

**Greater Regional Medical Center  
Creston, Iowa**

**FINANCIAL REPORT**

**June 30, 2006**

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**Greater Regional Medical Center  
OFFICIALS  
June 30, 2006**

**BOARD OF TRUSTEES**

**Officers**

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

**Members**

Jack Davis  
Sherry McKie  
Lores Stewart

**Expiration of term**

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

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

**CHIEF EXECUTIVE OFFICER**

Monte Neitzel

**CHIEF FINANCIAL OFFICER**

Dave Brokaw

**INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Greater Regional Medical Center  
Creston, Iowa

We have audited the accompanying balance sheets of Greater Regional Medical Center 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 Medical Center's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006 on our consideration of Greater Regional Medical Center's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

  
DENMAN & COMPANY, LLP

West Des Moines, Iowa  
August 3, 2006

## **Greater Regional Medical Center MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of Greater Regional Medical Center, we offer readers of the financial statements this narrative overview and analysis of the Medical Center's financial performance during the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Medical Center'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 Medical Center, 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 Medical Center report information of the Medical Center 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 Medical Center's assets and liabilities and provides information about the nature and amounts of investments in resources, assets, and the obligations to Medical Center's creditors, liabilities. It also provides the basis for evaluating the capital structure of the Medical Center and assessing the liquidity and financial flexibility of the Medical Center.

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 Medical Center operations over the past year and can be used to determine whether the Medical Center has successfully recovered all its costs through its patient service revenue and other revenue sources, profitability and credit worthiness.

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

### **Financial Highlights**

- Total assets increased by \$2,519,477 or 8% to \$35,554,748
- Total noncurrent assets whose use is limited increased by \$2,977,713 to \$9,127,229
- Total property and equipment decreased by \$628,562 to \$17,252,472
- Total fund equity increased by \$2,394,368 to \$24,165,680
- Total long-term debt decreased by \$539,720 to \$7,600,964
- Net patient service revenue increased by \$2,363,806, or 12% primarily due to increased reimbursement by third-party payors due to Medical Center's Critical Access Medical Center status
- Expenses increased by \$1,500,235, or 7% to \$21,567,613

### **Financial Analysis of the Medical Center**

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Medical Center and the changes in them. The Medical Center'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 Medical Center'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 Medical Center's balance sheets is presented in Table 1.

**Table 1**  
**Condensed Balance Sheets**

	<b>June 30</b>		
	<u><b>2006</b></u>	<u><b>2005</b></u>	<u><b>2004</b></u>
Current assets	\$ 7,954,401	\$ 7,774,945	\$ 5,377,608
Noncurrent assets whose use is limited	9,127,229	6,149,516	5,575,124
Property and equipment	17,252,472	17,881,034	18,783,275
Other assets	<u>1,220,646</u>	<u>1,229,776</u>	<u>1,228,906</u>
 Total assets	 <u><b>\$35,554,748</b></u>	 <u><b>\$33,035,271</b></u>	 <u><b>\$30,964,913</b></u>
 Current liabilities	 3,189,582	 \$ 2,592,995	 \$ 1,626,555
Long-term debt, less current maturities	7,129,486	7,600,964	7,769,732
Other noncurrent liabilities	<u>1,070,000</u>	<u>1,070,000</u>	<u>1,060,000</u>
 Total liabilities	 <u><b>\$11,389,068</b></u>	 <u><b>\$11,263,959</b></u>	 <u><b>\$10,456,287</b></u>
 Invested in capital assets, net of related debt	 \$ 9,651,508	 \$ 9,740,350	 \$10,569,055
Restricted	707,226	692,143	681,593
Unrestricted	<u>13,806,946</u>	<u>11,338,819</u>	<u>9,257,978</u>
 Total fund equity	 <u><b>\$24,165,680</b></u>	 <u><b>\$21,771,312</b></u>	 <u><b>\$20,508,626</b></u>

As depicted in Table 1, total assets increased in fiscal year 2006 to \$35,554,748. The change in total assets results primarily from an increase in cash and investments as a result of significant change in operating income.

## **Revenues, Expenses, and Changes in Fund Equity**

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

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

	Year ended June 30		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net patient service revenue	\$21,295,950	\$18,932,144	\$17,608,683
Other revenue	<u>1,585,780</u>	<u>1,457,472</u>	<u>1,337,169</u>
Total revenue	<u>22,881,730</u>	<u>20,389,616</u>	<u>18,945,852</u>
Salaries	8,622,064	8,146,142	8,173,801
Other expenses	11,205,427	10,245,041	10,045,781
Provision for depreciation	<u>1,740,122</u>	<u>1,676,195</u>	<u>1,543,930</u>
Total expenses	<u>21,567,613</u>	<u>20,067,378</u>	<u>19,763,512</u>
Operating income (loss)	<u>1,314,117</u>	<u>322,238</u>	<u>(817,660)</u>
County taxes	1,150,500	1,147,284	1,149,753
Investment income	288,800	158,984	100,866
Unrestricted contributions	3,000	13,500	—
Interest expense	<u>(362,049)</u>	<u>(379,320)</u>	<u>(394,044)</u>
Total nonoperating gains	<u>1,080,251</u>	<u>940,448</u>	<u>856,575</u>
Change in fund equity	2,394,368	1,262,686	38,915
Total fund equity, beginning	<u>21,771,312</u>	<u>20,508,626</u>	<u>20,469,711</u>
Total fund equity, ending	<u>\$24,165,680</u>	<u>\$21,771,312</u>	<u>\$20,508,626</u>

## **Operating and Financial Performance**

The following summarizes the Medical Center'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 1,183 compared to 1,326 in fiscal year 2005. Average length of stay decreased slightly and patient days decreased to 3,590 from 4,146 in 2005. Volume on the outpatient side increased in 2006. In 2006, gross outpatient charges increased to \$22,472,671 compared to \$18,598,037 in 2005.

