

- The Hospital's total assets increased by \$304,039 or 2%. A significant portion of this increase represents investments in capital equipment and buildings, net of related debt.
- The Hospital's assets exceeded liabilities by \$9,422,389 at June 30, 2006.
- During the year, the Hospital's total operating revenues increased 12% to \$9,586,839, while the operating expenses increased 10% to \$9,637,377. The Hospital had loss from operations of (\$50,538) which is (.5%) of total operating revenues.
- The Hospital made capital equipment and building investments totaling \$356,513 during the fiscal year. The source of funding for these items was derived from operations and notes payable.

Overview of the Financial Statements

The basic financial statements of the Hospital report information using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term information about its activities.

The balance sheets provide information about the nature and amounts of the Hospital's assets and liabilities. The balance sheet at June 30, 2006, reports total assets of \$14,022,585, total liabilities of \$4,600,196 and net assets of \$9,422,389.

The statements of revenues, expenses, and changes in net assets provide information on the Hospital's revenues and expenses. These statements indicate total operating revenues of \$9,586,839 and total operating expenses of \$9,637,377 during fiscal year 2006. The operating loss was (\$50,538) in 2006, compared to an operating loss of (\$137,753) in 2005.

There are notes to the financial statements included in the audit report. All of the notes are consistent with and similar to audit reports from prior years. There are also several supplementary schedules that provide the reader detail about the source of the Hospital's revenues and expenses. The reader is encouraged to examine these notes and schedules for additional information.

Long-term Debt

At year-end, Hancock County Memorial Hospital had \$3,033,215 in short-term and long-term debt. The debt was incurred for the 1996 1st floor hospital remodeling project, 2000 Garner Family Practice building, 2003 2nd floor hospital renovation, HVAC upgrade project, and from the 2004 cataract equipment note payable.

Factors Bearing on Financial Future

Hancock County Memorial Hospital is beginning to work on a significant building renovation project that will update the Emergency Department area and the Britt Medical Clinic. This renovation is planned for FY2008-2009. Hancock County Memorial Hospital is also looking at developing a Master Facility Plan that would include additional renovations and upgrades to the facility. This will cover a three to five year period anticipating enhanced services, growth, and hopefully, increased utilization and technology improvements.

Requests for Information

Questions regarding the information provided in this report or requests for additional financial information should be addressed to the office of the Chief Financial Officer at the following address:

Hancock County Memorial Hospital
Attn: Chief Financial Officer
532 1st St NW
Britt, IA 50423

HANCOCK COUNTY MEMORIAL HOSPITAL
BALANCE SHEETS
JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,834,108	\$ 1,401,759
Investments - Note 4	98,717	67,767
Assets limited as to use or restricted - Note 4	62,500	60,000
Receivables		
Patient, net of estimated uncollectibles		
of \$560,000 in 2006 and \$488,845 in 2005	1,324,134	1,662,097
Succeeding year property tax	794,166	778,525
Note	18,061	51,625
Other	37,308	161,467
Supplies	173,454	151,063
Prepaid expense	65,750	54,297
Total current assets	<u>4,408,198</u>	<u>4,388,600</u>
ASSETS LIMITED AS TO USE OR RESTRICTED - Note 4		
Internally designated for capital improvements	2,428,375	2,165,049
Restricted under bond agreement	316,644	287,216
Restricted by specific purpose fund	-	65,065
Restricted foundation fund	323,945	28,623
Restricted plant replacement and expansion funds	108,408	108,130
Restricted for current liabilities	<u>(62,500)</u>	<u>(60,000)</u>
Assets limited as to use or restricted, less amounts restricted		
for current liabilities	<u>3,114,872</u>	<u>2,594,083</u>
LAND, BUILDINGS, AND EQUIPMENT, net - Note 5	<u>5,979,044</u>	<u>6,241,559</u>
OTHER ASSETS		
Real estate held for investment - Note 6	281,284	281,284
Bond issuance costs, net of accumulated amortization	139,387	150,388
Joint venture - Note 7	70,070	58,804
Physician recruitment fees, net of accumulated amortization	29,730	3,828
Total other assets	<u>520,471</u>	<u>494,304</u>
Total assets	<u>\$ 14,022,585</u>	<u>\$ 13,718,546</u>

See notes to financial statements.

