

**Crawford County Memorial Hospital
Denison, Iowa**

FINANCIAL REPORT

June 30, 2011

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**Crawford County Memorial Hospital
OFFICIALS
June 30, 2011**

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Expiration of term

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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, 2011 and 2010, and its component unit, Hospital Foundation of Crawford County, as of June 30, 2011, 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 respective financial positions of Crawford County Memorial Hospital as of June 30, 2011 and 2010, and its component unit, Hospital Foundation of Crawford County, as of June 30, 2011, and the respective results of their operations and their 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 September 16, 2011 on our consideration of 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
September 16, 2011

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, 2011 and 2010. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$1,888,522 to \$53,464,842
- Total assets whose use is limited decreased by \$12,566,876 to \$8,691,990
- Total property and equipment increased by \$14,012,608 to \$34,123,002
- Total fund equity increased by \$1,169,045 to \$21,351,630
- Total long-term debt decreased by \$269,857 to \$26,185,599
- Net patient service revenue increased by \$498,483, or 2%, to \$20,817,966
- Expenses increased by \$1,213,047, or 6%, to \$21,129,682

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		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current assets	\$ 8,459,850	\$ 8,012,060	\$ 6,317,948
Assets whose use is limited	8,691,990	21,258,866	17,288,528
Property and equipment	34,123,002	20,110,394	7,593,714
Other assets	<u>2,190,000</u>	<u>2,195,000</u>	<u>740,000</u>
Total assets	<u>\$53,464,842</u>	<u>\$51,576,320</u>	<u>\$31,940,190</u>
Current liabilities	\$ 5,038,212	\$ 4,109,841	\$ 2,469,174
Long-term debt, less current maturities	25,935,000	26,183,894	10,068,782
Other noncurrent liabilities	<u>1,140,000</u>	<u>1,100,000</u>	<u>740,000</u>
Total liabilities	<u>\$32,113,212</u>	<u>\$31,393,735</u>	<u>\$13,277,956</u>
Invested in capital assets, net of related debt	\$10,028,034	\$ 8,596,327	\$ 7,587,435
Restricted	792,197	792,197	-
Unrestricted	<u>10,531,399</u>	<u>10,794,061</u>	<u>11,074,799</u>
Total fund equity	<u>\$21,351,630</u>	<u>\$20,182,585</u>	<u>\$18,662,234</u>

As depicted in Table 1, total assets increased in fiscal year 2011 to \$53,464,842. During fiscal year 2011, the Hospital completed a construction project consisting of a replacement hospital. Construction costs were funded by issuance of long-term debt.

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		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net patient service revenue	\$20,817,966	\$20,319,483	\$18,558,701
Other revenue	273,014	270,828	266,096
Total revenue	<u>21,090,980</u>	<u>20,590,311</u>	<u>18,824,797</u>
Salaries	11,361,626	10,443,831	8,997,613
Supplies and expenses	8,841,039	8,501,349	8,273,240
Provision for depreciation	927,017	971,455	1,003,563
Total expenses	<u>21,129,682</u>	<u>19,916,635</u>	<u>18,274,416</u>
Operating income (loss)	<u>(38,702)</u>	<u>673,676</u>	<u>550,381</u>
County taxes	1,102,809	736,957	701,958
Investment income	110,318	114,068	241,623
Interest expense	(5,380)	(4,350)	(19,663)
Total nonoperating gains (losses)	<u>1,207,747</u>	<u>846,675</u>	<u>923,918</u>
Change in fund equity	1,169,045	1,520,351	1,474,299
Total fund equity, beginning	<u>20,182,585</u>	<u>18,662,234</u>	<u>17,187,935</u>
Total fund equity, ending	<u>\$21,351,630</u>	<u>\$20,182,585</u>	<u>\$18,662,234</u>

Operating and Financial Performance

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2011 and 2010.

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 2011 were 647 compared to 605 in fiscal year 2010. Average length of stay decreased slightly as medical, surgical and obstetrical patient days increased to 1,645 from 1,548 in 2010. Swing bed, skilled care discharges for fiscal year 2011 were 94 compared to 75 in fiscal year 2010. Average length of stay increased slightly as swing bed, skilled care patient days increased to 578 from 425 in 2010. Volume on the outpatient side indicated positive growth in 2011. In 2011, gross outpatient charges increased to \$29,452,418 compared to \$27,835,974 in 2010. Emergency service, laboratory and clinics reflected the most significant growth in 2011.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2011. Overall, gross patient service revenue increased to \$33,937,941 from \$31,793,197 in 2010.

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 \$13,119,975 in 2011 compared to \$11,473,714 in 2010, representing 39% and 36% of gross patient charges for each of the years ended June 30, 2011 and 2010, 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		
	2011	2010	2009
Medicare	42%	42%	46%
Medicaid	11	12	10
Commercial insurance	42	42	39
Patients	<u>5</u>	<u>4</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased slightly to \$273,014 in 2011 compared to \$270,828 in 2010.