**Price Increase:** As is customary annually, the Medical Center did review its charge structure and incorporate certain price increases in 2006. Overall, gross patient service revenue increased to \$32,562,273 from \$28,555,332 in 2005.

**Payor Mix:** Effective December 1, 2004, the Medical Center 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 increased to \$11,266,323 in 2006 from \$9,623,188 in 2005. This represents 35% 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	49%	51%	54%
Medicaid	8	8	6
Wellmark	22	21	15
Commercial insurance	16	14	14
Self pay	<u>5</u>	<u>6</u>	<u>11</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

**Other Revenue**

Other revenue increased to \$1,585,780 in 2006 compared to \$1,457,472 in 2005, primarily due to rental income derived from Crestridge Estates and miscellaneous income.

**Expenses**

Approximately 40% of the Medical Center's expenses are for salaries. Total salaries increased to \$8,622,064 in 2006 from \$8,146,142 in 2005. The Medical Center departments experiencing the most significant increase in 2006 included emergency room and plant operation.

Approximately 50% of the Medical Center's expenses are for supplies and expenses. Total supplies and expenses increased by 9% to \$11,205,427 in 2006 from \$10,245,041 in 2005. The Medical Center departments experiencing the most significant increases in 2006 included radiology and ultrasound and pharmacy.

Approximately 10% of the Medical Center's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,740,122 in 2006 from \$1,676,195 in 2005.

**Nonoperating Gains**

Nonoperating gains increased to \$1,080,251 from \$940,448 in 2005, primarily due to an increase in investment income.

**Property and Equipment**

At the end of 2006, the Medical Center had \$17,252,472 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2006, \$1,111,560 was spent to acquire property and equipment.

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

**Table 4**  
**Property and Equipment**

	<b>June 30</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
Land	\$ 185,260	\$ 185,260	\$ 185,260
Land improvements	1,899,903	1,899,903	1,896,708
Building and improvements	6,086,997	6,086,997	6,061,479
Fixed equipment	4,991,375	4,886,075	4,886,075
Major movable equipment	9,044,142	8,640,014	9,189,372
Buildings leased to others	7,246,108	7,246,108	7,246,108
Crestridge Estates	3,363,382	3,363,382	3,363,382
Construction in progress	513,984	-	-
Subtotal	<u>33,331,151</u>	<u>32,307,739</u>	<u>32,828,384</u>
Less accumulated depreciation	<u>(16,078,679)</u>	<u>(14,426,705)</u>	<u>(14,045,109)</u>
Property and equipment	<u>\$17,252,472</u>	<u>\$17,881,034</u>	<u>\$18,783,275</u>

**Debt Administration**

At year end, the Medical Center had \$6,710,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2002. This has decreased by \$285,000 in fiscal year 2006, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2006. More detailed information about the Medical Center's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 60% of the Medical Center's total liabilities as of year end.

At year end, the Medical Center had \$890,964 in current and long-term notes payable, a decrease of \$254,720 from 2005. This decrease is the result of required payments made on the outstanding notes for fiscal year 2006. More detailed information about the Medical Center's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 10% of the Medical Center's total liabilities at year end.

**Performance Compared to County Hospital Budget**

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

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

	<b>Actual budget basis</b>	<b>Annual County Hospital budget</b>	<b>Variance</b>
Amount to be raised by taxation	\$ 1,150,500	\$ 1,071,321	\$ 79,179
Other revenues/receipts	<u>22,811,481</u>	<u>25,557,330</u>	<u>(2,745,849)</u>
	23,961,981	26,628,651	(2,666,670)
Expenses/expenditures	<u>21,478,771</u>	<u>29,005,988</u>	<u>(7,527,217)</u>
Net	<u>\$ 2,483,210</u>	<u>\$(2,377,337)</u>	<u>\$ 4,860,547</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to less net patient service revenue. Expenses/expenditures were lower than County Hospital budget primarily due to less acquisition of property and equipment.

### **Economic and Other Factors and Next Year's Budget**

The Medical Center'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 Greater Regional Medical Center's Management**

This financial report is designed to provide users with a general overview of the Medical Center's finances and to demonstrate the Medical Center's accountability. If you have questions about this report or need additional information, contact Greater Regional Medical Center at (641) 782-7091 or write care of: Chief Financial Officer, Greater Regional Medical Center, 1700 West Townline, Creston, Iowa 50801.

