

**Crawford County Memorial Hospital  
Denison, Iowa**

**FINANCIAL REPORT**

**June 30, 2012**

## CONTENTS

|  | <u>Page</u>           |
|--|-----------------------|
| <b>OFFICIALS</b>   | 3                     |
| <b>INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS</b>  | 4                     |
| <b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>  | 5-11                  |
| <br><b>FINANCIAL STATEMENTS</b>  |                       |
| Balance sheets   | 12-13                 |
| Statements of revenues, expenses, and changes in fund equity   | 14                    |
| Statements of cash flows   | 15-16                 |
| Notes to financial statements  | 17-28                 |
| <br><b>INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION</b>   | <br>29                |
| <br><b>SUPPLEMENTARY INFORMATION</b>   |                       |
| Analysis of patient receivables  | 30                    |
| Analysis of allowance for bad debts  | 30                    |
| Patient service revenue  | 31                    |
| Provisions for contractual adjustments and bad debts   | 32                    |
| Other revenue  | 32                    |
| Expenses   | 33-34                 |
| Statistics   | 35                    |
| <br><b>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER<br/>FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS<br/>BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN<br/>ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i></b> | <br><br><br><br>36-37 |
| <br><b>SCHEDULE OF FINDINGS</b>  | <br>38-39             |

**Crawford County Memorial Hospital  
OFFICIALS  
June 30, 2012**

**BOARD OF TRUSTEES**

**Expiration of term**

**Officers**

Larry Struck, President  
Thomas Eller, Vice President  
Marla Raasch, Secretary  
Vanessa Zimmer, Treasurer

December 31, 2016  
December 31, 2014  
December 31, 2012  
December 31, 2012

**Members**

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Carol Swanson

December 31, 2016  
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December 31, 2014

**CHIEF EXECUTIVE OFFICER**

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**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 and its component unit, Hospital Foundation of Crawford County, as of June 30, 2012 and 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 and its component unit as of June 30, 2012 and 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 21, 2012 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 5-11 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 21, 2012

## **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, 2012 and 2011. 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 decreased by \$1,527,127 to \$51,937,715
- Total assets whose use is limited decreased by \$164,315 to \$8,527,675
- Total property and equipment increased by \$8,583 to \$34,131,585
- Total fund equity increased by \$45,077 to \$21,396,707
- Total long-term debt increased by \$1,328,623 to \$27,514,222
- Net patient service revenue increased by \$1,447,251, or 7%, to \$22,265,217
- Expenses increased by \$2,732,332, or 13%, to \$23,862,014

### **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**

|   | <b>June 30</b>      |                     |                     |
|---|---------------------|---------------------|---------------------|
|   | <u>2012</u>         | <u>2011</u>         | <u>2010</u>         |
| Current assets                                  | \$ 6,843,455        | \$ 8,459,850        | \$ 8,012,060        |
| Assets whose use is limited                     | 8,527,675           | 8,691,990           | 21,258,866          |
| Property and equipment                          | 34,131,585          | 34,123,002          | 20,110,394          |
| Other assets                                    | <u>2,435,000</u>    | <u>2,190,000</u>    | <u>2,195,000</u>    |
| Total assets                                    | <u>\$51,937,715</u> | <u>\$53,464,842</u> | <u>\$51,576,320</u> |
| Current liabilities                             | \$ 2,364,399        | \$ 5,038,212        | \$ 4,109,841        |
| Long-term debt, less current maturities         | 26,896,609          | 25,935,000          | 26,183,894          |
| Other noncurrent liabilities                    | <u>1,280,000</u>    | <u>1,140,000</u>    | <u>1,100,000</u>    |
| Total liabilities                               | <u>\$30,541,008</u> | <u>\$32,113,212</u> | <u>\$31,393,735</u> |
| Invested in capital assets, net of related debt | \$ 8,564,573        | \$10,028,034        | \$ 8,596,327        |
| Restricted                                      | 792,210             | 792,197             | 792,197             |
| Unrestricted                                    | <u>12,039,924</u>   | <u>10,531,399</u>   | <u>10,794,061</u>   |
| Total fund equity                               | <u>\$21,396,707</u> | <u>\$21,351,630</u> | <u>\$20,182,585</u> |

As depicted in Table 1, total assets decreased in fiscal year 2012 to \$51,937,715.