	<u>2006</u>	<u>2005</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt - Note 8	\$ 252,087	\$ 244,518
Accounts payable		
Trade	143,481	191,377
Related party	198,336	172,284
Estimated third-party payor settlements	84,000	450,990
Accrued expenses		
Salaries, wages, and vacation	253,684	198,113
Interest	10,791	11,590
Payroll taxes and employee benefits	82,523	23,814
Other	-	18,400
Deferred revenue for succeeding year property tax receivable	<u>794,166</u>	<u>778,525</u>
 Total current liabilities	 1,819,068	 2,089,611
 LONG-TERM DEBT, less current maturities - Note 8	 <u>2,781,128</u>	 <u>3,087,413</u>
 Total liabilities	 <u>4,600,196</u>	 <u>5,177,024</u>
NET ASSETS		
Invested in capital assets net of related debt	2,945,829	2,909,628
Restricted		
Under bond agreement	316,644	287,216
Specific purpose fund	-	65,065
Foundation fund	10,176	28,623
Plant replacement and expansion funds	108,408	108,130
Unrestricted	<u>6,041,332</u>	<u>5,142,860</u>
 Total net assets	 <u>9,422,389</u>	 <u>8,541,522</u>
 Total liabilities and net assets	 <u>\$ 14,022,585</u>	 <u>\$ 13,718,546</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OPERATING REVENUES		
Net patient service revenue (net of provision for bad debts of \$430,080 in 2006 and \$287,325 in 2005) - Notes 2 and 3	\$ 9,392,463	\$ 8,392,566
Other operating revenues	<u>194,376</u>	<u>201,284</u>
TOTAL OPERATING REVENUES	<u>9,586,839</u>	<u>8,593,850</u>
OPERATING EXPENSES		
Salaries and wages	3,273,835	2,856,767
Employee benefits	792,298	673,149
Supplies and other expenses	4,760,020	4,416,717
Depreciation	623,477	582,436
Interest and amortization	<u>187,747</u>	<u>202,534</u>
TOTAL OPERATING EXPENSES	<u>9,637,377</u>	<u>8,731,603</u>
OPERATING LOSS	<u>(50,538)</u>	<u>(137,753)</u>
NONOPERATING REVENUES (EXPENSES)		
County tax revenue	779,361	778,845
Investment income	89,424	62,450
Rental income	19,404	14,551
Noncapital grants and contributions	20,415	6,998
Loss on sale of property and equipment	(621)	(3,190)
Other income (expense)	<u>12,744</u>	<u>(26,859)</u>
NET NONOPERATING REVENUES	<u>920,727</u>	<u>832,795</u>
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS AND GRANTS	870,189	695,042
Capital contributions and grants	<u>10,678</u>	<u>50,119</u>
INCREASE IN NET ASSETS	880,867	745,161
NET ASSETS BEGINNING OF YEAR	<u>8,541,522</u>	<u>7,796,361</u>
NET ASSETS END OF YEAR	<u>\$ 9,422,389</u>	<u>\$ 8,541,522</u>

See notes to financial statements.

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts of patient service revenue	\$ 9,363,436	\$ 8,405,972
Payments of salaries and wages	(3,218,264)	(2,929,873)
Payments of supplies and other expenses	(5,567,697)	(5,086,661)
Other receipts and payments, net	<u>352,099</u>	<u>143,246</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>929,574</u>	<u>532,684</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Noncapital grants and contributions received	20,415	6,998
County tax revenue received	779,361	778,845
Other income (expense)	12,744	(26,859)
Rental income	<u>19,404</u>	<u>14,551</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>831,924</u>	<u>773,535</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of property and equipment	(364,342)	(633,096)
Proceeds from sale of property and equipment	2,759	-
Payments on long-term debt	(298,716)	(254,644)
Proceeds from issuance of long-term debt	-	97,000
Payments of interest on debt	(177,545)	(192,389)
Capital contributions and grants	<u>10,678</u>	<u>50,119</u>
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(827,166)</u>	<u>(933,010)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	89,424	62,450
Increase in joint venture	(11,266)	(7,459)
Increase in investments	(30,950)	(2,334)
Decrease (increase) in physician recruitment fees	(25,902)	1,684
Increase in assets limited as to use or restricted	<u>(523,289)</u>	<u>(436,574)</u>
NET CASH USED FOR INVESTING ACTIVITIES	<u>(501,983)</u>	<u>(382,233)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	432,349	(9,024)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,401,759</u>	<u>1,410,783</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,834,108</u>	<u>\$ 1,401,759</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (50,538)	\$ (137,753)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	623,477	582,436
Amortization	11,001	11,001
Interest expense considered capital and related financing activity	176,746	191,533
Provision for bad debts	430,080	287,325
Changes in assets and liabilities		
Patient receivables	(92,117)	(557,337)
Other receivables	157,723	(58,038)
Supplies	(22,391)	14,864
Prepaid expense	(11,453)	7,195
Accounts payable	(47,896)	(24,749)
Accrued expenses	95,880	(77,968)
Accounts payable - related	26,052	10,757
Estimated third-party payor settlements	<u>(366,990)</u>	<u>283,418</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 929,574</u>	<u>\$ 532,684</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Hancock County Memorial Hospital (HCMH) is the county hospital of Hancock County, in the City of Britt, organized under Chapter 347, Code of Iowa. HCMH provides health care services under the name of Hancock County Memorial Hospital in accordance with a Master Affiliation Agreement – see Note 11. Services are provided primarily to residents of Hancock County and the surrounding area in north central Iowa. HCMH is exempt from income taxes as a political subdivision.

Reporting Entity

For financial reporting purposes, HCMH has included all funds, organizations, agencies, boards, commissions, and authorities. HCMH 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 HCMH are such that exclusion would cause HCMH'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 HCMH 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 HCMH. Hancock County Memorial Hospital Foundation meets these criteria and is included in HCMH's financial statements under the provisions of GASB Statement No. 14. HCMH has no other component units, which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The balance sheet displays HCMH's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is HCMH's policy to use restricted resources first.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

HCMH reports in accordance with accounting principles generally accepted in the United States of America as specified by the American Institute of Certified Public Accountants' *Audit and Accounting Guide for Health Care Organizations* and, as a governmental entity, also provides certain disclosures required by the Governmental Accounting Standards Board (GASB). The accompanying financial statements have been prepared on the accrual basis of accounting. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

In reporting its financial activity, HCMH applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

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

Cash and Cash Equivalents

For purposes of the statement of cash flows, HCMH considers saving accounts and all other highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding assets limited as to use or restricted.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables are not charged interest on amounts owed. Accounts past due more than 85 days are turned over to collection agents.

Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision. Management also reviews accounts to determine if classification as charity care is appropriate.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

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.

Supplies

Supplies are valued at cost using the first-in, first-out method.

Investments

Investments are valued at purchase cost, or fair market value at the date of acquisition if donated. Investments consist of non-negotiable certificates of deposit.

Issuance Costs

Deferred financing costs are amortized over the period the obligation is outstanding using the interest method. Amortization of deferred financing costs is capitalized during the period of construction of capital assets.