**Greater Regional Medical Center  
BALANCE SHEETS**

ASSETS	June 30	
	2006	2005
<b>CURRENT ASSETS</b>		
Cash	\$ 2,729,627	\$ 2,956,550
Assets whose use is limited, required for current liabilities	321,836	312,703
Certificates of deposit	687,831	669,919
Patient receivables, less allowances for contractual adjustments and uncollectible accounts	3,190,131	2,562,178
Other receivables	30,334	47,910
Estimated third-party payor settlements	240,000	490,000
Inventories	552,451	478,087
Prepaid expenses	202,191	257,598
Total current assets	7,954,401	7,774,945
<b>ASSETS WHOSE USE IS LIMITED</b>		
Designated by board for plant replacement and expansion		
Cash	2,072,771	1,910,945
Certificates of deposit	4,856,145	2,557,847
U.S. Government Agency securities	1,785,000	1,284,000
Interest receivable	27,923	17,284
	8,741,839	5,770,076
Restricted for payment of long-term debt and interest		
Cash, debt service reserve fund	707,226	692,143
Total assets whose use is limited	9,449,065	6,462,219
Less assets whose use is limited and that are required for current liabilities	321,836	312,703
Noncurrent assets whose use is limited	9,127,229	6,149,516
<b>PROPERTY AND EQUIPMENT</b>		
Less accumulated depreciation	33,331,151	32,307,739
Total property and equipment	16,078,679	14,426,705
<b>OTHER ASSETS</b>		
Unamortized financing costs	150,646	159,776
Succeeding year property tax receivable	1,070,000	1,070,000
Total other assets	1,220,646	1,229,776
Totals	\$35,554,748	\$33,035,271

See Notes to Financial Statements.

	<b>June 30</b>	
	<u>2006</u>	<u>2005</u>
<b>LIABILITIES AND FUND EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term debt	\$ 471,478	\$ 539,720
Accounts payable		
Trade	580,016	757,514
Construction	242,068	-
Accrued employee compensation	743,443	662,400
Payroll taxes and amounts withheld from employees	205,741	95,658
Accrued interest	26,836	27,703
Estimated third-party payor settlements	920,000	510,000
	<u>3,189,582</u>	<u>2,592,995</u>
<b>LONG-TERM DEBT</b> , less current maturities	<u>7,129,486</u>	<u>7,600,964</u>
<b>DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE</b>	<u>1,070,000</u>	<u>1,070,000</u>
<b>FUND EQUITY</b>		
Invested in capital assets, net of related debt	9,651,508	9,740,350
Restricted	707,226	692,143
Unrestricted	<u>13,806,946</u>	<u>11,338,819</u>
Total fund equity	<u>24,165,680</u>	<u>21,771,312</u>
Totals	<u>\$35,554,748</u>	<u>\$33,035,271</u>

**Greater Regional Medical Center**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>NET PATIENT SERVICE REVENUE</b> , net of provision for bad debts 2006 \$1,017,266; 2005 \$766,706	\$21,295,950	\$18,932,144
<b>OTHER REVENUE</b>	<u>1,585,780</u>	<u>1,457,472</u>
Total revenue	<u>22,881,730</u>	<u>20,389,616</u>
<b>EXPENSES</b>		
Nursing service	6,119,468	5,688,891
Other professional service	5,920,068	5,131,898
General service	1,925,650	1,758,057
Fiscal and administrative service and unassigned expenses	5,862,305	5,812,337
Provision for depreciation	<u>1,740,122</u>	<u>1,676,195</u>
Total expenses	<u>21,567,613</u>	<u>20,067,378</u>
Operating income	<u>1,314,117</u>	<u>322,238</u>
<b>NONOPERATING GAINS (LOSSES)</b>		
County taxes	1,150,500	1,147,284
Investment income	288,800	158,984
Unrestricted contributions	3,000	13,500
Interest expense	<u>(362,049)</u>	<u>(379,320)</u>
Total nonoperating gains (losses)	<u>1,080,251</u>	<u>940,448</u>
Change in fund equity	2,394,368	1,262,686
<b>TOTAL FUND EQUITY</b>		
Beginning	<u>21,771,312</u>	<u>20,508,626</u>
Ending	<u>\$24,165,680</u>	<u>\$21,771,312</u>

**Greater Regional Medical Center  
STATEMENTS OF CASH FLOWS**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from patients and third-party payors	\$21,327,997	\$18,702,775
Cash paid to suppliers for goods and services	(11,274,223)	(9,814,932)
Cash paid to employees for services	(8,541,021)	(8,116,420)
Other operating revenue received	<u>1,585,780</u>	<u>1,457,472</u>
Net cash provided by operating activities	<u>3,098,533</u>	<u>2,228,895</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
County taxes received	1,150,500	1,147,284
Contributions received	<u>3,000</u>	<u>13,500</u>
Net cash provided by noncapital financing activities	<u>1,153,500</u>	<u>1,160,784</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	(869,492)	(773,954)
Proceeds from issuance of long-term debt	-	396,835
Principal payments on long-term debt	(539,720)	(470,371)
Interest paid on long-term debt	<u>(353,786)</u>	<u>(370,969)</u>
Net cash (used in) capital and related financing activities	<u>(1,762,998)</u>	<u>(1,218,459)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest received	278,161	155,989
Purchase of investments	(3,574,041)	(447,694)
Proceeds from maturities of investments	<u>756,831</u>	<u>363,428</u>
Net cash provided by (used in) investing activities	<u>(2,539,049)</u>	<u>71,723</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	(50,014)	2,242,943
<b>CASH</b>		
Beginning	<u>5,559,638</u>	<u>3,316,695</u>
Ending	<u>\$ 5,509,624</u>	<u>\$ 5,559,638</u>

See Notes to Financial Statements.