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**

|                                   | <b>Year ended June 30</b> |                     |                     |
|-----------------------------------|---------------------------|---------------------|---------------------|
|                                   | <u>2012</u>               | <u>2011</u>         | <u>2010</u>         |
| Net patient service revenue       | \$22,265,217              | \$20,817,966        | \$20,319,483        |
| Other revenue                     | <u>1,543,755</u>          | <u>273,014</u>      | <u>270,828</u>      |
| Total revenue                     | <u>23,808,972</u>         | <u>21,090,980</u>   | <u>20,590,311</u>   |
| Salaries                          | 11,520,786                | 11,361,626          | 10,443,831          |
| Supplies and expenses             | 9,487,842                 | 8,841,039           | 8,501,349           |
| Provision for depreciation        | <u>2,853,386</u>          | <u>927,017</u>      | <u>971,455</u>      |
| Total expenses                    | <u>23,862,014</u>         | <u>21,129,682</u>   | <u>19,916,635</u>   |
| Operating income (loss)           | <u>(53,042)</u>           | <u>(38,702)</u>     | <u>673,676</u>      |
| County taxes                      | 1,155,091                 | 1,102,809           | 736,957             |
| Investment income                 | 99,320                    | 110,318             | 114,068             |
| Unrestricted contributions        | 39,682                    | -                   | -                   |
| Transfer from related Foundation  | 128,116                   | -                   | -                   |
| Interest and amortization expense | (1,276,310)               | (5,380)             | (4,350)             |
| Loss on disposal of equipment     | <u>(47,780)</u>           | <u>-</u>            | <u>-</u>            |
| Total nonoperating gains (losses) | <u>98,119</u>             | <u>1,207,747</u>    | <u>846,675</u>      |
| Change in fund equity             | 45,077                    | 1,169,045           | 1,520,351           |
| Total fund equity, beginning      | <u>21,351,630</u>         | <u>20,182,585</u>   | <u>18,662,234</u>   |
| Total fund equity, ending         | <u>\$21,396,707</u>       | <u>\$21,351,630</u> | <u>\$20,182,585</u> |

## **Operating and Financial Performance**

This section is intended as a written supplement to the financial information presented in the management's discussion and analysis for the fiscal years ended June 30, 2012 and 2011. While management believes the strategic discussion below fairly represents the capability of the Hospital, it should be noted that potential internal and external factors unknown at this time could impact the projections with both positive and negative trends.

### **History**

During the 2011 and 2010 fiscal years, the Hospital was focused on the financing and construction of a new replacement facility. While the fiscal results for each of those fiscal years were positive it was also apparent that focused development of operational capability and expansion was deferred pending the occupancy in the replacement facility. As such, no new revenue streams were initiated during this period.

### **Fiscal Year 2012 Actions**

During November, 2011 executive leadership transitioned. Until April, 2012 interim leadership focused on the maintenance of operations and recruitment of the Chief Executive Officer and physician positions in family medicine and general surgery which were vacated during the prior six months. In April, 2012 the Chief Executive Officer position was filled and recruitment was continued to add new physician resources. In addition, the following operational initiatives have been completed in fiscal year 2012.

- Transition was completed in the move from the old to the replacement facility without disruption to delivery of existing services. Subsequent to transition surplus equipment was sold. Leadership then worked to reconcile the actual (to accounting) equipment and supply inventories to assure accuracy of the capital equipment depreciation schedules. The result of this effort decreased the net book value of depreciable assets noted in the specific financial schedules and statements compiled subsequent to fiscal year end. With the movable and fixed equipment listings now up to date it is anticipated the old facility book value will be reconciled in the fiscal year ending June 30, 2013.
- Revenue Capacity Increase
  - Transition was completed to move from mobile to fixed based Magnetic Resonance Imaging, MRI, services. The fixed based service began in May, 2012 and did result in an increase in testing done which will have a more profound impact for the fiscal year 2013.
  - Chargemaster review was completed with resulting increase of charges. The average increase was 5% and will impact net revenue in fiscal year 2013.
- As to Board reorganization, following the completion and occupancy of the replacement facility, the Board of Trustees initiated a review process during April, 2012 to increase the focus on the preservation and promotion of high quality care. The results of this process included the restatement of the Trustee Bylaws with new organization of the Board committees focused on:
  - Finance Committee continues the legacy functions and added new monthly monitoring tools and reports to assure the control of expense in relationship to revenue.
  - Quality Committee was established to more closely monitor the delivery of care and initiate a process to assure the review of all clinical service areas on an ongoing basis. Initial efforts included the reorganization of Emergency Services, with planned reviews in the coming fiscal year of radiology, laboratory, clinical service delivery, nursing units, and information technology services.
  - Mission Committee was established to focus on the improvement of internal and external relationships to work towards improvement of workforce engagement and community support.
  - Executive Committee continues the legacy functions to assure review of the Chief Executive Officer performance, Committee work distribution and Board/Committee performance, and enterprise wide resolution of issues not assigned to a specific committee agenda.

## **Operating and Financial Performance (continued)**

### **Fiscal Year 2013 Plans**

In addition to continuing the implementation efforts initiated in fiscal year 2012 to improve the ability of governance to maintain oversight of operations, the following focused activities are also planned for the upcoming fiscal year.

- **Facility Improvements:** Currently, the admitting functions are segregated and not easily accessible to patients coming for inpatient and outpatient registration. Review of the process is currently underway to consider minor interior facility adjustments which are needed to increase the efficiency and better match cost of registration services to patient volumes.
- **New Service Evaluation:** Discussion has been initiated to review the potential of expanded services in dialysis, imaging, laboratory, outpatient and pre/post discharge care.
- **Local Provider Integration/Expansion:** It is expected that the Hospital will continue to integrate professional staff, physicians, into the Hospital in 2013 and beyond. Recruitment efforts are underway in general surgery, family medicine and obstetrics/gynecology. Additional physician resource study will be completed with added recruitment efforts as indicated through local demand for services.
- **Electronic Medical Records:** It is anticipated the Hospital will continue to work towards Stage 2 of meaningful use status, as defined by federal directives, throughout the fiscal year. In addition, it is anticipated the research and selection process to move clinic services to an electronic format near the end of the fiscal year or the beginning of fiscal year 2014. The results of these efforts will assure continued qualification for federal payments associated with the successful implementation and operation of these systems.
- **Organizational Alignment:** With the continuation of health reform efforts the Hospital will continue to seek various alignments with regional providers that provide for clinical and operational improvements in upstream and downstream referral processes that assure ongoing fiscal viability, service provision and quality for local consumers of care.