Land, Buildings, and Equipment

Land, buildings, and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Land, buildings, and equipment donated for HCMH's operations are recorded as additions to net assets at fair value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. The estimated useful lives of land, buildings, and equipment are as follows:

Land improvements	10-40 years
Buildings and improvements	10-50 years
Equipment	3-20 years

Assets Limited as to Use or Restricted

Assets limited as to use or restricted include assets which have been internally designated by HCMH's Board of Trustees, assets which are restricted by debt agreements and assets which have been restricted by contributors or grantors. Board designated assets remain under the control of the Board of Trustees, which may at its discretion later use the funds for other purposes.

Restricted funds are used to differentiate funds which are limited by the donor to specific uses from funds on which the donor places no restriction or which arise as a result of the operation of HCMH for its stated purposes. Resources set aside for Board-designated purposes are not considered to be restricted. Resources restricted by donors or grantors for specific operating purposes are reported in nonoperating revenue to the extent expended within the period.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Compensated Absences

HCMH employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The cost of vacation payments is recorded as a current liability on the balance sheet. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006.

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.

Operating Revenues and Expenses

HCMH's statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange and non-exchange transactions associated with providing health care services – HCMH's principal activity. Non-exchange revenues, including interest income, taxes, grants, unrestricted contributions, and release of restricted contributions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, including interest expense.

Net Patient Service Revenue

HCMH has agreements with third-party payors that provide for payments to HCMH at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. 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 and a provision for uncollectible accounts. 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.

Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are restricted to a specific operating purpose are reported as operating revenues. Amounts that are unrestricted are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. HCMH incurred \$39,045 and \$37,489 for advertising costs for the years ended June 30, 2006 and 2005, respectively.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Charity Care

During 2005, HCMH implemented a charity care policy through which care is provided to patients who meet certain criteria under the policy without charge or at amounts less than its established rates. Revenue from services to these patients is recorded in the accounting system at the established rates, but HCMH does not pursue collection of the amounts. The resulting adjustments are recorded as adjustments to patient service revenue depending on the timing of the charity determination.

County Tax Revenue

Taxes are included in nonoperating revenues when received and distributed by the County Treasurer. No provision is made in the financial statements for taxes levied in the current year to be collected in a subsequent year.

Reclassifications

Certain prior period amounts within the accompanying statements have been reclassified for comparability.

Other Significant Accounting Policies

Other significant accounting policies are set forth in the financial statements and the notes thereto.

NOTE 2 – CHARITY CARE

HCMH maintains records to identify and monitor the level of charity care it provides. The amount of charges foregone for services and supplies furnished under its charity care policy during the year ended June 30, 2006, was \$39,482.

NOTE 3 – NET PATIENT SERVICE REVENUE

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

Medicare: HCMH is licensed as a Critical Access Hospital (CAH). HCMH is reimbursed for most inpatient and outpatient services at 101% of cost with final settlement determined after submission of annual cost reports by HCMH and are subject to audits thereof by the Medicare fiscal intermediary. HCMH's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended June 30, 2003. HCMH's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with HCMH.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid based on a cost reimbursement methodology. HCMH is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by HCMH and audits thereof by the Medicaid fiscal intermediary. HCMH's Medicaid cost reports have been processed by the Medicaid fiscal intermediary through June 30, 2002.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Other Payors: HCMH has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to HCMH under these agreements may include prospectively determined rates and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

A summary of net patient service revenue and contractual adjustments for the years ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total patient service revenue	<u>\$ 12,849,993</u>	<u>\$ 11,493,019</u>
Contractual adjustments:		
Medicare	(1,698,895)	(1,624,236)
Medicaid	(243,603)	(268,672)
Blue Cross	(800,284)	(738,122)
Other	<u>(284,668)</u>	<u>(182,098)</u>
Total contractual adjustments	<u>(3,027,450)</u>	<u>(2,813,128)</u>
Net patient service revenue	<u>9,822,543</u>	8,679,891
Provision for bad debts	<u>(430,080)</u>	<u>(287,325)</u>
Net patient service revenue (net of provision for bad debts)	<u>\$ 9,392,463</u>	<u>\$ 8,392,566</u>

NOTE 4 – CASH AND DEPOSITS

HCMH's deposits in banks at June 30, 2006 and 2005, were entirely covered by federal depository insurance or 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.

HCMH 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.

Investments reported are not subject to risk categorization. Amounts classified as investments in the financial statements are presented as cash and deposits in this note.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

At June 30, 2006 and 2005, HCMH's carrying amounts of cash and deposits are as follows:

Deposits and Investments

	<u>2006</u>	<u>2005</u>
Checking and savings accounts	\$ 742,258	\$ 436,471
Money market accounts	692,652	623,760
Certificates of deposit	1,745,211	1,555,758
Interest receivable	7,035	5,199
Federal loan securities	<u>88,933</u>	<u>100,662</u>
 Total deposits	 <u>\$ 3,276,089</u>	 <u>\$ 2,721,850</u>

Included in the following balance sheet captions:

Investments	\$ 98,717	\$ 67,767
Assets limited as to use or restricted	<u>3,177,372</u>	<u>2,654,083</u>
	 <u>\$ 3,276,089</u>	 <u>\$ 2,721,850</u>

All of the above cash and deposits, except the federal loan securities, have a maturity date of less than one year.

Interest rate risk is the exposure to fair value losses resulting from rising interest rates. The primary objectives, in order of priority, of all investment activities involving the financial assets of HCMH are:

1. **Safety:** Safety and preservation of principal in the overall portfolio.
2. **Liquidity:** Maintaining the necessary liquidity to match expected liabilities.
3. **Return:** Obtaining a reasonable return.