**Greater Regional Medical Center  
STATEMENTS OF CASH FLOWS (continued)**

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 1,314,117	\$ 322,238
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,740,122	1,676,195
Changes in assets and liabilities		
(Increase) in patient receivables	(627,953)	(499,369)
Decrease in other receivables	17,576	92,908
Decrease in net estimated third-party payor settlements	660,000	270,000
(Increase) decrease in inventories	(74,364)	4,711
Decrease in prepaid expenses	55,407	225
Increase (decrease) in accounts payable, trade	(177,498)	282,219
Increase in accrued employee compensation	81,043	29,722
Increase in payroll taxes and amounts withheld from employees	<u>110,083</u>	<u>50,046</u>
Net cash provided by operating activities	<u>\$3,098,533</u>	<u>\$2,228,895</u>
<b>RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET</b>		
Per balance sheet		
Current assets, cash	\$2,729,627	\$2,956,550
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	2,072,771	1,910,945
Restricted for payment of long-term debt and interest, cash	<u>707,226</u>	<u>692,143</u>
Total per statement of cash flows	<u>\$5,509,624</u>	<u>\$5,559,638</u>

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity**

For financial reporting purposes, Greater Regional Medical Center has included all funds, organizations, account groups, agencies, boards, commissions and authorities that are not legally separate. The Medical Center 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 Medical Center are such that exclusion would cause the Medical Center'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 Medical Center 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 Medical Center. These criteria also include organizations that are fiscally dependent on the Medical Center. The Medical Center has no component units which meet the Governmental Accounting Standards Board criteria.

**Measurement Focus and Basis of Accounting**

The Medical Center is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Medical Center 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 Medical Center 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 Medical Center 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 Medical Center's investments and the methods used in determining the reported amounts are as follows:

<u>Type</u>	<u>Method</u>
Interest-earning investment contracts Nonnegotiable certificates of deposit	Cost
Debt securities U.S. Government Agency securities Maturity of one year or less when purchased Maturity of more than one year when purchased	Amortized cost Fair value based on quoted market prices

**Greater Regional Medical Center**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments and Investment Income (continued)**

The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. The debt securities with a remaining maturity of one year or less when purchased are also not significantly affected by the issuer's credit standing or by other factors.

Investment income is reported as nonoperating gains, and includes interest income and the net increase (decrease) in the fair value of investments which includes realized and unrealized gains and losses on investments.

**Inventories**

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

**Property and Equipment**

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

**Unamortized Financing Costs**

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

**Property Tax Receivable**

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

**Deferred Revenue**

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

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Fund Equity**

Fund equity is presented in the following three components:

**Invested in capital assets, net of related debt**

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

**Restricted fund equity**

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

**Unrestricted fund equity**

Unrestricted fund equity has no externally imposed restrictions on use.

**Charity Care**

The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

**Net Patient Service Revenue**

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

**Revenues, Expenses and Changes in Fund Equity**

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

**Credit Policy**

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

**Accounting Estimates and Assumptions**

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

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 CASH AND INVESTMENTS**

The Medical Center's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Medical Center is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Medical Center's investments, consisting of U.S. Government Agency securities, at June 30, 2006 are as follows:

<u>Maturity</u>	<u>Fair value</u>
July, 2006	\$ 345,000
August, 2006	125,000
August, 2006	45,000
September, 2006	395,000
October, 2006	155,000
December, 2006	420,000
September, 2007	200,000
October, 2007	70,000
November, 2007	<u>30,000</u>
Total	<u>\$1,785,000</u>

As to interest rate risk, the Medical Center'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 Medical Center.

**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	\$1,065,694	\$1,138,032
Insurance carriers	1,904,790	1,621,716
Medicare	1,876,141	1,224,728
Medicaid	<u>431,074</u>	<u>359,603</u>
Total patient receivables	5,277,699	4,344,079
Less unapplied Medicare periodic interim payments	(237,568)	(421,901)
Less allowances for contractual adjustments and uncollectible accounts	<u>(1,850,000)</u>	<u>(1,360,000)</u>
Net patient receivables	<u>\$3,190,131</u>	<u>\$2,562,178</u>

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 NET PATIENT SERVICE REVENUE**

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

**Medicare and Medicaid**

Effective December 1, 2004, the Medical Center 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 Medical Center is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the fiscal intermediary. The Medical Center's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Medical Center's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2003.

**Other**

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

**NOTE 5 PROPERTY AND EQUIPMENT**

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

	<u>June 30, 2006</u>		<u>June 30, 2005</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 185,260	\$ —	\$ 185,260	\$ —
Land improvements	1,899,903	888,347	1,899,903	798,958
Buildings and improvements	6,086,997	2,324,384	6,086,997	2,126,794
Fixed equipment	4,991,375	3,753,972	4,886,075	3,544,625
Major movable equipment	9,044,142	6,908,421	8,640,014	6,281,881
Buildings leased to others	7,246,108	1,748,768	7,246,108	1,397,817
Crestridge Estates	3,363,382	454,787	3,363,382	276,630
Construction in progress	<u>513,984</u>	<u>—</u>	<u>—</u>	<u>—</u>
Totals	<u>\$33,331,151</u>	<u>\$16,078,679</u>	<u>\$32,307,739</u>	<u>\$14,426,705</u>

Construction in progress at June 30, 2006 includes initial costs, primarily architect and engineering fees, toward various projects. The most significant proposed project includes renovation and addition to the Medical Center. This multiple phase project primarily relates to the Emergency Room and Cancer Center. The estimated total cost of the project is approximately \$9 million and is to be funded from the Medical Center's assets whose use is limited, designated by Board for plant replacement and expansion. At June 30, 2006 the Medical Center has \$242,068 accrued as accounts payable-construction.