Expenses

Approximately 55% of Hospital's expenses are for salaries. Total salaries increased by 9% to \$11,361,626 in 2011 from \$10,443,831 in 2010. The most significant increases related to anesthesiology, physical therapy, clinics and fiscal and administrative services.

Approximately 40% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 4% to \$8,841,039 in 2011 from \$8,501,349 in 2010. The most significant increases related to emergency and outpatient services, health information management and fiscal and administrative services.

Approximately 5% of Hospital's expenses relate to provision for depreciation. The provision for depreciation decreased to \$927,017 in 2011 from \$971,455 in 2010.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$1,207,747 from \$846,675 in 2010, primarily due to an increase in county taxes.

Property and Equipment

At the end of 2011, the Hospital had \$34,123,002 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 2011, \$14,939,625 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 \$29 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>2011</u>	<u>2010</u>	<u>2009</u>
Land	\$ 419,900	\$ 419,900	\$ 419,900
Land improvements	3,374,962	849,976	1,001,511
Building	9,314,197	3,826,223	4,089,241
Fixed equipment	20,434,151	3,452,708	3,653,496
Major movable equipment	12,477,706	7,886,345	8,609,638
Medical office building	1,365,366	1,365,366	1,395,336
Construction in progress	—	<u>14,646,139</u>	<u>1,821,080</u>
Subtotal	47,386,282	32,446,657	20,990,202
Less accumulated depreciation	<u>13,263,280</u>	<u>12,336,263</u>	<u>13,396,488</u>
Property and equipment	<u>\$34,123,002</u>	<u>\$20,110,394</u>	<u>\$ 7,593,714</u>

Debt Administration

At year end, the Hospital had \$26,185,599 in current and long-term debt related to Hospital Revenue Refunding Bonds, Revenue Bonds, Hospital Revenue Bonds, Revenue Bond Anticipation Notes and note payable, equipment, a decrease of \$269,857 from 2010, representing the required principal payments made for fiscal year 2011. 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 80% 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 2011 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	\$ 1,102,809	\$ 1,079,735	\$ 23,074
Other revenues/receipts	<u>21,201,298</u>	<u>23,872,691</u>	<u>(2,671,393)</u>
	22,304,107	24,952,426	(2,648,319)
Expenses/expenditures	<u>35,417,527</u>	<u>34,013,455</u>	<u>1,404,072</u>
Net	<u>\$(13,113,420)</u>	<u>\$(9,061,029)</u>	<u>\$(4,052,391)</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to less proceeds from issuance of long-term debt. Expenses/expenditures were higher than County Hospital budget primarily due to increased operating expenses.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2012 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, 100 Medical Parkway, Denison, Iowa 51442.

**Crawford County Memorial Hospital
BALANCE SHEETS
June 30, 2011 and 2010**

ASSETS	Memorial Hospital		Hospital Foundation of Crawford County
	2011	2010	2011
CURRENT ASSETS			
Cash	\$ 1,736,943	\$ 1,203,974	\$ 140,906
Assets whose use is limited-required for current liabilities	2,942,014	1,962,365	-
Investments	-	-	82,272
Patient receivables, less allowances for contractual adjustments and bad debts	3,208,465	3,965,906	-
Pledges receivable	-	-	111,282
Other receivables	24,097	31,762	-
Estimated third-party payor settlements	-	460,000	-
Inventories	237,089	200,468	-
Prepaid expenses	<u>311,242</u>	<u>187,585</u>	-
Total current assets	<u>8,459,850</u>	<u>8,012,060</u>	<u>334,460</u>
ASSETS WHOSE USE IS LIMITED			
Designated by board for plant replacement and expansion			
Certificates of deposit	8,716,330	7,457,947	-
Interest receivable	<u>34,847</u>	<u>29,698</u>	-
	8,751,177	7,487,645	-
Restricted for payment of long-term debt and interest			
Cash	2,091,827	8,832,909	-
Certificates of deposit	791,000	5,791,000	-
U.S. Government Agency securities	-	<u>1,109,677</u>	-
Total assets whose use is limited	11,634,004	23,221,231	-
Less assets whose use is limited and that are required For current liabilities	<u>2,942,014</u>	<u>1,962,365</u>	-
Noncurrent assets whose use is limited	<u>8,691,990</u>	<u>21,258,866</u>	-
PROPERTY AND EQUIPMENT			
	47,386,282	32,446,657	-
Less accumulated depreciation	<u>13,263,280</u>	<u>12,336,263</u>	-
Total property and equipment	<u>34,123,002</u>	<u>20,110,394</u>	-
OTHER ASSETS			
Unamortized financing costs	1,050,000	1,095,000	-
Succeeding year property tax receivable	1,140,000	1,100,000	-
Cash value of life insurance	-	-	23,159
Pledges receivable	-	-	<u>93,171</u>
Total other assets	<u>2,190,000</u>	<u>2,195,000</u>	<u>116,330</u>
Totals	<u>\$53,464,842</u>	<u>\$51,576,320</u>	<u>\$ 450,790</u>

See Notes to Financial Statements.