While the future is difficult to accurately predict, the targeted efforts initiated in fiscal year 2012 are intended to position the Hospital to create a successful future. The key program initiatives include ongoing, local, provider expansion/integration, marketing to include internal emphasis on superior customer service, and continuation of service growth initiatives. Existing Hospital market share for the 12 month period from July, 2011 through June, 2012 is estimated at 41%. The estimated increase in share for 2013 is 5%, 2014 is 5% and 2015 at 5%. The maximum attainable is approximately 65% with current organizational service capability.

### **Potential Adverse Impacts**

While the future adversities are unknown it seems likely that three strategic areas will require continued focus to insure the Hospital remains flexible to adapt to the future state. Current areas of potential adverse impact include the following items:

- Population shifts in age, employment status and economic capability.
- Payment reforms that create a negative financial impact on rural healthcare delivery systems.
- Delivery reforms from public and private sector initiatives which have potential to both increase and decrease local delivery of service due to changes in regulations directing the delivery of care.

## **Operating and Financial Performance (continued)**

### **Summary**

The management initiatives outlined in this document identify those programs, services and initiatives which appear at this writing to assure a future business model which achieves viability and growth of the Hospital. However, it is anticipated that these efforts will receive ongoing management and governance review to assure continued relevance to the needs of the community, regulatory compliance and integration with state and national healthcare trends.

The following summarizes the Hospital's statements of revenues, expenses and changes in fund equity between June 30, 2012 and 2011.

**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 2012 were 554 compared to 647 in fiscal year 2011. Average length of stay increased slightly as medical, surgical and obstetrical patient days decreased to 1,452 from 1,645 in 2011. Swing bed, skilled care discharges for fiscal year 2012 were 105 compared to 94 in fiscal year 2011. Average length of stay increased slightly as swing bed, skilled care patient days increased to 668 from 578 in 2011. Volume on the outpatient side indicated positive growth in 2012. In 2012, gross outpatient charges increased to \$29,704,618 compared to \$29,452,418 in 2011. CT scans and MRI reflected the most significant growth in 2012.

**Price Increase:** As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2012. Overall, gross patient service revenue increased to \$33,999,524 from \$33,937,941 in 2011.

**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 \$11,734,307 in 2012 compared to \$13,119,975 in 2011, representing 35% and 39% of gross patient charges for each of the years ended June 30, 2012 and 2011, 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**

|                      | <b>Year ended June 30</b> |             |             |
|----------------------|---------------------------|-------------|-------------|
|                      | <b>2012</b>               | <b>2011</b> | <b>2010</b> |
| Medicare             | 42%                       | 42%         | 42%         |
| Medicaid             | 11                        | 11          | 12          |
| Commercial insurance | 41                        | 42          | 42          |
| Patients             | <u>6</u>                  | <u>5</u>    | <u>4</u>    |
| Totals               | <u>100%</u>               | <u>100%</u> | <u>100%</u> |

### **Other Revenue**

Other revenue increased to \$1,543,755 in 2012 compared to \$273,014 in 2011, primarily due to electronic health records meaningful use incentive revenue.

## **Expenses**

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 1% to \$11,520,786 in 2012 from \$11,361,626 in 2011. The most significant increase related to emergency and outpatient service.

Approximately 40% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$9,487,842 in 2012 from \$8,841,039 in 2011. The most significant increases related to plant engineering, IPERS and group health and life insurance.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$2,853,386 in 2012 from \$927,017 in 2011.

## **Nonoperating Gains (Losses)**

Nonoperating gains (losses) decreased to \$98,119 from \$1,207,747 in 2011, primarily due to an increase in interest expense.

## **Property and Equipment**

At the end of 2012, the Hospital had \$34,131,585 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 2012, \$2,955,171 was spent to acquire new equipment and to provide for final costs relating to the Hospital's construction project. The project included the construction of a replacement hospital with an estimated total cost of approximately \$30 million and was 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**

|                               | <b>June 30</b>      |                     |                     |
|-------------------------------|---------------------|---------------------|---------------------|
|                               | <b><u>2012</u></b>  | <b><u>2011</u></b>  | <b><u>2010</u></b>  |
| Land                          | \$ 419,900          | \$ 419,900          | \$ 419,900          |
| Land improvements             | 3,374,962           | 3,374,962           | 849,976             |
| Buildings                     | 11,131,674          | 10,679,563          | 5,191,589           |
| Fixed equipment               | 20,949,444          | 20,434,151          | 3,452,708           |
| Major movable equipment       | 14,068,825          | 12,477,706          | 7,886,345           |
| Construction in progress      | —                   | —                   | 14,646,139          |
| Subtotal                      | <u>49,944,805</u>   | <u>47,386,282</u>   | <u>32,446,657</u>   |
| Less accumulated depreciation | <u>15,813,220</u>   | <u>13,263,280</u>   | <u>12,336,263</u>   |
| Property and equipment        | <u>\$34,131,585</u> | <u>\$34,123,002</u> | <u>\$20,110,394</u> |