HCMH attempts to limit its interest rate risk while investing within the guidelines of its investment policy and Chapter 12C of the Code of Iowa.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 5 – LAND, BUILDINGS, AND EQUIPMENT

Summaries of land, buildings, and equipment at June 30, 2006 and 2005, are as follows:

	June 30, 2005				June 30, 2006
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 412,192	\$ 7,827	\$ -	\$ -	\$ 420,019
Building	5,465,027	-	-	-	5,465,027
Fixed equipment	1,786,299	-	-	-	1,786,299
Major movable equipment	3,281,152	109,537	(84,743)	239,169	3,545,115
Construction in progress	12,484	246,976	-	(239,169)	20,291
Total	10,957,154	\$ 364,340	\$ (84,743)	\$ -	11,236,751
Accumulated depreciation					
Land improvements	193,649	\$ 30,331	\$ -	\$ -	223,980
Building	2,035,361	196,161	-	-	2,231,522
Fixed equipment	443,173	104,164	-	-	547,337
Major movable equipment	2,043,412	292,819	(81,363)	-	2,254,868
Total	4,715,595	\$ 623,475	\$ (81,363)	\$ -	5,257,707
Land, buildings, and equipment, net	\$ 6,241,559				\$ 5,979,044
	June 30, 2004				June 30, 2005
	Balance	Additions	Deductions	Transfers	Balance
Cost					
Land and land improvements	\$ 412,192	\$ -	\$ -	\$ -	\$ 412,192
Building	5,465,027	-	-	-	5,465,027
Fixed equipment	1,446,383	360,046	(20,130)	-	1,786,299
Major movable equipment	3,050,545	262,769	(32,162)	-	3,281,152
Construction in progress	7,931	10,284	(5,731)	-	12,484
Total	10,382,078	\$ 633,099	\$ (58,023)	\$ -	10,957,154
Accumulated depreciation					
Land improvements	163,075	\$ 30,574	\$ -	\$ -	193,649
Building	1,837,420	197,941	-	-	2,035,361
Fixed equipment	370,313	92,969	(20,109)	-	443,173
Major movable equipment	1,817,181	260,952	(34,721)	-	2,043,412
Total	4,187,989	\$ 582,436	\$ (54,830)	\$ -	4,715,595
Land, buildings, and equipment, net	\$ 6,194,089				\$ 6,241,559

(continued on next page)

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 6 – REAL ESTATE HELD FOR INVESTMENT

The real estate held for investment consists of 151 acres of farmland in Hancock County. The current value of \$281,284 represents the original purchase price. At June 30, 2006 and 2005, the market value was in excess of the carrying value.

NOTE 7 – JOINT VENTURE

The joint venture represents a 25% investment in Mobile Radiology, LLC, a mobile radiology unit limited liability corporation. This investment is accounted for using the equity method of accounting.

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt at June 30, 2006 and 2005, is as follows:

	Balance June 30, 2005	Additions	(Payments)	Balance June 30, 2006	Amounts Due Within One Year
Hospital revenue note, series A	\$ 760,000	\$ -	\$ (75,000)	\$ 685,000	\$ 80,000
Hospital general obligation county bonds	430,000	-	(45,000)	385,000	45,000
USDA - RECD hospital general obligation bonds	721,080	-	(44,306)	676,774	46,470
USDA - hospital revenue note #1	412,455	-	(19,651)	392,804	20,392
USDA - hospital revenue note #2	561,530	-	(21,182)	540,348	22,181
Farmers Trust & Savings Bank	357,291	-	(20,391)	336,900	21,655
Note payable - Alcon Laboratories	89,575	-	(73,186)	16,389	16,389
	<u>\$3,331,931</u>	<u>\$ -</u>	<u>\$ (298,716)</u>	<u>3,033,215</u>	<u>\$ 252,087</u>
Total long-term debt				<u>(252,087)</u>	
Less current maturities					
Long-term debt, less current maturities				<u><u>\$ 2,781,128</u></u>	

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

	Balance June 30, 2004	Additions	(Payments)	Balance June 30, 2005	Amounts Due Within One Year
Hospital revenue note, series A	\$ 830,000	\$ -	\$ (70,000)	\$ 760,000	\$ 75,000
Hospital general obligation county bonds	470,000	-	(40,000)	430,000	45,000
USDA - RECD hospital general obligation bonds	763,282	-	(42,202)	721,080	44,263
USDA - hospital revenue note #1	431,197	-	(18,742)	412,455	19,445
USDA - hospital revenue note #2	581,833	-	(20,303)	561,530	22,991
Farmers Trust & Savings Bank	377,735	-	(20,444)	357,291	20,270
Note payable - Alcon Laboratories	-	97,900	(8,325)	89,575	17,549
Obligations under capital lease	35,528	-	(35,528)	-	-
Total long-term debt	<u>\$3,489,575</u>	<u>\$ 97,900</u>	<u>\$ (255,544)</u>	3,331,931	<u>\$ 244,518</u>
Less current maturities				<u>(244,518)</u>	
Long-term debt, less current maturities				<u>\$ 3,087,413</u>	

HCMH revenue note, Series A requires semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 5.75% to 7.00%. All debt maturing on or after December 1, 2009, shall be subject to prior payment on December 1, 2008, or on any date thereafter, at par plus accrued interest. Principal and interest payments are due through December 2012.

HCMH general obligation county bonds require semi-annual payments of principal and interest on June 1 and December 1, with interest at the rate of 4.00% to 5.50%. Principal and interest payments are due through December 2012.

USDA – RECD hospital general obligation bonds require monthly payments of principal and interest with interest at the rate of 4.875%. Principal and interest payments are due through December 2017.

