

**Crawford County Memorial Hospital
Denison, Iowa**

FINANCIAL REPORT

June 30, 2010

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**Crawford County Memorial Hospital
OFFICIALS
June 30, 2010**

BOARD OF TRUSTEES

Expiration of term

Officers

LaVerne Ambrose, President
Carol Swanson, Vice President
Marla Raasch, Secretary
Vanessa Zimmer, Treasurer

December 31, 2010
December 31, 2014
December 31, 2012
December 31, 2012

Members

Virgie Henningsen
Thomas Eller
Allen Nepper

December 31, 2014
December 31, 2014
December 31, 2010

CHIEF EXECUTIVE OFFICER

Mark Rinehardt

CHIEF FINANCIAL OFFICER

Nancy Carlson

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the accompanying balance sheets of Crawford County Memorial Hospital as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crawford County Memorial Hospital as of June 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 15, 2010 on our consideration of Crawford County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 15, 2010

Crawford County Memorial Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Crawford County Memorial Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2010 and 2009. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$19,636,130 to \$51,576,320
- Total assets whose use is limited increased by \$3,970,338 to \$21,258,866
- Total property and equipment increased by \$12,516,680 to \$20,110,394
- Total fund equity increased by \$1,520,351 to \$20,182,585
- Total long-term debt increased by \$16,328,579 to \$26,455,456
- Net patient service revenue increased by \$1,760,782, or 9%, to \$20,319,483
- Expenses increased by \$1,642,219, or 9%, to \$19,916,635

Financial Analysis of the Hospital

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

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

Table 1
Condensed Balance Sheets

	June 30		
	2010	2009	2008
Current assets	\$ 8,012,060	\$ 6,317,948	\$ 5,753,049
Assets whose use is limited	21,258,866	17,288,528	7,781,896
Property and equipment	20,110,394	7,593,714	6,009,700
Other assets	<u>2,195,000</u>	<u>740,000</u>	<u>680,000</u>
Total assets	<u>\$51,576,320</u>	<u>\$31,940,190</u>	<u>\$20,224,645</u>
Current liabilities	\$ 4,109,841	\$ 2,469,174	\$ 2,038,831
Long-term debt, less current maturities	26,183,894	10,068,782	317,879
Other noncurrent liabilities	<u>1,100,000</u>	<u>740,000</u>	<u>680,000</u>
Total liabilities	<u>\$31,393,735</u>	<u>\$13,277,956</u>	<u>\$ 3,036,710</u>
Invested in capital assets, net of related debt	\$ 8,596,327	\$ 7,587,435	\$ 5,423,687
Restricted	792,197	-	-
Unrestricted	<u>10,794,061</u>	<u>11,074,799</u>	<u>11,764,248</u>
Total fund equity	<u>\$20,182,585</u>	<u>\$18,662,234</u>	<u>\$17,187,935</u>

As depicted in Table 1, total assets increased significantly in fiscal year 2010 to \$51,576,320. The change in total assets results primarily from an increase in assets whose use is limited and property and equipment resulting from proceeds from issuance of long-term debt to provide for the Hospital's ongoing construction project.

A summary of the Hospital's historical statements of 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		
	2010	2009	2008
Net patient service revenue	\$20,319,483	\$18,558,701	\$17,292,295
Other revenue	<u>270,828</u>	<u>266,096</u>	<u>226,016</u>
Total revenue	<u>20,590,311</u>	<u>18,824,797</u>	<u>17,518,311</u>
Salaries	10,443,831	8,997,613	7,826,258
Supplies and expenses	8,501,349	8,273,240	8,148,760
Provision for depreciation	<u>971,455</u>	<u>1,003,563</u>	<u>1,076,781</u>
Total expenses	<u>19,916,635</u>	<u>18,274,416</u>	<u>17,051,799</u>
Operating income	<u>673,676</u>	<u>550,381</u>	<u>466,512</u>
County taxes	736,957	701,958	625,648
Investment income	114,068	241,623	386,947
Unrestricted contributions	-	-	150
Interest expense	<u>(4,350)</u>	<u>(19,663)</u>	<u>(31,578)</u>
Total nonoperating gains (losses)	<u>846,675</u>	<u>923,918</u>	<u>981,167</u>
Change in fund equity	1,520,351	1,474,299	1,447,679
Total fund equity, beginning	<u>18,662,234</u>	<u>17,187,935</u>	<u>15,740,256</u>
Total fund equity, ending	<u>\$20,182,585</u>	<u>\$18,662,234</u>	<u>\$17,187,935</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2010 and 2009.