LIABILITIES AND FUND EQUITY	Memorial Hospital		Hospital Foundation of Crawford County
	2011	2010	2011
CURRENT LIABILITIES			
Current maturities of long-term debt	\$ 250,599	\$ 271,562	\$ -
Accounts payable			
Trade	569,263	881,006	-
Construction	2,482,014	1,649,465	-
Accrued employee compensation	1,284,106	1,134,011	-
Payroll taxes and amounts withheld from employees	19,330	80,897	-
Accrued interest	92,900	92,900	-
Estimated third-party payor settlements	340,000	-	-
Total current liabilities	<u>5,038,212</u>	<u>4,109,841</u>	<u>-</u>
LONG-TERM DEBT , less current maturities	<u>25,935,000</u>	<u>26,183,894</u>	<u>-</u>
DEFERRED REVENUE FOR SUCCEEDING YEAR PROPERTY TAX RECEIVABLE	<u>1,140,000</u>	<u>1,100,000</u>	<u>-</u>
FUND EQUITY			
Invested in capital assets, net of related debt	10,028,034	8,596,327	-
Restricted	792,197	792,197	288,314
Unrestricted	<u>10,531,399</u>	<u>10,794,061</u>	<u>162,476</u>
Total fund equity	<u>21,351,630</u>	<u>20,182,585</u>	<u>450,790</u>
Totals	<u>\$53,464,842</u>	<u>\$51,576,320</u>	<u>\$ 450,790</u>

Crawford County Memorial Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY
Year ended June 30, 2011 and 2010

	<u>Memorial Hospital</u>		<u>Hospital Foundation of Crawford County</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2011 \$1,243,286; 2010 \$954,002	\$20,817,966	\$20,319,483	\$ -
OTHER REVENUE	<u>273,014</u>	<u>270,828</u>	<u>396,807</u>
Total revenue	<u>21,090,980</u>	<u>20,590,311</u>	<u>396,807</u>
EXPENSES			
Nursing service	4,393,775	4,244,998	-
Other professional service	9,029,640	8,328,281	-
General service	1,367,393	1,274,594	-
Fiscal and administrative service and unassigned expenses	5,411,857	5,097,307	167,803
Provision for depreciation	<u>927,017</u>	<u>971,455</u>	<u>-</u>
Total operating expenses	<u>21,129,682</u>	<u>19,916,635</u>	<u>167,803</u>
Operating income (loss)	<u>(38,702)</u>	<u>673,676</u>	<u>229,004</u>
NONOPERATING GAINS (LOSSES)			
County taxes	1,102,809	736,957	-
Investment income	110,318	114,068	14,625
Interest expense	<u>(5,380)</u>	<u>(4,350)</u>	<u>-</u>
Total nonoperating gains (losses)	<u>1,207,747</u>	<u>846,675</u>	<u>14,625</u>
Change in fund equity	1,169,045	1,520,351	243,629
TOTAL FUND EQUITY			
Beginning	<u>20,182,585</u>	<u>18,662,234</u>	<u>207,161</u>
Ending	<u>\$21,351,630</u>	<u>\$20,182,585</u>	<u>\$ 450,790</u>

See Notes to Financial Statements.

**Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS
Year ended June 30, 2011 and 2010**

	<u>Memorial Hospital</u>		<u>Hospital Foundation of Crawford County</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from patients and third-party payors	\$22,375,407	\$19,207,062	\$ —
Cash paid to suppliers for goods and services	(9,366,962)	(8,524,078)	(167,803)
Cash paid to employees for services	(11,211,531)	(10,329,712)	—
Other operating revenue received	<u>273,014</u>	<u>270,828</u>	<u>336,956</u>
Net cash provided by operating activities	<u>2,069,928</u>	<u>624,100</u>	<u>169,153</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
County taxes	<u>1,102,809</u>	<u>736,957</u>	<u>—</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	—	26,385,000	—
Principal payments on long-term debt	(269,857)	(10,056,421)	—
Interest paid on long-term debt	(1,119,859)	(1,016,878)	—
Acquisition of property and equipment	<u>(12,947,597)</u>	<u>(12,323,379)</u>	<u>—</u>
Net cash provided by (used in) capital and related financing activities	<u>(14,337,313)</u>	<u>2,988,322</u>	<u>—</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	105,169	413,816	298
Proceeds from maturities of certificates of deposit	10,260,330	19,096,150	—
Purchase of certificates of deposit	(6,518,713)	(14,890,878)	—
Proceeds from maturities of U.S. Government Agency securities	1,109,677	—	—
Purchase of U.S. Government Agency securities	—	(1,109,677)	—
Purchase of mutual funds	—	—	(82,272)
Fund cash value of life insurance	<u>—</u>	<u>—</u>	<u>(229)</u>
Net cash provided by investing activities	<u>4,956,463</u>	<u>3,509,411</u>	<u>(82,203)</u>
NET INCREASE (DECREASE) IN CASH	(6,208,113)	7,858,790	86,950
CASH			
Beginning	<u>10,036,883</u>	<u>2,178,093</u>	<u>53,956</u>
Ending	<u>\$ 3,828,770</u>	<u>\$10,036,883</u>	<u>\$ 140,906</u>

See Notes to Financial Statements.