USDA hospital revenue note #1 requires monthly payments of principal and interest with interest at the rate of 4.75%. Principal and interest payments are due through July 2020.

USDA hospital revenue note #2 requires monthly principal and interest payments with interest at the rate of 4.25%. Principal and interest payments are due through June 2023.

Farmers Trust and Savings Bank requires monthly payments of principal and interest with interest at the rate of 6.63%. Principal and interest payments are due through June 2017.

Alcon Laboratories requires monthly payments of principal and interest with interest at the rate of 7.00%. In 2006, HCMH made an additional principal payment on the note of \$50,000. Management intends to pay off the remaining note balance by April 2007. The note is collateralized by equipment.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

HCMH leases certain equipment under capital lease arrangements. Leases require monthly payments of principal and interest at rates from 6.00% to 10.268%. Leases are secured by equipment. All capital lease obligations were fully repaid during 2005.

The bonds are payable solely and only from revenues and receipts of HCMH and do not constitute an indebtedness of the County. The notes are secured by HCMH building.

Aggregate future payments of principal and interest on the long-term debt obligations are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 252,087	\$ 158,453	\$ 410,540
2008	251,392	144,381	395,773
2009	262,500	129,877	392,377
2010	278,880	114,523	393,403
2011	300,600	97,901	398,501
2012-2016	1,162,245	256,940	1,419,185
2017-2021	440,482	56,757	497,239
2022-2026	<u>85,029</u>	<u>3,527</u>	<u>88,556</u>
	<u>\$3,033,215</u>	<u>\$ 962,359</u>	<u>\$3,995,574</u>

NOTE 9 – LEASES

HCMH leases certain equipment under operating lease agreements. Total lease expense for the years ended June 30, 2006 and 2005, for all operating leases was \$24,425 and \$18,527, respectively.

NOTE 10 – PENSION PLAN

HCMH 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 covered salary and HCMH is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005, and 2004. Contribution requirements are established by State statute. HCMH's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004, were \$186,217, \$158,929, and \$162,490, respectively, equal to the required contributions for each year.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 11 – RELATED ORGANIZATIONS

Master Affiliation Agreement

HCMH entered into a Master Affiliation Agreement with Mercy Medical Center – North Iowa to provide hospital, physician, and other health care services in Hancock County and the North Central Iowa region under the name of Hancock County Memorial Hospital. As a part of the Master Affiliation Agreement, HCMH entered into a professional services agreement with Mercy Medical Center – North Iowa whereby Mercy Medical Center – North Iowa provides professional medical services. Amounts paid to Mercy Medical Center – North Iowa for the provision of these services amounted to \$882,174 and \$980,702 for the years ended June 30, 2006 and 2005, respectively.

Operating income and losses from the operation of HCMH services in Hancock County are shared in accordance to the formulas outlined in the Master Affiliation Agreement. During 2006 and 2005, there were no payments due to either party under the terms of the agreement.

Management Services Agreement

HCMH entered into a contractual arrangement with Mercy Medical Center – North Iowa under which Mercy Medical Center – North Iowa provides administrative staff, management consultation, and other services to HCMH. The arrangement does not alter the authority or responsibility of the Board of Trustees of HCMH. Expenses for the administrative and management services received for the years ended June 30, 2006 and 2005, were \$271,708 and \$334,394, respectively.

Due to Affiliated Organization

As of June 30, 2006 and 2005, Hancock County Memorial Hospital's records reflect a due to Mercy Medical Center – North Iowa of \$198,336 and \$172,284, respectively, for the various services and distributions related to these agreements.

NOTE 12 – CONTINGENCIES

Malpractice Insurance

HCMH has malpractice insurance coverage to provide protection for professional liability losses on a claims made basis subject to a limit of \$1 million per claim and an aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured.

Healthcare Legislation and Regulation

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violation of these laws and regulations could result in expulsion from government healthcare programs together with imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

(continued on next page)

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

Management believes that HCMH is in substantial compliance with fraud and abuse as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations is subject to government review and interpretation, as well as regulator actions unknown or unasserted at this time.

Litigation

HCMH is involved in litigation arising in the normal course of business. In consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on HCMH's financial position or results of operations.

NOTE 13 – DEFERRED COMPENSATION AGREEMENTS

HCMH has entered into deferred compensation agreements with certain employees, which provide that a portion of their compensation will be deferred, to be paid upon retirement or at specific dates. HCMH does not make any contributions under the agreements. The agreements indicate the amounts due the employees will be the amounts deferred plus or minus earnings or losses realized on the investments of the funds at the time payment is to be made.

On August 20, 1996, the provision of the Internal Revenue Code Section 457 were amended to enable plans to hold all assets and income of the plan in a trust for the exclusive benefit of participants and their beneficiaries. These assets were previously required to be held as property of HCMH. The Governmental Accounting Standards Board (GASB) issued Statement 32 in October 1997. GASB 32 is effective for the year ended June 30, 1999, or on the date (if earlier) that the plan changes its trust provisions. HCMH plan has been amended to hold the plan assets in trust for the plan participants and their beneficiaries.

The agreements are funded with insurance contracts, stated at the greater of cost or cash value. The fair market value of the plan was \$345,436 and \$267,967 at June 30, 2006 and 2005, respectively.