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 2010 were 605 compared to 733 in fiscal year 2009. Average length of stay decreased slightly as medical, surgical and obstetrical patient days decreased to 1,548 from 1,949 in 2009. Swing bed, skilled care discharges for fiscal year 2010 were 75 compared to 83 in fiscal year 2009. Average length of stay decreased slightly as swing bed, skilled care patient days decreased to 425 from 570 in 2009. Volume on the outpatient side indicated positive growth in 2010. In 2010, gross outpatient charges increased to \$27,835,974 compared to \$25,553,129 in 2009. Laboratory, pharmacy and clinic services reflected the most significant growth in 2010.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2010. Overall, gross patient service revenue increased to \$31,793,197 from \$30,290,174 in 2009.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. Contractual adjustments and bad debts were \$11,473,714 in 2010 compared to \$11,731,473 in 2009, representing 36% and 39% of gross patient charges for each of the years ended June 30, 2010 and 2009, respectively.

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

Table 3
Payor Mix by Percentage

	Year ended June 30		
	2010	2009	2008
Medicare	42%	46%	47%
Medicaid	12	10	10
Commercial insurance	42	39	37
Patients	<u>4</u>	<u>5</u>	<u>6</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased slightly to \$270,828 in 2010 compared to \$266,096 in 2009.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 16% to \$10,443,831 in 2010 from \$8,997,613 in 2009. The most significant increase related to medical and surgical, operating room and clinic services.

Approximately 45% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 3% to \$8,501,349 in 2010 from \$8,273,240 in 2009. The most significant increases related to pharmacy and group health and life insurance.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation decreased to \$971,455 in 2010 from \$1,003,563 in 2009.

Nonoperating Gains (Losses)

Nonoperating gains (losses) decreased to \$846,675 from \$923,918 in 2009, primarily due to a decrease in investment income.

Property and Equipment

At the end of 2010, the Hospital had \$20,110,394 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 2010, \$13,488,135 was spent to acquire new equipment and to provide for costs relating to the Hospital's construction project. The project includes construction of a replacement hospital with an estimated total cost of approximately \$30 million and is being funded by issuance of long-term debt.

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

Table 4
Property and Equipment

	June 30		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Land	\$ 419,900	\$ 419,900	\$ 15,000
Land improvements	849,976	1,001,511	1,001,511
Building	3,826,223	4,089,241	4,089,241
Fixed equipment	3,452,708	3,653,496	3,653,496
Major movable equipment	7,886,345	8,609,638	8,248,041
Medical office building	1,365,366	1,395,336	1,395,336
Construction in progress	<u>14,646,139</u>	<u>1,821,080</u>	<u>—</u>
Subtotal	32,446,657	20,990,202	18,402,625
Less accumulated depreciation	<u>12,336,263</u>	<u>13,396,488</u>	<u>12,392,925</u>
Property and equipment	<u>\$20,110,394</u>	<u>\$ 7,593,714</u>	<u>\$ 6,009,700</u>

Debt Administration

At year end, the Hospital had \$26,455,456 in current and long-term debt related to Hospital Revenue Refunding Bonds, Revenue Bonds, Revenue Bond Anticipation Notes, Hospital Revenue Bond Anticipation Note and notes payable, equipment, an increase of \$16,328,579 from 2009, representing the issuance of the Hospital Revenue Refunding Bonds, Revenue Bonds and Revenue Bond Anticipation Notes less required principal payments made on the previously outstanding Revenue Bond Anticipation Notes and equipment notes for fiscal year 2010. More detailed information about the Hospital's outstanding long-term debt is presented in the notes to financial statements. Note that total long-term debt represents approximately 85% of the Hospital's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on the budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the notes to financial statements. A comparison of the Hospital's fiscal year 2010 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs Budget**

	<u>Actual budget basis</u>	<u>Annual County Hospital budget</u>	<u>Variance</u>
Amount to be raised by taxation	\$ 736,957	\$ 724,892	\$ 12,065
Other revenues/receipts	<u>47,089,379</u>	<u>20,004,137</u>	<u>27,085,242</u>
	47,826,336	20,729,029	27,097,307
Expenses/expenditures	<u>41,342,214</u>	<u>56,834,623</u>	<u>(15,492,409)</u>
Net	<u>\$ 6,484,122</u>	<u>\$(36,105,594)</u>	<u>\$42,589,716</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to significantly more proceeds from issuance of long-term debt. Expenses/expenditures were significantly lower than County Hospital budget primarily due to significantly less acquisition of property and equipment.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2011 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
- Growth in demand for services
- Technology advancements

Contacting Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Crawford County Memorial Hospital at (712) 263-5021 or write care of: Chief Financial Officer, Crawford County Memorial Hospital, 2020 First Avenue South, Denison, Iowa 51442.