Crawford County Memorial Hospital
STATEMENTS OF CASH FLOWS (continued)
Year ended June 30, 2011 and 2010

	<u>Memorial Hospital</u>		<u>Hospital Foundation of Crawford County</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (38,702)	\$ 673,676	\$ 229,004
Adjustments to reconcile operating income (loss) to net cash provided by operating activities			
Depreciation	927,017	971,455	-
Changes in assets and liabilities			
(Increase) decrease in patient receivables	757,441	(632,421)	-
(Increase) in pledges receivable	-	-	(59,851)
Decrease in other receivables	7,665	10,030	-
(Increase) decrease in net estimated third-party payor settlements	800,000	(480,000)	-
(Increase) in inventories	(36,621)	(22,356)	-
(Increase) in prepaid expenses	(123,657)	(126,746)	-
Increase (decrease) in accounts payable, trade	(311,743)	73,144	-
Increase in accrued employee compensation	150,095	114,119	-
Increase (decrease) in payroll taxes and amounts withheld from employees	<u>(61,567)</u>	<u>43,199</u>	<u>-</u>
Net cash provided by operating activities	<u>\$2,069,928</u>	<u>\$ 624,100</u>	<u>\$ 169,153</u>
 RECONCILIATION OF CASH PER STATEMENT OF			
CASH FLOWS TO THE BALANCE SHEET			
Per balance sheet			
Current assets, cash	\$1,736,943	\$ 1,203,974	\$ 140,906
Assets whose use is limited, restricted for payment of long-term debt and interest, cash	<u>2,091,827</u>	<u>8,832,909</u>	<u>-</u>
Total per statement of cash flows	<u>\$3,828,770</u>	<u>\$10,036,883</u>	<u>\$ 140,906</u>

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 one component unit which meets the Governmental Accounting Standards Board criteria. This component unit is Hospital Foundation of Crawford County. The Foundation is a legally separate nonprofit corporation. The Hospital does not appoint a voting majority of the Foundation's Board of Directors or in any way impose its will over the Foundation. However, the Foundation is a component unit due to the nature and significance of its relationship with the Hospital. The Foundation's financial statements are presented on pages 10 - 14.

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.

The Foundation is a private nonprofit organization that reports under the *FASB Accounting Standards Codification*, including the Not-for-Profit Entities Topic. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

Accounting Standards

The Hospital has elected to apply all applicable Governmental Accounting Standards Board pronouncements.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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	Amortized cost
Maturity of more than one year when purchased	Fair value based on quoted market prices

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.

The Foundation carries investments in marketable securities with readily determinable fair values and at their fair values in the statements of financial position. Realized and unrealized gains and losses are included in the change in fund equity in the accompanying statements of revenues, expenses, and changes in fund equity.

Pledges Receivable

The Foundation's contributions are recognized when the donor makes a pledge to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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.

Unamortized Financing Costs

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Tax Receivable

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

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following three components:

Investment in capital assets, net of related debt

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

Restricted

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

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

Income Taxes

The Foundation is a nonprofit corporation exempt from federal income tax under applicable provisions of the Internal Revenue Code. The Foundation follows the accounting for uncertainty in income tax requirements as required by the Income Tax Topic of the FASB Accounting Standards Codification. Management has evaluated their material tax positions and determined no income tax effects with respect to the financial statements. The Foundation has not been notified of any impending examinations by tax authorities, and no examinations are in process.

Subsequent Events

The Foundation has evaluated subsequent events through September 16, 2011, the date which the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

At June 30, 2011, the Foundation's investments consisted of mutual funds of \$82,272.

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

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation's investments are as follows at June 30, 2011:

Mutual funds \$ 82,272

The Foundation measures the fair value of investments in accordance with the Fair Value Measurements and Disclosures Topic of the *FASB Accounting Standards Codification*, which established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value, generally ranging from the most objective to the most subjective. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are generally available indirect information, such as quoted prices for identical or similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active. Level 3 inputs are the most subjective, are generally based on the management's own assumptions on how knowledgeable parties would price assets or liabilities, and are developed using the best information available in the circumstances. All of the Foundation's investments were valued using Level 1 inputs at June 30, 2011.