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5 PROPERTY AND EQUIPMENT (continued)**

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	\$ 185,260	\$ —	\$ —	\$ 185,260
Land improvements	1,899,903	—	—	1,899,903
Building and improvements	6,086,997	—	—	6,086,997
Fixed equipment	4,886,075	105,300	—	4,991,375
Major movable equipment	8,640,014	492,276	88,148	9,044,142
Buildings leased to others	7,246,108	—	—	7,246,108
Crestridge Estates	3,363,382	—	—	3,363,382
Construction in progress	—	513,984	—	513,984
Totals	<u>32,307,739</u>	<u>1,111,560</u>	<u>88,148</u>	<u>33,331,151</u>
Less accumulated depreciation	<u>(14,426,705)</u>	<u>(1,740,122)</u>	<u>(88,148)</u>	<u>(16,078,679)</u>
Net property and equipment	<u>\$17,881,034</u>	<u>\$ (628,562)</u>	<u>\$ —</u>	<u>\$17,252,472</u>

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

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

**NOTE 6 BUILDINGS LEASED TO OTHERS**

The Medical Center, through various agreements, leases an attached medical office building and spaces within the Medical Arts Plaza located adjacent to the Medical Center. The leases, which are for various terms, each call for base rents per tenant, subject to certain modifications during the lease period. Other revenue for the years ended June 30, 2006 and 2005 included \$538,643 and \$540,413, respectively, of aggregate rental income under the lease agreements.

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT**

Long-term debt is summarized as follows:

	<b>Year ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Hospital Revenue Bonds, Series 2002	\$6,710,000	\$6,995,000
Notes payable, equipment	446,577	684,817
Note payable, real estate	444,387	460,867
Total	7,600,964	8,140,684
Less current maturities	471,478	539,720
Long-term debt, net of current maturities	\$7,129,486	\$7,600,964

**Hospital Revenue Bonds, Series 2002**

The Medical Center has issued Hospital Revenue Bonds, Series 2002 in the original amount of \$7,800,000. The Bonds are payable solely from future revenues of the Medical Center and are due serially each June 1 through 2022, at remaining interest rates ranging from 3.9% to 5.4%. In addition, the Bonds require a Debt Service Reserve Fund be maintained at a minimum level of \$620,000. The Bonds contain a number of covenants regarding the operation of the Medical Center, and the Medical Center is in substantial compliance with those covenants.

**Notes Payable, Equipment**

The Medical Center has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$10,649, including interest at 4.96%, with the final payment due November, 2006. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2006, the remaining balance on this note is \$42,157.

This note agreement includes a provision allowing the Medical Center 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 Medical Center prior to the end of a fiscal period to allow for proper termination of the note. Consequently, this obligation does not constitute indebtedness of the Medical Center under the laws of the State of Iowa, however, generally accepted accounting principles require the asset and liability to be recorded on the balance sheet at June 30, 2006.

The Medical Center has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$3,223, including interest at .72% with the final payment due May, 2009. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2006, the remaining balance on this note is \$111,601.

The Medical Center has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$6,772, including interest at .93% with the final payment due February, 2010. The note is collateralized by the equipment purchased by the Medical Center. At June 30, 2006, the remaining balance on this note is \$292,819.

**Note Payable, Real Estate**

The Medical Center has a note agreement to finance the purchase of real estate. The note requires annual payments of \$41,238, including interest at 5.4%, with the final payment due in June, 2022. The note is collateralized by the real estate purchased by the Medical Center.

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 LONG-TERM DEBT (continued)**

Maturities required on long-term debt are as follows:

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable, equipment</u>	<u>Note payable, real estate</u>	<u>Total principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 295,000	\$ 159,026	\$ 17,452	\$ 471,478	\$ 349,028	\$ 820,506
2008	305,000	117,882	18,482	441,364	335,043	776,407
2009	320,000	115,681	19,572	455,253	320,577	775,830
2010	335,000	53,988	20,727	409,715	305,133	714,848
2011	350,000	—	21,950	371,950	289,148	661,098
2012 to 2016	1,995,000	—	130,773	2,125,773	1,169,090	3,294,863
2017 to 2021	2,525,000	—	174,180	2,699,180	594,835	3,294,015
2022	585,000	—	41,251	626,251	31,590	657,841
Totals	6,710,000	446,577	444,387	7,600,964	3,394,444	10,995,408
Less current maturities	295,000	159,026	17,452	471,478	349,028	820,506
Total long-term debt	<u>\$6,415,000</u>	<u>\$ 287,551</u>	<u>\$ 426,935</u>	<u>\$7,129,486</u>	<u>\$3,045,416</u>	<u>\$10,174,902</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>
Hospital Revenue Bonds, Series 2002	\$6,995,000	\$ —	\$ 285,000	\$6,710,000	\$ 295,000
Notes payable, equipment	684,817	—	238,240	446,577	159,026
Note payable, real estate	460,867	—	16,480	444,387	17,452
Totals	<u>\$8,140,684</u>	<u>\$ —</u>	<u>\$ 539,720</u>	<u>\$7,600,964</u>	<u>\$ 471,478</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>
Hospital Revenue Bonds, Series 2002	\$7,270,000	\$ —	\$ 275,000	\$6,995,000	\$ 285,000
Notes payable, equipment	467,791	396,835	179,809	684,817	238,240
Note payable, real estate	476,429	—	15,562	460,867	16,480
Totals	<u>\$8,214,220</u>	<u>\$ 396,835</u>	<u>\$ 470,371</u>	<u>\$8,140,684</u>	<u>\$ 539,720</u>

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 DEFINED BENEFIT PENSION PLAN**

The Medical Center 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 Medical Center is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Medical Center's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$481,916, \$455,991 and \$461,880, respectively, equal to the required contributions for each year.