## **Debt Administration**

At year end, the Hospital had \$27,514,222 in current and long-term debt related to Hospital Revenue Bonds, an increase of \$1,328,623 from 2011, representing the final issuance of permanent financing less required principal payments made for fiscal year 2012. 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 90% 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 2012 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5**  
**Actual vs Budget**

|                                 | <u>Actual<br/>budget<br/>basis</u> | <u>Annual<br/>County<br/>Hospital<br/>budget</u> | <u>Variance</u>    |
|---------------------------------|------------------------------------|--|--------------------|
| Amount to be raised by taxation | \$ 1,155,091                       | \$ 1,130,751                                     | \$ 24,340          |
| Other revenues/receipts         | <u>42,128,310</u>                  | <u>40,535,485</u>                                | <u>1,592,825</u>   |
|                                 | 43,283,401                         | 41,666,236                                       | 1,617,165          |
| Expenses/expenditures           | <u>41,944,786</u>                  | <u>42,394,167</u>                                | <u>(449,381)</u>   |
| Net                             | <u>\$ 1,338,615</u>                | <u>\$ (727,931)</u>                              | <u>\$2,066,546</u> |

Actual other revenues/receipts results were lower than County Hospital budget primarily due to an increase in proceeds from issuance of long-term debt. Expenses/expenditures were higher than County Hospital budget primarily due to decreased 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 2013 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) 265-2500 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, 2012 and 2011**

| <b>ASSETS</b>  | <b>Crawford County<br/>Memorial Hospital</b> |                     | <b>Hospital Foundation<br/>of Crawford County</b> |                   |
|--|--|---------------------|---|-------------------|
|  | <b>2012</b>                                  | <b>2011</b>         | <b>2012</b>                                       | <b>2011</b>       |
| <b>CURRENT ASSETS</b>  |  |                     |   |                   |
| Cash   | \$ 1,404,184                                 | \$ 1,736,943        | \$ 152,852  | \$ 140,906        |
| Assets whose use is limited-required for current liabilities                   | 281,100                                      | 2,942,014           | -   | -                 |
| Investments  | -  | -                   | 83,039  | 82,272            |
| Patient receivables, less allowances for contractual adjustments and bad debts | 3,776,767                                    | 3,208,465           | -   | -                 |
| Pledges receivable   | -  | -                   | 39,107  | 111,282           |
| Other receivables  | 16,990                                       | 24,097              | -   | -                 |
| Estimated third-party payor settlements  | 800,000                                      | -                   | -   | -                 |
| Inventories  | 357,599                                      | 237,089             | -   | -                 |
| Prepaid expenses   | <u>206,815</u>                               | <u>311,242</u>      | -   | -                 |
| Total current assets   | <u>6,843,455</u>                             | <u>8,459,850</u>    | <u>274,998</u>                                    | <u>334,460</u>    |
| <b>ASSETS WHOSE USE IS LIMITED</b>   |  |                     |   |                   |
| Designated by board for plant replacement and expansion                        |  |                     |   |                   |
| Cash and cash equivalents  | 7,860,595                                    | 8,716,330           | -   | -                 |
| Interest receivable  | <u>13,773</u>                                | <u>34,847</u>       | -   | -                 |
|  | 7,874,368                                    | 8,751,177           | -   | -                 |
| Restricted for payment of long-term debt and interest                          |  |                     |   |                   |
| Cash and cash equivalents  | <u>934,407</u>                               | <u>2,882,827</u>    | -   | -                 |
| Total assets whose use is limited  | 8,808,775                                    | 11,634,004          | -   | -                 |
| Less assets whose use is limited and that are required                         |  |                     |   |                   |
| For current liabilities  | <u>281,100</u>                               | <u>2,942,014</u>    | -   | -                 |
| Noncurrent assets whose use is limited   | <u>8,527,675</u>                             | <u>8,691,990</u>    | -   | -                 |
| <b>PROPERTY AND EQUIPMENT</b>  |  |                     |   |                   |
|  | 49,944,805                                   | 47,386,282          | -   | -                 |
| Less accumulated depreciation  | <u>15,813,220</u>                            | <u>13,263,280</u>   | -   | -                 |
| Total property and equipment   | <u>34,131,585</u>                            | <u>34,123,002</u>   | -   | -                 |
| <b>OTHER ASSETS</b>  |  |                     |   |                   |
| Unamortized financing costs  | 1,155,000                                    | 1,050,000           | -   | -                 |
| Succeeding year property tax receivable  | 1,280,000                                    | 1,140,000           | -   | -                 |
| Cash value of life insurance   | -  | -                   | 24,556  | 23,159            |
| Pledges receivable   | -  | -                   | 40,395  | 93,171            |
| Total other assets   | <u>2,435,000</u>                             | <u>2,190,000</u>    | <u>64,951</u>                                     | <u>116,330</u>    |
| Totals   | <u>\$51,937,715</u>                          | <u>\$53,464,842</u> | <u>\$ 339,949</u>                                 | <u>\$ 450,790</u> |

See Notes to Financial Statements.