**Crawford County Memorial Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2010	2009
CURRENT ASSETS		
Cash	\$ 1,203,974	\$ 2,178,093
Assets whose use is limited-required for current liabilities	1,962,365	345,627
Patient receivables, less allowances for contractual adjustments and bad debts	3,965,906	3,333,485
Other receivables	31,762	41,792
Estimated third-party payor settlements	460,000	180,000
Inventories	200,468	178,112
Prepaid expenses	<u>187,585</u>	<u>60,839</u>
Total current assets	<u>8,012,060</u>	<u>6,317,948</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Certificates of deposit	7,457,947	7,454,219
Interest receivable	<u>29,698</u>	<u>59,338</u>
	7,487,645	7,513,557
Restricted for payment of long-term debt and interest		
Cash	8,832,909	-
Certificates of deposit	5,791,000	10,000,000
U.S. Government Agency securities	1,109,677	-
Interest receivable	<u>-</u>	<u>120,598</u>
Total assets whose use is limited	23,221,231	17,634,155
Less assets whose use is limited and that are required for current liabilities	<u>1,962,365</u>	<u>345,627</u>
Noncurrent assets whose use is limited	<u>21,258,866</u>	<u>17,288,528</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	32,446,657	20,990,202
Total property and equipment	<u>12,336,263</u>	<u>13,396,488</u>
	<u>20,110,394</u>	<u>7,593,714</u>
OTHER ASSETS		
Unamortized financing costs	1,095,000	-
Succeeding year property tax receivable	<u>1,100,000</u>	<u>740,000</u>
Total other assets	<u>2,195,000</u>	<u>740,000</u>
 Totals	 <u>\$51,576,320</u>	 <u>\$31,940,190</u>

See Notes to Financial Statements.

	LIABILITIES AND FUND EQUITY	
	June 30	
	2010	2009
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 271,562	\$ 58,095
Accounts payable		
Trade	881,006	807,862
Construction	1,649,465	190,285
Accrued employee compensation	1,134,011	1,019,892
Payroll taxes and amounts withheld from employees	80,897	37,698
Accrued interest	92,900	155,342
Estimated third-party payor settlements	—	200,000
Total current liabilities	<u>4,109,841</u>	<u>2,469,174</u>
LONG-TERM DEBT , less current maturities	<u>26,183,894</u>	<u>10,068,782</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR		
PROPERTY TAX RECEIVABLE	<u>1,100,000</u>	<u>740,000</u>
FUND EQUITY		
Invested in capital assets, net of related debt	8,596,327	7,587,435
Restricted	792,197	—
Unrestricted	<u>10,794,061</u>	<u>11,074,799</u>
Total fund equity	<u>20,182,585</u>	<u>18,662,234</u>
	<hr/>	<hr/>
Totals	<u>\$51,576,320</u>	<u>\$31,940,190</u>

Crawford County Memorial Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2010 \$954,002; 2009 \$1,051,060	\$20,319,483	\$18,558,701
OTHER REVENUE	<u>270,828</u>	<u>266,096</u>
Total revenue	<u>20,590,311</u>	<u>18,824,797</u>
EXPENSES		
Nursing service	4,244,998	4,008,759
Other professional service	8,328,281	7,818,873
General service	1,274,594	1,294,642
Fiscal and administrative service and unassigned expenses	5,097,307	4,148,579
Provision for depreciation	<u>971,455</u>	<u>1,003,563</u>
Total operating expenses	<u>19,916,635</u>	<u>18,274,416</u>
Operating income	<u>673,676</u>	<u>550,381</u>
NONOPERATING GAINS (LOSSES)		
County taxes	736,957	701,958
Investment income	114,068	241,623
Interest expense	<u>(4,350)</u>	<u>(19,663)</u>
Total nonoperating gains (losses)	<u>846,675</u>	<u>923,918</u>
Change in fund equity	1,520,351	1,474,299
TOTAL FUND EQUITY		
Beginning	18,662,234	17,187,935
Ending	<u>\$20,182,585</u>	<u>\$18,662,234</u>

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

	Year ended June 30	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$19,207,092	\$19,694,173
Cash paid to suppliers for goods and services	(8,524,108)	(8,163,735)
Cash paid to employees for services	(10,329,712)	(8,758,659)
Other operating revenue received	<u>270,828</u>	<u>266,096</u>
Net cash provided by operating activities	<u>624,100</u>	<u>3,037,875</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	<u>736,957</u>	<u>701,958</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	26,385,000	10,000,000
Principal payments on long-term debt	(10,056,421)	(459,136)
Interest paid on long-term debt	(1,016,878)	(19,663)
Acquisition of property and equipment	<u>(12,323,379)</u>	<u>(2,362,548)</u>
Net cash provided by capital and related financing activities	<u>2,988,322</u>	<u>7,158,653</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	413,816	284,624
Purchase of certificates of deposit	(14,890,878)	(22,812,591)
Purchase of U.S. Government Agency securities	(1,109,677)	-
Proceeds from maturities of certificates of deposit	<u>19,096,150</u>	<u>13,037,929</u>
Net cash provided by (used in) investing activities	<u>3,509,411</u>	<u>(9,490,038)</u>
NET INCREASE IN CASH	7,858,790	1,408,448
CASH		
Beginning	<u>2,178,093</u>	<u>769,645</u>
Ending	<u>\$10,036,883</u>	<u>\$ 2,178,093</u>