**NOTE 9 CHARITY CARE**

The Medical Center 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.

	<b>2006</b>	<b>2005</b>
Charges foregone, based on established rates	\$ <u>120,076</u>	\$ <u>70,079</u>
Equivalent percentage of charity care patients to all patients served	<u>.4%</u>	<u>.2%</u>

**NOTE 10 MALPRACTICE CLAIMS**

The Medical Center 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 Medical Center 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 Medical Center.

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 Medical Center prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. The major differences between County Hospital budget and GAAP bases are that depreciation is not recorded as an expenditure on the County Hospital budget basis and capital expenditures and debt service proceeds and payments are recorded on the County Hospital budget basis.

**Greater Regional Medical Center  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)**

The following is a comparison of reported amounts to the 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	\$ 1,150,500	\$ -	\$ 1,150,500	\$ 1,071,321
Other revenues/receipts	<u>22,811,481</u>	<u>-</u>	<u>22,811,481</u>	<u>25,557,330</u>
	23,961,981	-	23,961,981	26,628,651
Expenses/expenditures	<u>21,567,613</u>	<u>(88,842)</u>	<u>21,478,771</u>	<u>29,005,988</u>
Net	2,394,368	88,842	2,483,210	(2,377,337)
Balance, beginning	<u>21,771,312</u>	<u>(10,362,474)</u>	<u>11,408,838</u>	<u>7,668,245</u>
Balance, ending	<u>\$24,165,680</u>	<u>\$(10,273,632)</u>	<u>\$13,892,048</u>	<u>\$ 5,290,908</u>

**NOTE 12 EMPLOYEE BENEFITS**

The Medical Center has entered into a self-insured medical benefit plan for virtually all employees. The plan is funded by both Medical Center and employee contributions. Claims for health care services for employees and their families are accrued when reported by the claims administrator. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$75,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$1,900,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2006 and 2005 were \$1,801,181 and \$2,250,965, respectively, included in fiscal and administrative and unassigned expenses.

**NOTE 13 RISK MANAGEMENT**

The Medical Center 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 Medical Center assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION**

Board of Trustees  
Greater Regional Medical Center  
Creston, Iowa

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

*Denman & Company, LLP*  
**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
August 3, 2006

**Greater Regional Medical Center  
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 Medical Center at end of year)	\$2,985,460	\$2,309,829	56.57%	53.17%
31 – 60 days	845,710	718,027	16.02	16.53
61 – 90 days	359,335	323,417	6.81	7.45
91 – 120 days	233,879	254,156	4.43	5.85
Over 120 days	<u>853,315</u>	<u>738,650</u>	<u>16.17</u>	<u>17.00</u>
	5,277,699	4,344,079	<u>100.00%</u>	<u>100.00%</u>
Unapplied Medicare periodic interim payments	<u>(237,568)</u>	<u>(421,901)</u>		
Totals	<u>5,040,131</u>	<u>3,922,178</u>		
Allowances				
Contractual				
Medicare	890,000	570,000		
Medicaid	190,000	130,000		
Other	140,000	160,000		
Uncollectibles	<u>630,000</u>	<u>500,000</u>		
Total allowances	<u>1,850,000</u>	<u>1,360,000</u>		
Totals	<u>\$3,190,131</u>	<u>\$2,562,178</u>		
<b>NET PATIENT SERVICE REVENUE PER CALENDAR DAY</b>	<u>\$ 58,345</u>	<u>\$ 51,869</u>		
<b>NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES</b>	<u>55</u>	<u>49</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>
<b>BALANCE</b> , beginning	\$ 500,000	\$ 500,000		
<b>ADD</b>				
Provision for bad debts	1,017,266	766,706	4.78%	4.05%
Recoveries of accounts previously written off	<u>451,551</u>	<u>365,061</u>	2.12	1.93
	1,968,817	1,631,767		
<b>DEDUCT</b>				
Accounts written off	<u>1,338,817</u>	<u>1,131,767</u>	6.29	5.98
<b>BALANCE</b> , ending	<u>\$ 630,000</u>	<u>\$ 500,000</u>		

**Greater Regional Medical Center**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2006, with comparative totals for 2005