NOTE 4 PATIENT RECEIVABLES

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

	Year ended June 30	
	2011	2010
Medicare	\$ 945,279	\$1,349,858
Medicaid	276,751	713,962
Commercial insurance	1,416,453	1,794,446
Patients	<u>1,769,982</u>	<u>1,687,640</u>
Total patient receivables	4,408,465	5,545,906
Less allowances for contractual adjustments and bad debts	<u>(1,200,000)</u>	<u>(1,580,000)</u>
Net patient receivables	<u>\$3,208,465</u>	<u>\$3,965,906</u>

NOTE 5 PLEDGES RECEIVABLE

The Foundation launched a fundraising campaign to secure funds to assist with capital costs relating to the construction of Crawford County Memorial Hospital's replacement hospital completed during June, 2011. Pledges receivable related to this campaign are \$204,453 as of June 30, 2011 and are all considered restricted as to use. Pledges receivable due in more than one year are recognized at fair value, which management has determined to be the full amount outstanding. Management has evaluated the June 30, 2011 pledges receivable and determined that no allowance for uncollectible pledges receivable is necessary due to the creditworthiness of the donors. The pledges receivable are collectible as follows:

<u>Year ending June 30</u>	
2012	\$ 111,282
2013	52,776
2014	25,246
2015	<u>15,149</u>
Total	<u>\$ 204,453</u>

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

NOTE 6 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, 2011:

	<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	\$13,645,878	\$1,113,809	\$ 163,369	\$ 18,333	\$ 792,197	\$15,733,586
Transfer from current assets, cash	-	65,034	-	271,771	-	336,805
Fund transfers	-	7,707	-	-	(7,707)	-
Interest earned	4,653	4,814	82	32	7,707	17,288
Payments for construction costs	(11,870,373)	-	-	-	-	(11,870,373)
Principal and interest payments	-	(1,114,479)	-	(220,000)	-	(1,334,479)
BALANCE , end of year	<u>\$ 1,780,158</u>	<u>\$ 76,885</u>	<u>\$ 163,451</u>	<u>\$ 70,136</u>	<u>\$ 792,197</u>	<u>\$ 2,882,827</u>

NOTE 7 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2011</u>		<u>June 30, 2010</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 419,900	\$ -	\$ 419,900	\$ -
Land improvements	3,374,962	366,016	849,976	319,725
Building	9,314,197	2,474,992	3,826,223	2,383,683
Fixed equipment	20,434,151	2,955,399	3,452,708	2,865,701
Major movable equipment	12,477,706	6,657,809	7,886,345	5,998,177
Medical office building	1,365,366	809,064	1,365,366	768,977
Construction in progress	-	-	14,646,139	-
Totals	<u>\$47,386,282</u>	<u>\$13,263,280</u>	<u>\$32,446,657</u>	<u>\$12,336,263</u>

Construction in progress at June 30, 2010 consisted primarily of progress billings for construction costs related to the Hospital's construction project. The project included construction of a replacement hospital. During the year ended June 30, 2011, the Hospital completed the project and capitalized costs of approximately \$29 million. The remaining amount to be paid on contracts entered into by the Hospital total \$2,482,014, accrued as accounts payable, construction.

A summary of changes in property and equipment for the year ended June 30, 2011 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 419,900	\$ -	\$ -	\$ -	\$ 419,900
Land improvements	849,976	13,159	2,511,827	-	3,374,962
Building	3,826,223	-	5,487,974	-	9,314,197
Fixed equipment	3,452,708	28,424	16,953,019	-	20,434,151
Major movable equipment	7,886,345	1,053,623	3,537,738	-	12,477,706
Medical office building	1,365,366	-	-	-	1,365,366
Construction in progress	<u>14,646,139</u>	<u>13,844,419</u>	<u>(28,490,558)</u>	<u>-</u>	<u>-</u>
Totals	32,446,657	14,939,625	-	-	47,386,282
Less accumulated depreciation	<u>(12,336,263)</u>	<u>(927,017)</u>	<u>-</u>	<u>-</u>	<u>(13,263,280)</u>
Net property and equipment	<u>\$20,110,394</u>	<u>\$14,012,608</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$34,123,002</u>

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

NOTE 7 PROPERTY AND EQUIPMENT (continued)

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>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Construction period—interest and amortization expense	\$1,159,479	\$ 950,086
Less interest earned on proceeds	<u>(17,288)</u>	<u>(149,510)</u>
Amount capitalized	<u>\$1,142,191</u>	<u>\$ 800,576</u>

NOTE 8 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,780,000	\$10,000,000
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>20,599</u>	<u>70,456</u>
	26,185,599	26,455,456
Less current maturities	<u>250,599</u>	<u>271,562</u>
Long-term debt, net of current maturities	<u>\$25,935,000</u>	<u>\$26,183,894</u>

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

NOTE 8 LONG-TERM DEBT

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 3.65% to 6%. At June 30, 2011, the remaining balance on these Bonds is \$9,780,000. In addition, the Bonds require a Reserve Fund be maintained at a minimum level of \$791,890.

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, 2011.

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, 2011, 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, 2011. At June 30, 2011, the balance on the Bonds is \$50,000.