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

	Year ended June 30	
	2010	2009
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 673,676	\$ 550,381
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	971,455	1,003,563
Changes in assets and liabilities		
(Increase) decrease in patient receivables	(632,421)	715,472
(Increase) decrease in other receivables	10,030	(25,861)
(Increase) decrease in net estimated third-party payor settlements	(480,000)	420,000
(Increase) in inventories	(22,356)	(1,558)
(Increase) decrease in prepaid expenses	(126,746)	281,123
Increase (decrease) in accounts payable, trade	73,144	(149,927)
Increase in accrued employee compensation	114,119	238,954
Increase in payroll taxes and amounts withheld from employees	43,199	5,728
Net cash provided by operating activities	\$ 624,100	\$3,037,875
 RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 1,203,974	\$2,178,093
Assets whose use is limited, restricted for payment of long-term debt and interest, cash	8,832,909	—
Total per statement of cash flows	\$10,036,883	\$2,178,093

See Notes to Financial Statements.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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

Investments and Investment Income

The Hospital's investments 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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Investment Income (continued)

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

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

Inventories

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

Property and Equipment

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

Costs of Borrowing

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

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.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity

Fund equity is presented in the following three components:

Investment in capital assets, net of related debt

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

Restricted

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. The Hospital has no restricted fund equity.

Unrestricted

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The Hospital's investments, consisting of U.S. Government Agency securities, at June 30, 2010 are as follows:

<u>Maturity</u>	<u>Fair value</u>
December, 2010	\$ 554,272
June, 2011	<u>555,405</u>
Total	<u>\$1,109,677</u>

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

NOTE 3 PATIENT RECEIVABLES

Patient receivables reported as current assets consisted of amounts from certain payors as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Medicare	\$1,349,858	\$1,256,321
Medicaid	713,962	395,042
Commercial insurance	1,794,446	1,715,320
Patients	<u>1,687,640</u>	<u>1,386,802</u>
Total patient receivables	5,545,906	4,753,485
Less allowances for contractual adjustments and bad debts	(1,580,000)	(1,420,000)
Net patient receivables	<u>\$3,965,906</u>	<u>\$3,333,485</u>

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

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2010:

	<u>Project Funds</u>	<u>Interest Funds</u>	<u>Guarantee Fund</u>	<u>Sinking Fund</u>	<u>Reserve Fund</u>	<u>Total</u>
BALANCE , beginning of year	\$10,000,000	\$ -	\$ -	\$ -	\$ -	\$10,000,000
Proceeds from issuance of long-term debt	24,499,073	930,687	163,350	-	791,890	26,385,000
Transfer from current assets, cash	915,234	968,675	-	18,333	-	1,902,242
Fund transfers	(1,366)	4,127	-	-	(2,761)	-
Interest earned	281,683	2,839	19	-	3,068	287,609
Payments for construction costs	(11,830,413)	-	-	-	-	(11,830,413)
Principal and interest payments	(10,218,333)	(792,519)	-	-	-	(11,010,852)
BALANCE , end of year	<u>\$13,645,878</u>	<u>\$1,113,809</u>	<u>\$ 163,369</u>	<u>\$ 18,333</u>	<u>\$ 792,197</u>	<u>\$15,733,586</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2010</u>		<u>June 30, 2009</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 419,900	\$ -	\$ 419,900	\$ -
Land improvements	849,976	319,725	1,001,511	426,555
Building	3,826,223	2,383,683	4,089,241	2,549,101
Fixed equipment	3,452,708	2,865,701	3,653,496	2,961,345
Major movable equipment	7,886,345	5,998,177	8,609,638	6,703,014
Medical office building	1,365,366	768,977	1,395,336	756,473
Construction in progress	<u>14,646,139</u>	<u>-</u>	<u>1,821,080</u>	<u>-</u>
Totals	<u>\$32,446,657</u>	<u>\$12,336,263</u>	<u>\$20,990,202</u>	<u>\$13,396,488</u>

Construction in progress at June 30, 2010 consists primarily of progress billings for construction costs related to the Hospital's construction project. The project includes construction of a replacement hospital. The estimated total cost of the project is approximately \$30 million and is being funded by issuance of long-term debt. At June 30, 2010 the Hospital has \$1,649,465 accrued as accounts payable-construction.

A summary of changes in property and equipment for the year ended June 30, 2010 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 419,900	\$ -	\$ -	\$ 419,900
Land improvements	1,001,511	-	151,535	849,976
Building	4,089,241	-	263,018	3,826,223
Fixed equipment	3,653,496	-	200,788	3,452,708
Major movable equipment	8,609,638	663,076	1,386,369	7,886,345
Medical office building	1,395,336	-	29,970	1,365,366
Construction in progress	<u>1,821,080</u>	<u>12,825,059</u>	<u>-</u>	<u>14,646,139</u>
Totals	20,990,202	13,488,135	2,031,680	32,446,657
Less accumulated depreciation	<u>(13,396,488)</u>	<u>(971,455)</u>	<u>(2,031,680)</u>	<u>12,336,263</u>
Net property and equipment	<u>\$ 7,593,714</u>	<u>\$12,516,680</u>	<u>\$ -</u>	<u>\$20,110,394</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2009 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 15,000	\$ 404,900	\$ —	\$ 419,900
Land improvements	1,001,511	—	—	1,001,511
Building	4,089,241	—	—	4,089,241
Fixed equipment	3,653,496	—	—	3,653,496
Major movable equipment	8,248,041	361,597	—	8,609,638
Medical office building	1,395,336	—	—	1,395,336
Construction in progress	—	1,821,080	—	1,821,080
Totals	18,402,625	2,587,577	—	20,990,202
Less accumulated depreciation	<u>(12,392,925)</u>	<u>(1,003,563)</u>	<u>—</u>	<u>(13,396,488)</u>
Net property and equipment	<u>\$ 6,009,700</u>	<u>\$ 1,584,014</u>	<u>\$ —</u>	<u>\$ 7,593,714</u>