	<b>2006</b>			<b>2005</b>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
<b>DAILY PATIENT SERVICES</b>				
Medical, surgical and obstetrical	\$ 2,160,665	\$ —	\$ 2,160,665	\$ 1,933,723
Special care	91,360	—	91,360	107,940
Swing bed	430,139	—	430,139	274,987
Behavioral health	1,250,370	—	1,250,370	1,020,550
Cardiac monitors	115,500	4,375	119,875	146,825
Nursery	<u>343,552</u>	<u>—</u>	<u>343,552</u>	<u>271,719</u>
	<u>4,391,586</u>	<u>4,375</u>	<u>4,395,961</u>	<u>3,755,744</u>
<b>OTHER NURSING SERVICES</b>				
Same day surgery	—	47,940	47,940	102,460
Operating room	1,017,742	2,368,376	3,386,118	3,205,459
Recovery room	388,115	760,730	1,148,845	1,201,125
Delivery and labor rooms	297,100	—	297,100	270,400
Central services and supply	513,703	940,466	1,454,169	1,368,381
Emergency room	28,410	1,952,235	1,980,645	1,903,136
Outpatient clinics	—	798,882	798,882	471,436
Ambulance	—	732,986	732,986	485,016
Home health services	—	531,030	531,030	413,020
Outreach services	—	410,759	410,759	300,886
Hospice	<u>—</u>	<u>554,008</u>	<u>554,008</u>	<u>384,576</u>
	<u>2,245,070</u>	<u>9,097,412</u>	<u>11,342,482</u>	<u>10,105,895</u>
<b>OTHER PROFESSIONAL SERVICES</b>				
Laboratory and blood service	932,898	2,160,775	3,093,673	3,067,433
Electroencephalography	1,460	8,395	9,855	6,570
Electrocardiology	132,317	252,185	384,502	416,377
Cardiology and vascular testing	60,715	722,301	783,016	745,266
Radiology and ultrasound	185,519	2,475,021	2,660,540	2,343,223
Radiation therapy	11,369	790,544	801,913	9,678
Nuclear medicine	13,384	461,449	474,833	180,803
CT scans	250,178	1,902,030	2,152,208	1,752,831
Magnetic resonance imaging	10,894	820,076	830,970	644,190
Pharmacy and intravenous therapy	1,358,544	2,868,980	4,227,524	3,817,950
Respiratory therapy	444,504	293,431	737,935	751,033
Physical therapy	151,596	327,965	479,561	447,287
Speech, occupational and recreational therapy	59,144	49,900	109,044	125,904
Cardiac rehabilitation	—	150,985	150,985	201,413
Lenox clinic	—	47,347	47,347	130,524
GCH clinic	<u>—</u>	<u>—</u>	<u>—</u>	<u>123,290</u>
	<u>3,612,522</u>	<u>13,331,384</u>	<u>16,943,906</u>	<u>14,763,772</u>
Totals	<u>\$10,209,678</u>	<u>\$22,472,671</u>	32,682,349	28,625,411
Charity care charges foregone, based on established rates			<u>(120,076)</u>	<u>(70,079)</u>
Total gross patient service revenue			32,562,273	28,555,332
Provision for contractual adjustments and bad debts			<u>(11,266,323)</u>	<u>(9,623,188)</u>
Total net patient service revenue			<u>\$21,295,950</u>	<u>\$18,932,144</u>

**Greater Regional Medical Center  
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Contractual adjustments		
Medicare	\$ 6,557,638	\$6,208,628
Medicaid	1,273,609	778,800
Other adjustments	2,417,810	1,869,054
Provision for bad debts	<u>1,017,266</u>	<u>766,706</u>
 Totals	 <u>\$11,266,323</u>	 <u>\$9,623,188</u>

**OTHER REVENUE**

	<u>Year ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Rental income		
Medical Arts Plaza	\$ 538,643	\$ 540,413
Crestridge Estates	488,117	429,464
Linear accelerator space	1,283	11,550
Equipment	30,578	42,136
Pharmacy revenue, employee	130,125	90,192
Cafeteria sales	161,889	155,806
Meals on wheels	44,318	33,900
Sale of supplies and miscellaneous services to employees and others	38,250	33,142
Wellness	31,281	31,754
Lifeline	63,801	74,004
Miscellaneous	<u>57,495</u>	<u>15,111</u>
 Totals	 <u>\$1,585,780</u>	 <u>\$1,457,472</u>

**Greater Regional Medical Center**  
**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>
<b>NURSING SERVICE</b>				
Nursing administration	\$ 88,833	\$ 6,199	\$ 95,032	\$ 92,632
Medical and surgical	1,384,143	142,609	1,526,752	1,449,051
Special care	107,326	7,970	115,296	134,884
Obstetric nursing, delivery and labor rooms	376,782	59,729	436,511	382,154
Behavioral health	495,013	131,541	626,554	608,912
Operating and recovery rooms	390,121	276,745	666,866	716,609
Central services and supply	-	237,212	237,212	210,356
Emergency room	512,246	498,735	1,010,981	900,815
Outpatient clinic	106,394	32,858	139,252	130,022
Ambulance	92,468	41,841	134,309	112,843
Home health services	266,537	45,152	311,689	261,993
Outreach services	326,426	101,061	427,487	401,990
Hospice	194,698	196,829	391,527	286,630
Total nursing service	<u>4,340,987</u>	<u>1,778,481</u>	<u>6,119,468</u>	<u>5,688,891</u>
<b>OTHER PROFESSIONAL SERVICE</b>				
Laboratory	332,508	440,422	772,930	698,823
Pathology	5,646	11,247	16,893	61,541
Blood service	-	113,417	113,417	96,075
Electroencephalography	-	3,819	3,819	1,220
Electrocardiology	-	114	114	-
Cardiology and vascular testing	-	27,592	27,592	176,100
Radiology and ultrasound	457,244	469,903	927,147	630,509
Radiation therapy	69,729	45,251	114,980	-
Nuclear medicine	-	66,415	66,415	36,727
CT scans	-	182,141	182,141	107,834
Magnetic resonance imaging	-	186,640	186,640	129,730
Pharmacy	281,631	1,491,040	1,772,671	1,432,092
Intravenous therapy	-	20,396	20,396	24,727
Anesthesiology	-	-	-	2,135
Respiratory therapy	139,293	76,223	215,516	196,531
Physical therapy	238,154	30,870	269,024	309,437
Speech, occupational, and recreational therapy	57,092	33,957	91,049	97,111
Cardiac rehabilitation	47,704	16,272	63,976	55,567
Lenox clinic	68,095	51,470	119,565	132,169
GCH clinic	6,911	12,677	19,588	138,343
Medical Arts Plaza	-	120,582	120,582	115,895
Crestridge Estates	47,345	202,502	249,847	181,718
Creston Medical Clinic	-	64,218	64,218	26,496
Social services	61,708	1,922	63,630	70,603
Health information services	286,107	76,712	362,819	340,920
Quality assurance	69,063	6,036	75,099	69,595
Total other professional service	<u>2,168,230</u>	<u>3,751,838</u>	<u>5,920,068</u>	<u>5,131,898</u>