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, 2011, 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, 2011.

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

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

NOTE 8 LONG-TERM DEBT (continued)

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, 2011 the remaining principal and interest on the Series Bonds was \$33,740,074. 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, 2011 and 2010:

	Year ended June 30	
	2011	2010
Change in fund equity	\$1,169,045	\$1,530,723
Provision for depreciation	<u>927,017</u>	<u>971,455</u>
 Pledged net revenues	 <u>\$2,096,062</u>	 <u>\$2,502,178</u>
 Principal and interest requirements		
Hospital Revenue Bonds Anticipation Notes, Series 2008	\$ —	\$ 218,333
Hospital Revenue Refunding Bonds, Series 2009A	787,665	403,673
Hospital Revenue Bonds, Series 2009B	3,115	1,677
Hospital Revenue Bond Anticipation Notes, Series 2009C	<u>546,814</u>	<u>388,846</u>
 Totals	 <u>\$1,337,594</u>	 <u>\$1,012,529</u>

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 November, 2011. The note is collateralized by the equipment purchased by the Hospital. At June 30, 2011, the remaining balance on this note is \$20,599.

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

Year ending June 30	Revenue Bonds			Note payable	Total principal	Interest	Total
	Series 2009A	Series 2009B	Series 2009C				
2012	\$ 230,000	\$ —	\$ —	\$ 20,599	\$ 250,599	\$ 837,803	\$ 1,088,402
2013	235,000	50,000	16,335,000	—	16,620,000	552,010	17,172,010
2014	245,000	—	—	—	245,000	542,610	787,610
2015	255,000	—	—	—	255,000	532,075	787,075
2016	270,000	—	—	—	270,000	520,345	790,345
2017-2021	1,565,000	—	—	—	1,565,000	2,381,110	3,946,110
2022-2026	1,175,000	—	—	—	1,175,000	1,865,340	3,040,340
2027-2031	—	—	—	—	—	1,154,700	1,154,700
2032-2034	<u>5,805,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,805,000</u>	<u>258,000</u>	<u>6,063,000</u>
Totals	9,780,000	50,000	16,335,000	20,599	26,185,599	8,643,993	34,829,592
Less current maturities	<u>230,000</u>	<u>—</u>	<u>—</u>	<u>20,599</u>	<u>250,599</u>	<u>837,803</u>	<u>1,088,402</u>
 Total long-term debt	 <u>\$9,550,000</u>	 <u>\$ 50,000</u>	 <u>\$16,335,000</u>	 <u>\$ —</u>	 <u>\$25,935,000</u>	 <u>\$7,806,190</u>	 <u>\$33,741,190</u>

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

NOTE 8 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2011 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 Refunding Bonds, Series 2009A	\$10,000,000	\$ -	\$ 220,000	\$ 9,780,000	\$ 230,000
Hospital Revenue Bonds, Series 2009B	50,000	-	-	50,000	-
Hospital Revenue Bond Anticipation Notes, Series 2009C	16,335,000	-	-	16,335,000	-
Note payable, equipment	<u>70,456</u>	<u>-</u>	<u>49,857</u>	<u>20,599</u>	<u>20,599</u>
Totals	<u>\$26,455,456</u>	<u>\$ -</u>	<u>\$ 269,857</u>	<u>\$26,185,599</u>	<u>\$ 250,599</u>

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

NOTE 9 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, 2009.

Other

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

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

NOTE 10 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, 2011, regular plan members were required to contribute 4.5% of their annual salary and the Hospital was required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2011, 2010 and 2009 were \$745,843, \$656,392 and \$531,428, respectively, equal to the required contributions for each year.

NOTE 11 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, 2011 and 2010.

	<u>2011</u>	<u>2010</u>
Charges foregone, based on established rates	\$ <u>414,121</u>	\$ <u>369,684</u>
Equivalent percentage of charity care patients to all patients served	<u>1.2%</u>	<u>1.1%</u>

NOTE 12 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, 2011 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 13 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

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

NOTE 13 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING (continued)

For the year ended June 30, 2011, 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	\$ 1,102,809	\$ -	\$ 1,102,809	\$ 1,079,735
Other revenues/receipts	<u>21,195,918</u>	<u>5,380</u>	<u>21,201,298</u>	<u>23,872,691</u>
	22,298,727	5,380	22,304,107	24,952,426
Expenses/expenditures	<u>21,129,682</u>	<u>14,287,845</u>	<u>35,417,527</u>	<u>34,013,455</u>
Net	1,169,045	(14,282,465)	(13,113,420)	(9,061,029)
Balance, beginning	<u>20,182,585</u>	<u>3,462,234</u>	<u>23,644,819</u>	<u>20,098,747</u>
Balance, ending	<u>\$21,351,630</u>	<u>\$(10,820,231)</u>	<u>\$10,531,399</u>	<u>\$11,037,718</u>