| LIABILITIES AND FUND EQUITY   | Crawford County<br>Memorial Hospital |                     | Hospital Foundation<br>of Crawford County |                   |
|---|--------------------------------------|---------------------|---|-------------------|
|   | 2012                                 | 2011                | 2012                                      | 2011              |
| <b>CURRENT LIABILITIES</b>  |                                      |                     |   |                   |
| Current maturities of long-term debt                                    | \$ 617,613                           | \$ 250,599          | \$ -                                      | \$ -              |
| Accounts payable  |                                      |                     |   |                   |
| Trade   | 577,757                              | 569,263             | -   | -                 |
| Construction  | -                                    | 2,482,014           | -   | -                 |
| Accrued employee compensation   | 960,781                              | 1,284,106           | -   | -                 |
| Payroll taxes and amounts withheld from employees                       | 103,648                              | 19,330              | -   | -                 |
| Accrued interest  | 104,600                              | 92,900              | -   | -                 |
| Estimated third-party payor settlements                                 | -                                    | 340,000             | -   | -                 |
|   |                                      |                     |   |                   |
| Total current liabilities   | <u>2,364,399</u>                     | <u>5,038,212</u>    | <u>-</u>                                  | <u>-</u>          |
| <b>LONG-TERM DEBT</b> , less current maturities                         | <u>26,896,609</u>                    | <u>25,935,000</u>   | <u>-</u>                                  | <u>-</u>          |
| <b>DEFERRED REVENUE FOR SUCCEEDING YEAR<br/>PROPERTY TAX RECEIVABLE</b> | <u>1,280,000</u>                     | <u>1,140,000</u>    | <u>-</u>                                  | <u>-</u>          |
| <b>FUND EQUITY</b>  |                                      |                     |   |                   |
| Invested in capital assets, net of related debt                         | 8,564,573                            | 10,028,034          | -   | -                 |
| Restricted  | 792,210                              | 792,197             | 155,269                                   | 288,314           |
| Unrestricted  | <u>12,039,924</u>                    | <u>10,531,399</u>   | <u>184,680</u>                            | <u>162,476</u>    |
| Total fund equity   | <u>21,396,707</u>                    | <u>21,351,630</u>   | <u>339,949</u>                            | <u>450,790</u>    |
|   |                                      |                     |   |                   |
| Totals  | <u>\$51,937,715</u>                  | <u>\$53,464,842</u> | <u>\$ 339,949</u>                         | <u>\$ 450,790</u> |

**Crawford County Memorial Hospital**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY**  
Year ended June 30, 2012 and 2011

|   | <u>Crawford County<br/>Memorial Hospital</u> |                     | <u>Hospital Foundation<br/>of Crawford County</u> |                   |
|---|--|---------------------|---|-------------------|
|   | <u>2012</u>                                  | <u>2011</u>         | <u>2012</u>                                       | <u>2011</u>       |
| <b>NET PATIENT SERVICE REVENUE</b> , net of provision<br>for bad debts 2012 \$1,146,145; 2011 \$1,243,286 | \$22,265,217                                 | \$20,817,966        | \$ -  | \$ -              |
| <b>OTHER REVENUE</b>  | <u>1,543,755</u>                             | <u>273,014</u>      | <u>51,171</u>                                     | <u>396,807</u>    |
| Total revenue   | <u>23,808,972</u>                            | <u>21,090,980</u>   | <u>51,171</u>                                     | <u>396,807</u>    |
| <b>EXPENSES</b>   |  |                     |   |                   |
| Nursing service   | 4,510,545                                    | 4,393,775           | -   | -                 |
| Other professional service  | 9,120,252                                    | 9,029,640           | -   | -                 |
| General service   | 1,567,629                                    | 1,367,393           | -   | -                 |
| Fiscal and administrative service and unassigned<br>expenses  | 5,810,202                                    | 5,411,857           | 164,131   | 167,803           |
| Provision for depreciation  | <u>2,853,386</u>                             | <u>927,017</u>      | <u>-</u>  | <u>-</u>          |
| Total operating expenses  | <u>23,862,014</u>                            | <u>21,129,682</u>   | <u>164,131</u>                                    | <u>167,803</u>    |
| Operating income (loss)   | <u>(53,042)</u>                              | <u>(38,702)</u>     | <u>(112,960)</u>                                  | <u>229,004</u>    |
| <b>NONOPERATING GAINS (LOSSES)</b>  |  |                     |   |                   |
| County taxes  | 1,155,091                                    | 1,102,809           | -   | -                 |
| Investment income   | 99,320                                       | 110,318             | 2,119   | 14,625            |
| Unrestricted contributions  | 167,798                                      | -                   | -   | -                 |
| Interest and amortization expense   | (1,276,310)                                  | (5,380)             | -   | -                 |
| Loss on disposal of equipment   | <u>(47,780)</u>                              | <u>-</u>            | <u>-</u>  | <u>-</u>          |
| Total nonoperating gains (losses)   | <u>98,119</u>                                | <u>1,207,747</u>    | <u>2,119</u>                                      | <u>14,625</u>     |
| Change in fund equity   | 45,077                                       | 1,169,045           | (110,841)   | 243,629           |
| <b>TOTAL FUND EQUITY</b>  |  |                     |   |                   |
| Beginning   | <u>21,351,630</u>                            | <u>20,182,585</u>   | <u>450,790</u>                                    | <u>207,161</u>    |
| Ending  | <u>\$21,396,707</u>                          | <u>\$21,351,630</u> | <u>\$ 339,949</u>                                 | <u>\$ 450,790</u> |

See Notes to Financial Statements.