A summary of interest costs on borrowed funds capitalized, net of interest earned, follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Construction period—interest expense	\$ 950,086	\$ 155,342
Less interest earned on proceeds	<u>(149,510)</u>	<u>(120,598)</u>
Amount capitalized	<u>\$ 800,576</u>	<u>\$ 34,744</u>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Hospital Revenue Bond Anticipation Notes, Series 2008	\$ —	\$10,000,000
Hospital Revenue Refunding Bonds, Series 2009A	10,000,000	—
Hospital Revenue Bonds, Series 2009B	50,000	—
Hospital Revenue Bond Anticipation Notes, Series 2009C	16,335,000	—
Notes payable, equipment	<u>70,456</u>	<u>126,877</u>
	26,455,456	10,126,877
Less current maturities	<u>271,562</u>	<u>10,068,782</u>
Long-term debt, net of current maturities	<u>\$26,183,894</u>	<u>\$ 58,095</u>

Hospital Revenue Refunding Bonds, Series 2009A

The Hospital has issued Hospital Revenue Refunding Bonds, Series 2009A in the original amount of \$10,000,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2034, at remaining interest rates ranging from 3.3% to 6%. At June 30, 2010, the remaining balance on these Bonds is \$10,000,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$791,890.

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

NOTE 6 LONG-TERM DEBT (continued)

Hospital Revenue Refunding Bonds, Series 2009A (continued)

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bonds at June 30, 2010.

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

Hospital Revenue Bonds, Series 2009B

The Hospital anticipates the issuance of Hospital Revenue Bonds, Series 2009B in the original amount of \$1,815,000. During the year ended June 30, 2010 the Hospital issued an initial draw in the amount of \$50,000 towards the Series 2009B Bonds at an interest rate of 5.75%. The terms of the Bonds will be determined upon issuance and at June 30, 2010, the Bonds are accordingly classified on the balance sheet as long-term debt. Therefore, no amount of this obligation is reported as a current liability at June 30, 2010.

Hospital Revenue Bond Anticipation Notes, Series 2009C

The Hospital has issued Hospital Revenue Bond Anticipation Notes, Series 2009C in the original amount of \$16,335,000. The Notes are payable solely from future revenues of the Hospital and are due December 1, 2011, at an interest rate, net of anticipated subsidy payments from the federal government, of 3.35%. Accordingly, this Bond represents interim financing a portion of the Hospital's construction project and, upon maturity, will be refunded by the issuance of Hospital Revenue Bonds, Series 2009D during December, 2011. The Hospital Revenue Bonds, Series 2009D will represent permanent financing and the lender has made a conditional commitment to lend funds. At June 30, 2010, the remaining balance on the Bonds is \$16,335,000.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Bond at June 30, 2010.

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

As to the above Bonds, Series 2009A, 2009B and 2009C, the Hospital has pledged all future revenues, net of certain operating expenses, to repay the principal and interest. The Bonds were issued to finance capital improvements of the Hospital. The net revenues are pledged through June, 2034. As of June 30, 2010 the remaining principal and interest on the Series Bonds was \$36,139,481. The following is a comparison of the pledged net revenues and the principal and interest requirements of the Notes for the years ended June 30, 2010 and 2009:

	Year ended June 30	
	2010	2009
Change in fund equity	\$1,530,723	\$1,474,299
Provision for depreciation	<u>971,455</u>	<u>1,003,563</u>
Pledged net revenues	<u>\$2,502,178</u>	<u>\$2,477,862</u>
Principal and interest requirements		
Hospital Revenue Bonds Anticipation Notes, Series 2008	\$ 218,333	\$ —
Hospital Revenue Refunding Bonds, Series 2009A	403,673	—
Hospital Revenue Bonds, Series 2009B	1,677	—
Hospital Revenue Bond Anticipation Notes, Series 2009C	<u>388,846</u>	<u>—</u>
Totals	<u>\$1,012,529</u>	<u>\$ —</u>

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

NOTE 6 LONG-TERM DEBT (continued)

Note Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires a monthly payment of \$4,343, including interest at 4.28%, with the final payment due October, 2011. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2010, the remaining balance on this note is \$70,456.