NOTE 14 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

Our report on our audits of the basic financial statements of Crawford County Memorial Hospital for 2011 and 2010, and its component unit, Hospital Foundation of Crawford County, for 2011, 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
September 16, 2011

**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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
0 - 30 days (includes patients in Hospital at end of year)	\$1,861,126	\$2,582,997	42.22%	46.57%
31 - 60 days	727,975	869,258	16.51	15.67
61 - 90 days	358,677	467,622	8.14	8.44
91 - 150 days	531,733	529,440	12.06	9.55
Over 150 days	<u>928,954</u>	<u>1,096,589</u>	<u>21.07</u>	<u>19.77</u>
Totals	<u>4,408,465</u>	<u>5,545,906</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	480,000	740,000		
Medicaid	60,000	160,000		
Other	200,000	260,000		
Bad debts	<u>460,000</u>	<u>420,000</u>		
Total allowances	<u>1,200,000</u>	<u>1,580,000</u>		
Totals	<u>\$3,208,465</u>	<u>\$3,965,906</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 57,036</u>	<u>\$ 55,670</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>56</u>	<u>71</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
BALANCE , beginning	\$ 420,000	\$ 460,000		
ADD				
Provision for bad debts	1,243,286	954,002	5.97%	4.70%
Recoveries of accounts previously written off	<u>334,004</u>	<u>234,847</u>	1.60	1.16
	1,997,290	1,648,849		
DEDUCT				
Accounts written off	<u>1,537,290</u>	<u>1,228,849</u>	7.38	6.05
BALANCE , ending	<u>\$ 460,000</u>	<u>\$ 420,000</u>		

Crawford County Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2011, with comparative totals for 2010

	2011			2010
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$1,611,577	\$ -	\$ 1,611,577	\$ 1,452,074
Swing bed	270,777	-	270,777	174,207
Nursery	112,740	-	112,740	97,282
	<u>1,995,094</u>	<u>-</u>	<u>1,995,094</u>	<u>1,723,563</u>
OTHER NURSING SERVICES				
Operating room	350,301	3,277,202	3,627,503	3,824,995
Recovery room	44,441	550,837	595,278	638,860
Delivery room	167,818	4,041	171,859	164,761
Emergency service	74,431	3,096,537	3,170,968	2,434,551
Observation room	-	201,697	201,697	133,258
Same day surgery	-	238,227	238,227	223,083
	<u>636,991</u>	<u>7,368,541</u>	<u>8,005,532</u>	<u>7,419,508</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	576,464	4,233,137	4,809,601	4,471,991
Electrocardiology	26,880	289,573	316,453	267,336
Radiology	93,103	1,839,649	1,932,752	1,900,683
CT scans	163,825	2,212,329	2,376,154	2,423,892
MRI	70,180	1,423,368	1,493,548	1,370,017
Ultrasound	75,851	1,297,561	1,373,412	1,153,682
Pharmacy	544,638	1,800,704	2,345,342	2,293,869
Oncology	-	63,675	63,675	-
Anesthesiology	123,094	483,723	606,817	652,663
Respiratory therapy	325,690	447,422	773,112	796,308
Cardiac rehabilitation	144	130,362	130,506	112,332
Ambulance	105,094	1,038,507	1,143,601	1,037,462
Physical therapy	122,188	1,218,044	1,340,232	1,129,013
Occupational therapy	29,525	128,647	158,172	102,758
Speech therapy	10,883	20,318	31,201	11,206
Clinics	-	5,456,858	5,456,858	5,296,598
	<u>2,267,559</u>	<u>22,083,877</u>	<u>24,351,436</u>	<u>23,019,810</u>
Totals	<u>\$4,899,644</u>	<u>\$29,452,418</u>	34,352,062	32,162,881
Charity care charges foregone, based on established rates			(414,121)	(369,684)
Total gross patient service revenue			<u>33,937,941</u>	<u>31,793,197</u>
Provisions for contractual adjustments and bad debts			(13,119,975)	(11,473,714)
Total net patient service revenue			<u>\$20,817,966</u>	<u>\$20,319,483</u>

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

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Contractual adjustments		
Medicare	\$ 6,216,081	\$ 6,149,782
Medicaid	1,414,725	963,917
Other adjustments	4,245,883	3,406,013
Provision for bad debts	<u>1,243,286</u>	<u>954,002</u>
 Totals	 <u>\$13,119,975</u>	 <u>\$11,473,714</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2011</u>	<u>2010</u>
Cafeteria	\$ 45,167	\$ 45,371
Rental income	51,075	49,880
Sale of supplies and drugs	4,948	16,056
Wellness	58,848	54,902
Lifeline	33,756	35,091
Miscellaneous	<u>79,220</u>	<u>69,528</u>
 Totals	 <u>\$ 273,014</u>	 <u>\$ 270,828</u>