**Crawford County Memorial Hospital  
STATEMENTS OF CASH FLOWS  
Year ended June 30, 2012 and 2011**

|  | <u>Crawford County<br/>Memorial Hospital</u> |                     | <u>Hospital Foundation<br/>of Crawford County</u> |                   |
|--|--|---------------------|---|-------------------|
|  | <u>2012</u>                                  | <u>2011</u>         | <u>2012</u>                                       | <u>2011</u>       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |  |                     |   |                   |
| Cash received from patients and third-party payors   | \$20,556,915                                 | \$22,375,407        | \$ -  | \$ -              |
| Cash paid to suppliers for goods and services  | (9,404,006)                                  | (9,366,962)         | (164,131)   | (167,803)         |
| Cash paid to employees for services  | (11,844,111)                                 | (11,211,531)        | -   | -                 |
| Other operating revenue received   | <u>1,543,755</u>                             | <u>273,014</u>      | <u>176,122</u>                                    | <u>336,956</u>    |
| Net cash and cash equivalents provided by operating activities                               | <u>852,553</u>                               | <u>2,069,928</u>    | <u>11,991</u>                                     | <u>169,153</u>    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>                                       |  |                     |   |                   |
| County taxes   | 1,155,091                                    | 1,102,809           | -   | -                 |
| Contributions received   | <u>167,798</u>                               | <u>-</u>            | <u>-</u>  | <u>-</u>          |
| Net cash and cash equivalents provided by noncapital financing activities                    | <u>1,322,889</u>                             | <u>1,102,809</u>    | <u>-</u>  | <u>-</u>          |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                              |  |                     |   |                   |
| Proceeds from issuance of long-term debt   | 18,100,000                                   | -                   | -   | -                 |
| Principal payments on long-term debt   | (16,771,377)                                 | (269,857)           | -   | -                 |
| Interest paid on long-term debt  | (1,209,610)                                  | (1,119,859)         | -   | -                 |
| Acquisition of property and equipment  | <u>(5,551,763)</u>                           | <u>(12,947,597)</u> | <u>-</u>  | <u>-</u>          |
| Net cash and cash equivalents provided by (used in) capital and related financing activities | <u>(5,432,750)</u>                           | <u>(14,337,313)</u> | <u>-</u>  | <u>-</u>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |  |                     |   |                   |
| Interest received  | 120,394                                      | 105,169             | 2,970   | 298               |
| Purchase of mutual funds   | -  | -                   | (1,618)   | (82,272)          |
| Fund cash value of life insurance  | <u>-</u>                                     | <u>-</u>            | <u>(1,397)</u>                                    | <u>(229)</u>      |
| Net cash and cash equivalents provided by (used in) investing activities                     | <u>120,394</u>                               | <u>105,169</u>      | <u>(45)</u>                                       | <u>(82,203)</u>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                  |  |                     |   |                   |
|  | (3,136,914)                                  | (11,059,407)        | 11,946  | 86,950            |
| <b>CASH AND CASH EQUIVALENTS</b>   |  |                     |   |                   |
| Beginning  | <u>13,336,100</u>                            | <u>24,395,507</u>   | <u>140,906</u>                                    | <u>53,956</u>     |
| Ending   | <u>\$10,199,186</u>                          | <u>\$13,336,100</u> | <u>\$ 152,852</u>                                 | <u>\$ 140,906</u> |

See Notes to Financial Statements.

**Crawford County Memorial Hospital**  
**STATEMENTS OF CASH FLOWS (continued)**  
Year ended June 30, 2012 and 2011

|  | <b>Crawford County<br/>Memorial Hospital</b> |                     | <b>Hospital Foundation<br/>of Crawford County</b> |                   |
|--|--|---------------------|---|-------------------|
|  | <b>2012</b>                                  | <b>2011</b>         | <b>2012</b>                                       | <b>2011</b>       |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS)<br/>TO NET CASH AND CASH EQUIVALENTS PROVIDED<br/>BY OPERATING ACTIVITIES</b> |  |                     |   |                   |
| Operating income (loss)  | \$ (53,042)                                  | \$ (38,702)         | \$ (112,960)                                      | \$ 229,004        |
| Adjustments to reconcile operating income (loss)<br>to net cash and cash equivalents provided by<br>operating activities   |  |                     |   |                   |
| Depreciation   | 2,853,386                                    | 927,017             | -   | -                 |
| Changes in assets and liabilities  |  |                     |   |                   |
| (Increase) in patient receivables  | (568,302)                                    | 757,441)            | -   | -                 |
| (Increase) decrease in pledges receivable  | -  | -                   | 124,951   | (59,851)          |
| Decrease in other receivables  | 7,107  | 7,665               | -   | -                 |
| (Increase) decrease in net estimated third-party payor<br>settlements  | (1,140,000)                                  | 800,000             | -   | -                 |
| (Increase) in inventories  | (120,510)                                    | (36,621)            | -   | -                 |
| (Increase) decrease in prepaid expenses  | 104,427                                      | (123,657)           | -   | -                 |
| Increase (decrease) in accounts payable, trade   | 8,494  | (311,743)           | -   | -                 |
| Increase (decrease) in accrued employee compensation   | (323,325)                                    | 150,095             | -   | -                 |
| Increase (decrease) in payroll taxes and amounts<br>withheld from employees  | <u>84,318</u>                                | <u>(61,567)</u>     | <u>-</u>  | <u>-</u>          |
| Net cash and cash equivalents provided by<br>operating activities  | <u>\$ 852,553</u>                            | <u>\$2,069,928</u>  | <u>\$ 11,991</u>                                  | <u>\$ 169,153</u> |
| <b>RECONCILIATION OF CASH AND CASH EQUIVALENTS<br/>PER STATEMENT OF CASH FLOWS TO THE<br/>BALANCE SHEET</b>                |  |                     |   |                   |
| Per balance sheet  |  |                     |   |                   |
| Current assets, cash   | \$ 1,404,184                                 | \$1,736,943         | \$ 152,852  | \$ 140,906        |
| Assets whose use is limited  |  |                     |   |                   |
| Designated by board for plant replacement and<br>expansion, cash and cash equivalents                                      | 7,860,595                                    | 8,716,330           | -   | -                 |
| Restricted for payment of long-term debt and<br>interest, cash and cash equivalents  | <u>934,407</u>                               | <u>2,882,827</u>    | <u>-</u>  | <u>-</u>          |
| Total per statement of cash flows  | <u>\$10,199,186</u>                          | <u>\$13,336,100</u> | <u>\$ 152,852</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 12 - 16.