This note agreement includes a provision allowing the Hospital to terminate the note in the event no funds or insufficient funds are appropriated or budgeted to make all payments for a subsequent fiscal period. This option must be exercised by the Hospital sixty days prior to the end of a fiscal period to allow for proper termination of the Notes. Consequently, this obligation does not constitute indebtedness of the Hospital under the laws of the State of Iowa, however, generally accepted accounting principles require the assets and liability to be recorded on the balance sheet at June 30, 2010.

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

Year ending June 30	Revenue Bonds			Notes payable	Total principal	Interest	Total
	Series 2009A	Series 2009B	Series 2009C				
2011	\$ 220,000	\$ -	\$ -	\$ 51,562	\$ 271,562	\$1,115,039	\$ 1,386,601
2012	230,000	50,000	16,335,000	18,894	16,633,894	833,812	17,467,706
2013	235,000	-	-	-	235,000	552,010	787,010
2014	245,000	-	-	-	245,000	542,610	787,610
2015	255,000	-	-	-	255,000	532,075	787,075
2016-2020	1,485,000	-	-	-	1,485,000	2,459,565	3,944,565
2021-2025	1,525,000	-	-	-	1,525,000	1,985,330	3,510,330
2026-2030	-	-	-	-	-	1,312,500	1,312,500
2031-2034	<u>5,805,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,805,000</u>	<u>422,100</u>	<u>6,227,100</u>
Totals	10,000,000	50,000	16,335,000	70,456	26,455,456	9,755,041	36,210,497
Less current maturities	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>51,562</u>	<u>271,562</u>	<u>1,115,039</u>	<u>1,386,601</u>
Total long-term debt	<u>\$9,780,000</u>	<u>\$ 50,000</u>	<u>\$16,335,000</u>	<u>\$ 18,894</u>	<u>\$26,183,894</u>	<u>\$8,640,002</u>	<u>\$34,823,896</u>

A summary of changes in long-term debt for the year ended June 30, 2010 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bond Anticipation Notes, Series 2008	\$10,000,000	\$ -	\$10,000,000	\$ -	\$ -
Hospital Revenue Refunding Bonds, Series 2009A	-	10,000,000	-	10,000,000	220,000
Hospital Revenue Bonds, Series 2009B	-	50,000	-	50,000	-
Hospital Revenue Bond Anticipation Notes, Series 2009C	-	16,335,000	-	16,335,000	-
Notes payable, equipment	<u>126,877</u>	<u>-</u>	<u>56,421</u>	<u>70,456</u>	<u>51,562</u>
Totals	<u>\$10,126,877</u>	<u>\$26,385,000</u>	<u>\$10,056,421</u>	<u>\$26,455,456</u>	<u>\$ 271,562</u>

A summary of changes in long-term debt for the year ended June 30, 2009 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Bond Anticipation Notes, Series 2008	\$ -	\$10,000,000	\$ -	\$10,000,000	\$ -
Notes payable, equipment	<u>586,013</u>	<u>-</u>	<u>459,136</u>	<u>126,877</u>	<u>58,095</u>
Totals	<u>\$ 586,013</u>	<u>\$10,000,000</u>	<u>\$ 459,136</u>	<u>\$10,126,877</u>	<u>\$ 58,095</u>

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the period ended June 30, 2008.

Other

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

NOTE 8 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2010, regular plan members were required to contribute 4.3% of their annual salary and the Hospital was required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$656,392, \$531,428 and \$452,747, respectively, equal to the required contributions for each year.

NOTE 9 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2010 and 2009.

	2010	2009
Charges foregone, based on established rates	\$ <u>369,684</u>	\$ <u>324,175</u>
Equivalent percentage of charity care patients to all patients served	<u>1.1%</u>	<u>1.1%</u>

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

NOTE 10 MALPRACTICE CLAIMS

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

The Hospital is from time to time subject to claims and suits alleging malpractice. In the opinion of management, the ultimate cost, if any, related to the resolution of such pending legal proceedings will be within the limits of insurance coverage and, accordingly, will not have a significant effect on the financial position or the results of operations of the Hospital.

Incidents occurring through June 30, 2010 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

For the year ended June 30, 2010, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 736,957	\$ -	\$ 736,957	\$ 724,892
Other revenues/receipts	<u>20,700,029</u>	<u>26,389,350</u>	<u>47,089,379</u>	<u>20,004,137</u>
	21,436,986	26,389,350	47,826,336	20,729,029
Expenses/expenditures	<u>19,916,635</u>	<u>21,425,579</u>	<u>41,342,214</u>	<u>56,834,623</u>
Net	1,520,351	4,963,771	6,484,122	(36,105,594)
Balance, beginning	<u>18,662,234</u>	<u>286,291</u>	<u>18,948,525</u>	<u>46,528,830</u>
Balance, ending	<u>\$20,182,585</u>	<u>\$ 5,250,062</u>	<u>\$25,432,647</u>	<u>\$10,423,236</u>

NOTE 12 RISK MANAGEMENT

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

Crawford County Memorial Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 13 EMPLOYEE BENEFITS

The Hospital has a self-insured medical benefit plan for virtually all employees. The plan is funded by both Hospital and employee contributions. Claims for health care services for employees and their families are accrued when reported by the claims administrator. The plan contains a stop-loss provision which limits the amount of claims paid by the plan to \$55,000 per person, with an aggregate stop-loss provision for the plan as a whole of approximately \$1,690,000. Total expenses, which include claims, administration and stop-loss insurance premiums, under this plan for the years ended June 30, 2010 and 2009 were \$1,146,202 and \$680,411, respectively, included in fiscal and administrative and unassigned expenses.