Crawford County Memorial Hospital
EXPENSES
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 262,180	\$ 9,052	\$ 271,232	\$ 266,526
Medical and surgical	1,031,789	134,876	1,166,665	1,180,418
Obstetrical	203,607	34,126	237,733	247,585
Coronary care	2,127	530	2,657	3,462
Nursery	71,275	3,874	75,149	69,281
Operating room	529,104	429,640	958,744	912,839
Recovery room	17,995	-	17,995	18,735
Delivery room	47,928	8,753	56,681	51,318
Emergency and outpatient service	<u>387,137</u>	<u>1,219,782</u>	<u>1,606,919</u>	<u>1,494,834</u>
Total nursing service	<u>2,553,142</u>	<u>1,840,633</u>	<u>4,393,775</u>	<u>4,244,998</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	356,924	460,430	817,354	766,908
Electrocardiology	58,409	7,861	66,270	56,938
Radiology	279,491	201,666	481,157	419,215
CT scans	53,905	107,231	161,136	158,611
MRI	-	208,083	208,083	215,096
Ultrasound	145,475	21,741	167,216	165,520
Pharmacy	188,882	549,205	738,087	660,423
Oncology	6,782	26,910	33,692	-
Anesthesiology	454,539	18,556	473,095	458,040
Respiratory therapy	106,409	106,611	213,020	216,733
Cardiac rehabilitation	50,567	1,552	52,119	42,521
Ambulance	430,004	56,703	486,707	425,484
Physical therapy	431,517	18,481	449,998	381,170
Occupational therapy	37,529	172	37,701	27,222
Speech therapy	1,513	18,903	20,416	3,960
Clinics	3,393,600	637,579	4,031,179	3,862,237
Health information management	338,894	124,864	463,758	317,693
Quality assurance	44,249	4,284	48,533	76,050
Utilization review	<u>79,710</u>	<u>409</u>	<u>80,119</u>	<u>74,460</u>
Total other professional service	<u>6,458,399</u>	<u>2,571,241</u>	<u>9,029,640</u>	<u>8,328,281</u>
GENERAL SERVICE				
Dietary	343,891	144,847	488,738	446,097
Plant engineering	312,021	287,163	599,184	575,830
Housekeeping	181,324	36,853	218,177	197,633
Laundry	<u>56,311</u>	<u>4,983</u>	<u>61,294</u>	<u>55,034</u>
Total general service	<u>893,547</u>	<u>473,846</u>	<u>1,367,393</u>	<u>1,274,594</u>

Crawford County Memorial Hospital
EXPENSES (continued)
Year ended June 30, 2011, with comparative totals for 2010

	<u>2011</u>			<u>2010</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Fiscal and administrative service	\$ 1,456,538	\$1,129,253	\$ 2,585,791	\$ 2,222,595
FICA	-	713,350	713,350	670,662
IPERS	-	745,843	745,843	656,392
Group health and life insurance	-	979,585	979,585	1,146,202
Insurance	-	<u>387,288</u>	<u>387,288</u>	<u>401,456</u>
Total fiscal and administrative service and unassigned expenses	<u>1,456,538</u>	<u>3,955,319</u>	<u>5,411,857</u>	<u>5,097,307</u>
PROVISION FOR DEPRECIATION	-	<u>927,017</u>	<u>927,017</u>	<u>971,455</u>
Total expenses	<u>\$11,361,626</u>	<u>\$9,768,056</u>	<u>\$21,129,682</u>	<u>\$19,916,635</u>

**Crawford County Memorial Hospital
STATISTICS**

	Year ended June 30	
	<u>2011</u>	<u>2010</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,645	1,548
Swing bed		
Skilled care	578	425
Intermediate care	23	20
Nursery	<u>266</u>	<u>260</u>
Totals	<u>2,512</u>	<u>2,253</u>
DISCHARGES		
Medical, surgical and obstetrical	647	605
Swing bed		
Skilled care	94	75
Intermediate care	10	10
Nursery	<u>119</u>	<u>126</u>
Totals	<u>870</u>	<u>816</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.54	2.56
Swing bed		
Skilled care	6.15	5.67
Intermediate care	2.30	2.00
Nursery	2.24	2.06

**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 and its component unit, Hospital Foundation of Crawford County, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 16, 2011. 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 and Foundation'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 and Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's and Foundation'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 material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's and Foundation's 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 and Foundation'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*. However, we noted a certain immaterial instance of noncompliance that is described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's and Foundation's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital and Foundation. 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 and Foundation 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
September 16, 2011

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2011**

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, 2011**

Part II—Findings Related to Required Statutory Reporting

11-II-A CERTIFIED BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital exceeded its County Hospital budget for the year ended June 30, 2011.

Recommendation

Should this occur in the future, we recommend the budget be amended using the statutorily-prescribed procedures.

Response

In the future the Hospital will monitor the budget and, if appropriate, seek amendment.

Conclusion

Response accepted.

11-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

11-II-C TRAVEL EXPENSES

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

11-II-D BUSINESS TRANSACTIONS

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

11-II-E BOARD MINUTES

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

11-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.