**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.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and all certificates of deposit.

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

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

**Investments and Investment Income**

The Foundation carries investments in marketable securities with readily determinable fair values and at their fair values in the balance sheets. 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 issues, 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.

**Investment Income**

The Hospital has nonnegotiable certificates of deposit recorded at cost. The nonnegotiable certificates of deposit are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors. Investment income is reported as nonoperating gains.

**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.

**Reclassifications**

Certain amounts have been reclassified in the 2011 financial statements in order to conform with the 2012 presentation, with no effect on the change in fund equity.

**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 21, 2012, the date which the financial statements were available to be issued. There were no subsequent events required to be accrued or disclosed.

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

**NOTE 2 CASH AND INVESTMENTS**

The Hospital's deposits in banks at June 30, 2012 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, 2012 and 2011, the Foundation's investments consisted of mutual funds of \$83,039 and \$82,272, respectively.

**NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The Foundation's investments are as follows:

|              | <b>June 30</b> |             |
|--------------|----------------|-------------|
|              | <b>2012</b>    | <b>2011</b> |
| Mutual funds | \$ 83,039      | \$ 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, 2012 and 2011.

**NOTE 4 PATIENT RECEIVABLES**

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

|   | <b>Year ended June 30</b> |             |
|---|---------------------------|-------------|
|   | <b>2012</b>               | <b>2011</b> |
| Medicare  | \$1,336,775               | \$ 945,279  |
| Medicaid  | 694,277                   | 276,751     |
| Commercial insurance                                      | 1,574,517                 | 1,416,453   |
| Patients  | 1,691,198                 | 1,769,982   |
| Total patient receivables                                 | 5,296,767                 | 4,408,465   |
| Less allowances for contractual adjustments and bad debts | (1,520,000)               | (1,200,000) |
| Net patient receivables                                   | \$3,776,767               | \$3,208,465 |

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

**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, 2012. Pledges receivable related to this campaign are \$79,502 as of June 30, 2012 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, 2012 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:

**Year ending June 30**

|       |                  |
|-------|------------------|
| 2013  | \$ 39,107        |
| 2014  | 25,246           |
| 2015  | <u>15,149</u>    |
| Total | <u>\$ 79,502</u> |

**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, 2012:

|   | <u>Project<br/>Funds</u> | <u>Interest<br/>Funds</u> | <u>Guarantee<br/>Fund</u> | <u>Sinking<br/>Fund</u> | <u>Reserve<br/>Fund</u> | <u>Total</u>       |
|---|--------------------------|---------------------------|---------------------------|-------------------------|-------------------------|--------------------|
| <b>BALANCE</b> , beginning of year        | \$1,780,158              | \$ 76,885                 | \$ 163,451                | \$ 70,136               | \$ 792,197              | \$2,882,827        |
| Proceeds from issuance of long-term debt  | 1,765,000                | -                         | -                         | -                       | -                       | 1,765,000          |
| Transfer from current assets, cash        | -                        | 858,019                   | -                         | 190,833                 | -                       | 1,048,852          |
| Fund transfers                            | (25)                     | 271,037                   | (107)                     | (260,990)               | (9,915)                 | -                  |
| Interest earned                           | 149                      | 68                        | 6                         | 21                      | 9,928                   | 10,172             |
| Payments for construction and other costs | (3,545,282)              | -                         | (163,350)                 | -                       | -                       | (3,708,632)        |
| Principal and interest payments           | <u>-</u>                 | <u>(1,063,812)</u>        | <u>-</u>                  | <u>-</u>                | <u>-</u>                | <u>(1,063,812)</u> |
| <b>BALANCE</b> , end of year              | <u>\$ -</u>              | <u>\$ 142,197</u>         | <u>\$ -</u>               | <u>\$ -</u>             | <u>\$ 792,210</u>       | <u>\$ 934,407</u>  |