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

Our report on our audits of the basic financial statements of Crawford County Memorial Hospital for 2010 and 2009 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The following information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 15, 2010

**Crawford County Memorial Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
0 - 30 days (includes patients in Hospital at end of year)	\$2,582,997	\$2,250,832	46.57%	47.35%
31 - 60 days	869,258	657,941	15.67	13.84
61 - 90 days	467,622	342,016	8.44	7.20
91 - 150 days	529,440	494,062	9.55	10.39
Over 150 days	<u>1,096,589</u>	<u>1,008,634</u>	<u>19.77</u>	<u>21.22</u>
Totals	<u>5,545,906</u>	<u>4,753,485</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	740,000	600,000		
Medicaid	160,000	140,000		
Other	260,000	220,000		
Bad debts	<u>420,000</u>	<u>460,000</u>		
Total allowances	<u>1,580,000</u>	<u>1,420,000</u>		
Totals	<u>\$3,965,906</u>	<u>\$3,333,485</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 55,670</u>	<u>\$ 50,846</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>71</u>	<u>66</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
BALANCE , beginning	\$ 460,000	\$ 460,000		
ADD				
Provision for bad debts	954,002	1,051,060	4.70%	5.66%
Recoveries of accounts previously written off	<u>234,847</u>	<u>138,561</u>	1.16	.75
	1,648,849	1,649,621		
DEDUCT				
Accounts written off	<u>1,228,849</u>	<u>1,189,621</u>	6.05	6.41
BALANCE , ending	<u>\$ 420,000</u>	<u>\$ 460,000</u>		

Crawford County Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$ 1,452,074	\$ -	\$ 1,452,074	\$ 1,655,897
Swing bed	174,207	-	174,207	227,134
Nursery	<u>97,282</u>	<u>-</u>	<u>97,282</u>	<u>97,121</u>
	<u>1,723,563</u>	<u>-</u>	<u>1,723,563</u>	<u>1,980,152</u>
OTHER NURSING SERVICES				
Operating room	424,052	3,400,943	3,824,995	3,578,254
Recovery room	63,793	575,067	638,860	586,296
Delivery room	157,480	7,281	164,761	167,755
Emergency service	34,085	2,400,466	2,434,551	2,295,075
Observation room	-	133,258	133,258	51,558
Same day surgery	<u>-</u>	<u>223,083</u>	<u>223,083</u>	<u>138,276</u>
	<u>679,410</u>	<u>6,740,098</u>	<u>7,419,508</u>	<u>6,817,214</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	466,536	4,005,455	4,471,991	3,727,017
Electrocardiology	18,077	249,259	267,336	214,563
Radiology	83,016	1,817,667	1,900,683	1,961,932
CT scans	142,244	2,281,648	2,423,892	2,794,811
MRI	44,346	1,325,671	1,370,017	1,178,748
Ultrasound	60,490	1,093,192	1,153,682	1,212,702
Pharmacy	481,781	1,812,088	2,293,869	1,914,805
Anesthesiology	146,212	506,451	652,663	558,557
Respiratory therapy	316,739	479,569	796,308	1,000,169
Cardiac rehabilitation	548	111,784	112,332	115,586
Ambulance	70,789	966,673	1,037,462	939,955
Physical therapy	74,310	1,054,703	1,129,013	979,308
Occupational therapy	16,452	86,306	102,758	124,436
Speech therapy	2,394	8,812	11,206	25,070
Clinics	<u>-</u>	<u>5,296,598</u>	<u>5,296,598</u>	<u>5,069,324</u>
	<u>1,923,934</u>	<u>21,095,876</u>	<u>23,019,810</u>	<u>21,816,983</u>
Totals	<u>\$ 4,326,907</u>	<u>\$27,835,974</u>	32,162,881	30,614,349
Charity care charges foregone, based on established rates			<u>(369,684)</u>	<u>(324,175)</u>
Total gross patient service revenue			31,793,197	30,290,174
Provisions for contractual adjustments and bad debts			<u>(11,473,714)</u>	<u>(11,731,473)</u>
Total net patient service revenue			<u>\$20,319,483</u>	<u>\$18,558,701</u>

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

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Contractual adjustments		
Medicare	\$ 6,149,782	\$ 6,526,128
Medicaid	963,917	1,225,413
Other adjustments	3,406,013	2,928,872
Provision for bad debts	<u>954,002</u>	<u>1,051,060</u>
 Totals	 <u>\$11,473,714</u>	 <u>\$11,731,473</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2010</u>	<u>2009</u>
Cafeteria	\$ 45,371	\$ 37,014
Rental income	49,880	45,200
Sale of supplies and drugs	16,056	17,879
Wellness	54,902	47,431
Lifeline	35,091	34,150
Miscellaneous	<u>69,528</u>	<u>84,422</u>
 Totals	 <u>\$ 270,828</u>	 <u>\$ 266,096</u>