NOTE 14 – RISK MANAGEMENT

HCMH 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. There has been no significant reduction in insurance coverage from the previous year in any of HCMH's policies. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006 AND 2005

NOTE 15 – CONCENTRATION OF CREDIT RISK

HCMH grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Medicare	33%	45%
Medicaid	3	2
Commercial insurance	26	23
Other third-party payors and patients	<u>38</u>	<u>30</u>
	<u>100%</u>	<u>100%</u>

**HANCOCK COUNTY
MEMORIAL HOSPITAL**

HANCOCK COUNTY MEMORIAL HOSPITAL
BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED JUNE 30, 2006

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budget	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 779,361	\$ -	\$ 779,361	\$ 778,525	\$ 836
Estimated other revenues/receipts	<u>9,739,504</u>	<u>131,455</u>	<u>9,870,959</u>	<u>9,267,896</u>	<u>603,063</u>
	10,518,865	131,455	10,650,320	10,046,421	603,899
Expenses/disbursements	<u>9,637,998</u>	<u>(168)</u>	<u>9,637,830</u>	<u>10,009,325</u>	<u>371,495</u>
Net	880,867	131,623	1,012,490	37,096	<u>\$ 975,394</u>
Balance beginning of year	<u>8,541,522</u>	<u>(4,417,913)</u>	<u>4,123,609</u>	<u>8,402,113</u>	
Balance end of year	<u>\$ 9,422,389</u>	<u>\$ (4,286,290)</u>	<u>\$ 5,136,099</u>	<u>\$ 8,439,209</u>	

**HANCOCK COUNTY MEMORIAL HOSPITAL
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006**

NOTE 1 – BUDGETARY COMPARISON

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from HCMH preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of HCMH on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures. HCMH did not amend its original budget during the year ended June 30, 2006.

**HANCOCK COUNTY
MEMORIAL HOSPITAL**



CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The 2006 supplementary information is presented for purposes of additional analysis and is not a required part of the 2006 basic financial statements. Such information, except for the Schedule of Statistical Information on page 35 marked "unaudited," has been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2006 basic financial statements taken as a whole.

The 2005 supplementary information is presented for purposes of additional analysis and is not a required part of the 2005 basic financial statements. Such information, except for the Schedule of Statistical Information on page 35 marked "unaudited," was subjected to the auditing procedures applied by other auditors in the audit of the 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2005 basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Dubuque, Iowa
September 14, 2006

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF NET PATIENT SERVICE REVENUE
YEARS ENDED JUNE 30, 2006 AND 2005

	TOTAL	
	2006	2005
PATIENT CARE SERVICES		
Adults and pediatrics	\$ 832,884	\$ 1,045,003
OTHER PROFESSIONAL SERVICES		
Operating room	1,023,397	773,084
Recovery room	266,278	203,741
Radiology	2,027,168	1,697,623
Nuclear medicine	11,716	11,264
Laboratory	2,687,412	2,466,700
Blood	52,525	56,199
Respiratory therapy	234,057	232,350
Physical therapy	443,470	284,778
Occupational therapy	51,322	57,301
Speech therapy	6,530	8,818
Electrocardiology	174,473	156,865
Medical and surgical supplies	213,702	122,194
Pharmacy	741,925	651,645
Cardiac rehabilitation	53,983	58,960
Diabetic education	10,385	8,062
Massage therapy	-	2,130
Britt clinic	1,467,590	1,475,068
Garner clinic	1,540,607	1,196,435
Wesley clinic	182,256	140,425
Kanhwa clinic	87,649	80,523
Emergency services	777,823	762,986
Ambulance	2,323	865
Total	12,889,475	11,493,019
Charity care	(39,482)	-
Total patient service revenue	<u>12,849,993</u>	<u>11,493,019</u>
CONTRACTUAL ADJUSTMENTS		
Medicare	(1,698,895)	(1,624,236)
Medicaid	(243,603)	(268,672)
Blue Cross	(800,284)	(738,122)
Other	(284,668)	(182,098)
Total contractual adjustments	<u>(3,027,450)</u>	<u>(2,813,128)</u>
NET PATIENT SERVICE REVENUE	9,822,543	8,679,891
PROVISION FOR BAD DEBTS	<u>(430,080)</u>	<u>(287,325)</u>
NET PATIENT SERVICE REVENUE (NET OF PROVISION FOR BAD DEBTS)	<u>\$ 9,392,463</u>	<u>\$ 8,392,566</u>