**Greater Regional Medical Center**  
**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>
<b>GENERAL SERVICE</b>				
Dietary	\$ 494,446	\$ 250,677	\$ 745,123	\$ 710,350
Plant operation	207,831	620,215	828,046	676,025
Housekeeping	214,301	40,556	254,857	274,943
Laundry	53,662	20,958	74,620	66,861
Linen	-	6,395	6,395	6,043
Environmental services	-	16,609	16,609	23,835
Total general service	<u>970,240</u>	<u>955,410</u>	<u>1,925,650</u>	<u>1,758,057</u>
<b>FISCAL AND ADMINISTRATIVE SERVICE</b>				
Administrative	282,682	223,327	506,009	457,686
Accounting	181,028	35,433	216,461	211,791
Human resources	60,285	46,801	107,086	119,638
Business office	415,754	49,039	464,793	420,299
Purchasing	124,955	33,829	158,784	158,192
Public relations	-	109,595	109,595	33,613
Telephone	-	36,449	36,449	35,173
Professional fees	-	229,979	229,979	118,393
Computer support	-	263,946	263,946	238,693
Collection fees	-	104,003	104,003	96,100
Receivables management fee	-	94,617	94,617	92,316
Dues and subscriptions	-	24,371	24,371	27,154
Travel and mileage	-	8,354	8,354	9,803
Publication fees	-	1,871	1,871	1,994
Physician recruitment	-	117,063	117,063	26,327
<b>UNASSIGNED EXPENSES</b>				
Wellness	58,962	21,830	80,792	64,195
Lifeline	18,941	58,064	77,005	80,098
FICA	-	641,308	641,308	600,321
IPERS	-	481,916	481,916	455,991
Group health and life insurance	-	1,872,989	1,872,989	2,314,486
Workers' compensation insurance	-	153,020	153,020	144,608
Insurance	-	111,894	111,894	105,466
Total fiscal and administrative service and unassigned expenses	<u>1,142,607</u>	<u>4,719,698</u>	<u>5,862,305</u>	<u>5,812,337</u>
<b>PROVISION FOR DEPRECIATION</b>				
	<u>-</u>	<u>1,740,122</u>	<u>1,740,122</u>	<u>1,676,195</u>
Total expenses	<u>\$8,622,064</u>	<u>\$12,945,549</u>	<u>\$21,567,613</u>	<u>\$20,067,378</u>

**Greater Regional Medical Center  
COMPARATIVE STATISTICS**

	<b>Year ended June 30</b>	
	<b><u>2006</u></b>	<b><u>2005</u></b>
<b>PATIENT DAYS</b>		
Medical, surgical and obstetrical	3,590	4,146
Behavioral health	1,269	1,256
Swing bed		
Skilled care	961	994
Intermediate care	-	15
Nursery	<u>480</u>	<u>473</u>
Totals	<u>6,300</u>	<u>6,884</u>
 <b>DISCHARGES</b>		
Medical, surgical and obstetrical	1,183	1,326
Behavioral health	124	117
Swing bed		
Skilled care	109	127
Intermediate care	-	6
Nursery	<u>221</u>	<u>212</u>
	<u>1,637</u>	<u>1,788</u>
 <b>AVERAGE LENGTH OF STAY</b>		
Medical, surgical and obstetrical	3.03	3.13
Behavioral health	10.23	10.74
Swing bed		
Skilled care	8.82	7.83
Intermediate care	-	2.50
Nursery	2.17	2.23

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

Board of Trustees  
Greater Regional Medical Center  
Creston, Iowa

We have audited the financial statements of Greater Regional Medical Center as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 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 Medical Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over the financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Medical Center'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 Medical Center'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 Medical Center. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Union County and other parties to whom the Medical Center 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 3, 2006

**Greater Regional Medical Center  
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.

**Greater Regional Medical Center  
SCHEDULE OF FINDINGS  
Year ended June 30, 2006**

**Part II—Findings Related to Required Statutory Reporting**

**06-II-A CERTIFIED COUNTY HOSPITAL BUDGET**

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2006.

**06-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Medical Center funds were noted.

**06-II-C TRAVEL EXPENSES**

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

**06-II-D BUSINESS TRANSACTIONS**

No business transactions were found between the Medical Center and Medical Center 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 Medical Center's investment policy.