Crawford County Memorial Hospital
EXPENSES
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 253,349	\$ 13,177	\$ 266,526	\$ 256,380
Medical and surgical	1,040,478	139,940	1,180,418	1,069,165
Obstetrical	203,483	44,102	247,585	233,217
Coronary care	3,072	390	3,462	10,057
Nursery	62,499	6,782	69,281	67,509
Operating room	467,822	445,017	912,839	742,658
Recovery room	18,735	-	18,735	18,919
Delivery room	39,877	11,441	51,318	57,921
Emergency and outpatient service	<u>354,716</u>	<u>1,140,118</u>	<u>1,494,834</u>	<u>1,552,933</u>
Total nursing service	<u>2,444,031</u>	<u>1,800,967</u>	<u>4,244,998</u>	<u>4,008,759</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	314,612	452,296	766,908	738,889
Electrocardiology	53,809	3,129	56,938	52,102
Radiology	255,603	163,612	419,215	522,007
CT scans	52,791	105,820	158,611	150,156
MRI	-	215,096	215,096	183,279
Ultrasound	143,002	22,518	165,520	167,393
Pharmacy	180,233	480,190	660,423	501,616
Anesthesiology	369,889	88,151	458,040	384,968
Respiratory therapy	107,335	109,398	216,733	214,719
Cardiac rehabilitation	40,880	1,641	42,521	49,406
Ambulance	386,314	39,170	425,484	434,277
Physical therapy	328,183	52,987	381,170	344,327
Occupational therapy	25,038	2,184	27,222	33,478
Speech therapy	3,902	58	3,960	10,176
Clinics	3,195,189	667,048	3,862,237	3,536,848
Health information management	275,418	42,275	317,693	352,730
Quality assurance	74,797	1,253	76,050	72,534
Utilization review	<u>74,272</u>	<u>188</u>	<u>74,460</u>	<u>69,968</u>
Total other professional service	<u>5,881,267</u>	<u>2,447,014</u>	<u>8,328,281</u>	<u>7,818,873</u>
GENERAL SERVICE				
Dietary	316,779	129,318	446,097	448,679
Plant engineering	303,441	272,389	575,830	596,214
Housekeeping	163,722	33,911	197,633	196,033
Laundry	<u>51,358</u>	<u>3,676</u>	<u>55,034</u>	<u>53,716</u>
Total general service	<u>835,300</u>	<u>439,294</u>	<u>1,274,594</u>	<u>1,294,642</u>

Crawford County Memorial Hospital
EXPENSES (continued)
Year ended June 30, 2010, with comparative totals for 2009

	<u>2010</u>			<u>2009</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Fiscal and administrative service	\$ 1,283,233	\$ 939,362	\$ 2,222,595	\$ 1,983,435
FICA	-	670,662	670,662	581,873
IPERS	-	656,392	656,392	531,428
Group health and life insurance	-	1,146,202	1,146,202	680,411
Insurance	-	401,456	401,456	371,432
Total fiscal and administrative service and unassigned expenses	<u>1,283,233</u>	<u>3,814,074</u>	<u>5,097,307</u>	<u>4,148,579</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>971,455</u>	<u>971,455</u>	<u>1,003,563</u>
Total expenses	<u>\$10,443,831</u>	<u>\$ 9,472,804</u>	<u>\$19,916,635</u>	<u>\$18,274,416</u>

**Crawford County Memorial Hospital
STATISTICS**

	Year ended June 30	
	<u>2010</u>	<u>2009</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,548	1,949
Swing bed		
Skilled care	425	570
Intermediate care	20	17
Nursery	<u>260</u>	<u>261</u>
Totals	<u>2,253</u>	<u>2,797</u>
DISCHARGES		
Medical, surgical and obstetrical	605	733
Swing bed		
Skilled care	75	83
Intermediate care	10	6
Nursery	<u>126</u>	<u>125</u>
Totals	<u>816</u>	<u>947</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.56	2.66
Swing bed		
Skilled care	5.67	6.87
Intermediate care	2.00	2.83
Nursery	2.06	2.09

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

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the financial statements of Crawford County Memorial Hospital as of and for the year ended June 30, 2010, and have issued our report thereon dated November 15, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

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


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 15, 2010

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

Part I—Findings Related to the Financial Statements

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

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2010**

Part II—Findings Related to Required Statutory Reporting

10-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its budget for the year ended June 30, 2010.

10-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

10-II-C TRAVEL EXPENSES

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

10-II-D BUSINESS TRANSACTIONS

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

10-II-E BOARD MINUTES

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

10-II-F DEPOSITS AND INVESTMENTS

We noted no instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the Hospital's investment policy.