INPATIENT		OUTPATIENT	
2006	2005	2006	2005
\$ 740,126	\$ 972,116	\$ 92,758	\$ 72,887
26,740	11,882	996,657	761,202
5,491	1,168	260,787	202,573
136,237	165,172	1,890,931	1,532,451
-	-	11,716	11,264
273,429	577,673	2,413,983	1,889,027
35,306	46,071	17,219	10,128
132,074	151,014	101,983	81,336
63,213	41,794	380,257	242,984
27,862	29,342	23,460	27,959
5,213	8,095	1,317	723
13,741	27,277	160,732	129,588
31,238	19,598	182,464	102,596
332,207	433,299	409,718	218,346
-	-	53,983	58,960
-	-	10,385	8,062
-	-	-	2,130
-	-	1,467,590	1,475,068
-	-	1,540,607	1,196,435
-	-	182,256	140,425
-	-	87,649	80,523
15,370	20,552	762,453	742,434
2,323	865	-	-
<u>\$ 1,840,570</u>	<u>\$ 2,505,918</u>	<u>\$ 11,048,905</u>	<u>\$ 8,987,101</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
OTHER OPERATING REVENUES		
Meals sold	\$ 87,812	\$ 116,174
Grant revenues	81,301	61,516
Dietary assessment and consulting	6,263	3,139
Medical records transcripts	1,543	1,302
Other	<u>17,457</u>	<u>19,153</u>
 TOTAL OTHER OPERATING REVENUES	 <u>\$ 194,376</u>	 <u>\$ 201,284</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
NURSING ADMINISTRATION		
Salaries and wages	\$ 19,813	\$ 23,015
Supplies and other expenses	<u>97,979</u>	<u>78,564</u>
	<u>117,792</u>	<u>101,579</u>
ADULTS AND PEDIATRICS		
Salaries and wages	651,869	565,657
Supplies and other expenses	<u>221,568</u>	<u>217,376</u>
	<u>873,437</u>	<u>783,033</u>
OPERATING AND RECOVERY ROOMS		
Salaries and wages	67,109	49,493
Supplies and other expenses	<u>71,191</u>	<u>71,129</u>
	<u>138,300</u>	<u>120,622</u>
ANESTHESIOLOGY		
Supplies and other expenses	<u>149,469</u>	<u>99,068</u>
RADIOLOGY		
Salaries and wages	162,623	163,486
Supplies and other expenses	<u>418,574</u>	<u>387,249</u>
	<u>581,197</u>	<u>550,735</u>
LABORATORY		
Salaries and wages	228,232	210,967
Supplies and other expenses	<u>258,808</u>	<u>230,204</u>
	<u>487,040</u>	<u>441,171</u>
BLOOD		
Salaries and wages	3,813	3,124
Supplies and other expenses	<u>25,200</u>	<u>22,557</u>
	<u>29,013</u>	<u>25,681</u>
RESPIRATORY THERAPY		
Salaries and wages	3,438	5,065
Supplies and other expenses	<u>16,236</u>	<u>19,109</u>
	<u>19,674</u>	<u>24,174</u>
PHYSICAL THERAPY		
Salaries and wages	141,262	55,526
Supplies and other expenses	<u>17,178</u>	<u>80,916</u>
	<u>158,440</u>	<u>136,442</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
OCCUPATIONAL THERAPY		
Supplies and other expenses	<u>\$ 26,957</u>	<u>\$ 41,963</u>
SPEECH THERAPY		
Supplies and other expenses	<u>4,387</u>	<u>4,071</u>
ELECTROCARDIOLOGY		
Salaries and wages	6,504	7,093
Supplies and other expenses	<u>11,492</u>	<u>15,101</u>
	<u>17,996</u>	<u>22,194</u>
MEDICAL AND SURGICAL SUPPLIES		
Supplies and other expenses	<u>80,251</u>	<u>38,434</u>
PHARMACY		
Salaries and wages	14,030	12,970
Supplies and other expenses	<u>244,972</u>	<u>233,194</u>
	<u>259,002</u>	<u>246,164</u>
CENTRAL SUPPLY		
Salaries and wages	70,734	70,062
Supplies and other expenses	<u>8,596</u>	<u>4,939</u>
	<u>79,330</u>	<u>75,001</u>
CARDIAC REHABILITATION		
Salaries and wages	15,147	12,802
Supplies and other expenses	<u>6,241</u>	<u>3,113</u>
	<u>21,388</u>	<u>15,915</u>
MASSAGE THERAPY		
Salaries and wages	-	1,716
Supplies and other expenses	<u>57</u>	<u>802</u>
	<u>57</u>	<u>2,518</u>
BRITT CLINIC		
Salaries and wages	337,208	264,551
Supplies and other expenses	<u>770,816</u>	<u>855,477</u>
	<u>1,108,024</u>	<u>1,120,028</u>
GARNER CLINIC		
Salaries and wages	297,624	242,528
Supplies and other expenses	<u>719,310</u>	<u>498,323</u>
	<u>1,016,934</u>	<u>740,851</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
WESLEY CLINIC		
Salaries and wages	\$ 50,326	\$ 47,402
Supplies and other expenses	<u>134,275</u>	<u>112,131</u>
	<u>184,601</u>	<u>159,533</u>
KANAWAH CLINIC		
Salaries and wages	22,682	20,608
Supplies and other expenses	<u>55,901</u>	<u>52,787</u>
	<u>78,583</u>	<u>73,395</u>
EMERGENCY SERVICES		
Salaries and wages	94,575	89,835
Supplies and other expenses	<u>331,057</u>	<u>291,800</u>
	<u>425,632</u>	<u>381,635</u>
AMBULANCE		
Supplies and other expenses	<u>5,800</u>	<u>865</u>
SOCIAL SERVICES		
Salaries and wages	9,428	8,835
Supplies and other expenses	<u>-</u>	<u>90</u>
	<u>9,428</u>	<u>8,925</u>
MEDICAL RECORDS		
Salaries and wages	142,730	132,270
Supplies and other expenses	<u>32,394</u>	<u>30,574</u>
	<u>175,124</u>	<u>162,844</u>
DIETARY		
Salaries and wages	164,802	179,211
Supplies and other expenses	<u>71,476</u>	<u>82,365</u>
	<u>236,278</u>	<u>261,576</u>
OPERATION OF PLANT		
Salaries and wages	191,005	168,275
Supplies and other expenses	<u>238,831</u>	<u>209,087</u>
	<u>429,836</u>	<u>377,362</u>
HOUSEKEEPING		
Salaries and wages	78,884	73,005
Supplies and other expenses	<u>18,928</u>	<u>16,948</u>
	<u>97,812</u>	<u>89,953</u>
LAUNDRY AND LINEN		
Salaries and wages	5,339	5,788
Supplies and other expenses	<u>19,748</u>	<u>17,741</u>
	<u>25,087</u>	<u>23,529</u>

(continued)

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF OPERATING EXPENSES
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
ADMINISTRATIVE SERVICES		
Salaries and wages	\$ 494,658	\$ 443,483
Supplies and other expenses	<u>702,328</u>	<u>700,920</u>
	<u>1,196,986</u>	<u>1,144,403</u>
UNASSIGNED EXPENSES		
Depreciation	623,477	582,436
Interest and amortization	187,747	202,354
Employee benefits	<u>792,298</u>	<u>673,149</u>
	<u>1,603,522</u>	<u>1,457,939</u>
TOTAL OPERATING EXPENSES	<u>\$ 9,637,377</u>	<u>\$ 8,731,603</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF PATIENT RECEIVABLES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS
YEARS ENDED JUNE 30, 2006 AND 2005

ANAYLSIS OF AGING	2006		2005	
	Amount	Percent to Total	Amount	Percent to Total
Days Since Discharge				
30 days or less	\$ 1,058,264	56.17%	\$ 1,047,111	48.68%
31 to 60 days	262,698	13.94%	442,966	20.59%
61 to 90 days	136,360	7.24%	146,729	6.82%
91 days and over	<u>426,812</u>	<u>22.65%</u>	<u>514,136</u>	<u>23.91%</u>
	<u>1,884,134</u>	<u>100.00%</u>	2,150,942	100.00%
Less: Allowance for doubtful accounts	285,000		193,639	
Allowance for contractual adjustments	<u>275,000</u>		<u>295,206</u>	
Net	<u>\$ 1,324,134</u>		<u>\$ 1,662,097</u>	
Net patient service revenue (net of provision for bad debts) per calendar day	<u>\$ 25,733</u>		<u>\$ 22,993</u>	
Days of net revenue in net accounts receivable at year end	<u>51</u>		<u>72</u>	
ALLOWANCE FOR DOUBTFUL ACCOUNTS			2006	2005
Beginning Balance			<u>\$ 193,639</u>	<u>\$ 191,795</u>
Add:				
Provision for bad debts			430,080	287,325
Recoveries previously written off			<u>145,597</u>	<u>98,860</u>
			<u>575,677</u>	<u>386,185</u>
Less:				
Accounts written off			<u>(484,316)</u>	<u>(384,341)</u>
Ending Balance			<u>\$ 285,000</u>	<u>\$ 193,639</u>

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF INVENTORY AND PREPAID EXPENSE
YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
INVENTORY		
General	\$ 30,704	\$ 32,780
Pharmacy	65,467	45,516
Central supply	<u>77,283</u>	<u>72,767</u>
 Total inventory	 <u>\$ 173,454</u>	 <u>\$ 151,063</u>
 PREPAID EXPENSE		
Insurance	\$ 10,720	\$ 9,857
Service contracts/other	42,994	36,862
Membership dues	<u>12,036</u>	<u>7,578</u>
 Total prepaid expense	 <u>\$ 65,750</u>	 <u>\$ 54,297</u>

HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULES OF STATISTICAL INFORMATION (UNAUDITED)
YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
PATIENT DAYS		
Acute (includes hospice)	742	1,171
Swing-bed	980	946
ADMISSIONS		
Acute (includes hospice)	228	346
Swing-bed	124	141
DISCHARGES		
Acute (includes hospice)	228	345
Swing-bed	126	139
AVERAGE LENGTH OF STAY		
Acute (includes hospice)	3.25	3.39
Swing-bed	7.78	6.81
BEDS	25	25
OCCUPANCY PERCENTAGE		
Acute (includes hospice), based on 25 beds	8.1%	12.8%
Swing-bed, based on 10 beds	26.8%	25.9%



CPAs & BUSINESS ADVISORS

**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**

The Board of Trustees
Hancock County Memorial Hospital
Britt, Iowa

We have audited the accompanying balance sheet of **Hancock County Memorial Hospital (HCMH)** as of June 30, 2006, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated September 14, 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. The financial statements of **HCMH** as of June 30, 2005, were audited by other auditors whose report dated September 1, 2005, expressed an unqualified opinion on those financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered HCMH'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 over financial reporting 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 HCMH's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of non-compliance or other matters that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about HCMH'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 HCMH. 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.

We also noted a certain additional matter that we reported to management of HCMH in a separate letter dated September 14, 2006.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of **HCMH** and other parties to whom **HCMH** may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of **Hancock County Memorial Hospital** during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Dubuque, Iowa
September 14, 2006

**HANCOCK COUNTY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS
YEARS ENDED JUNE 30, 2006 AND 2005**

Part I: Findings Related to the Financial Statements:

NONE

Part II: Other Findings Related to Required Statutory Reporting:

II-A-06 Certified Budget – Disbursements during the year ended June 30, 2006, did not exceed the amount budgeted.

II-B-06 Questionable Expenditures – We noted no expenditures that we believe would be in conflict with the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

II-C-06 Travel Expense – No expenditures of HCMH money for travel expenses of spouses of HCMH officials and/or employees were noted.

During January and February of 2006, HCMH inadvertently reimbursed travel expenses at mileage rates in excess of federally allowable limits.

Recommendation – We recommend that mileage reimbursement rates be reduced to federally allowable limits.

Response – In March 2006, mileage reimbursement rates were reduced to federally allowable limits. No instances of noncompliance were noted during the last four months of fiscal 2006.

Conclusion – Response accepted.

II-D-06 Business Transactions – We noted no material business transactions between HCMH and HCMH officials and/or employees.

II-E-06 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.

II-F-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and HCMH’s investment policy were noted.

II-G-06 Publication of Bills Allowed and Salaries – Chapter 347.13(14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the County as selected by the Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” HCMH did publish a schedule of bills allowed and a schedule of salaries paid as required by the Code.

II-H-06 Chapter 28E Organization – HCMH has entered into a joint venture agreement under the provisions of Chapter 28E of the Code of Iowa for the provision of ultrasound services. The provisions of Chapter 28E require that a joint venture with gross receipts in excess of \$100,000 have a financial statement audit. The joint venture has contracted for an audit under the provisions of Chapter 28E.