**NOTE 7 PROPERTY AND EQUIPMENT**

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

|                         | <u>June 30, 2012</u> |                                     | <u>June 30, 2011</u> |                                     |
|-------------------------|----------------------|-------------------------------------|----------------------|-------------------------------------|
|                         | <u>Cost</u>          | <u>Accumulated<br/>depreciation</u> | <u>Cost</u>          | <u>Accumulated<br/>depreciation</u> |
| Land                    | \$ 419,900           | \$ -                                | \$ 419,900           | \$ -                                |
| Land improvements       | 3,374,962            | 580,224                             | 3,374,962            | 366,016                             |
| Buildings               | 11,131,674           | 3,561,704                           | 9,314,197            | 2,474,992                           |
| Fixed equipment         | 20,949,444           | 4,152,556                           | 20,434,151           | 2,955,399                           |
| Major movable equipment | <u>14,068,825</u>    | <u>7,518,736</u>                    | <u>12,477,706</u>    | <u>6,657,809</u>                    |
| Totals                  | <u>\$49,944,805</u>  | <u>\$15,813,220</u>                 | <u>\$47,386,282</u>  | <u>\$13,263,280</u>                 |

During the year ended June 30, 2011, the Hospital completed the construction of a replacement hospital and capitalized costs of approximately \$29 million.

**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, 2012 follows:

|                               | <u>Beginning<br/>balance</u> | <u>Additions</u>   | <u>Deletions</u> | <u>Ending<br/>balance</u> |
|-------------------------------|------------------------------|--------------------|------------------|---------------------------|
| Land                          | \$ 419,900                   | \$ —               | \$ —             | \$ 419,900                |
| Land improvements             | 3,374,962                    | —                  | —                | 3,374,962                 |
| Buildings                     | 10,679,563                   | 452,111            | —                | 11,131,674                |
| Fixed equipment               | 20,434,151                   | 547,583            | 32,290           | 20,949,444                |
| Major movable equipment       | <u>12,477,706</u>            | <u>1,955,477</u>   | <u>364,358</u>   | <u>14,068,825</u>         |
| Totals                        | 47,386,282                   | 2,955,171          | 396,648          | 49,944,805                |
| Less accumulated depreciation | <u>(13,263,280)</u>          | <u>(2,853,386)</u> | <u>(303,446)</u> | <u>(15,813,220)</u>       |
| Net property and equipment    | <u>\$34,123,002</u>          | <u>\$ 101,785</u>  | <u>\$ 93,202</u> | <u>\$34,131,585</u>       |

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

|                               | <u>Beginning<br/>balance</u> | <u>Additions</u>    | <u>Transfers</u>    | <u>Deletions</u> | <u>Ending<br/>balance</u> |
|-------------------------------|------------------------------|---------------------|---------------------|------------------|---------------------------|
| Land                          | \$ 419,900                   | \$ —                | \$ —                | \$ —             | \$ 419,900                |
| Land improvements             | 849,976                      | 13,159              | 2,511,827           | —                | 3,374,962                 |
| Buildings                     | 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>       |

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

|   | <u>Year ended June 30</u> |                    |
|---|---------------------------|--------------------|
|   | <u>2012</u>               | <u>2011</u>        |
| Construction period—interest and amortization expense | \$ —                      | \$1,159,479        |
| Less interest earned on proceeds                      | <u>—</u>                  | <u>(17,288)</u>    |
| Amount capitalized                                    | <u>\$ —</u>               | <u>\$1,142,191</u> |

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

**NOTE 8 LONG-TERM DEBT**

Long-term debt is summarized as follows:

|  | <b>Year ended June 30</b> |                     |
|--|---------------------------|---------------------|
|  | <b>2012</b>               | <b>2011</b>         |
| Hospital Revenue Refunding Bonds, Series 2009A         | \$ 9,550,000              | \$ 9,780,000        |
| Hospital Revenue Bonds, Series 2009B                   | 1,796,422                 | 50,000              |
| Hospital Revenue Bond Anticipation Notes, Series 2009C | -                         | 16,335,000          |
| Hospital Revenue Bonds, Series 2009D                   | 16,167,800                | -                   |
| Note payable, equipment                                | -                         | 20,599              |
|  | 27,514,222                | 26,185,599          |
| Less current maturities                                | 617,613                   | 250,599             |
| Long-term debt, net of current maturities              | <b>\$26,896,609</b>       | <b>\$25,935,000</b> |

**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 4% to 6.4%. At June 30, 2012, the remaining balance on these Bonds is \$9,550,000. 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, 2012.

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 has issued Hospital Revenue Bonds, Series 2009B in the original amount of \$1,815,000. The Bonds are payable solely from future revenues of the Hospital and require monthly payments of \$8,985, including interest at 3.91%, with the final payment due June, 2039. The interest rate is variable and the Bonds stipulate the rate will reset initially December, 2021 then every five years following. At those dates, the interest rate will be set using a defined interest rate index. At June 30, 2012, the remaining balance on these Bonds is \$1,796,422.

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 2009D**

The Hospital has issued Hospital Revenue Bonds, Series 2009D in the amount of \$16,335,000. The Bonds are payable solely from future revenues of the Hospital and require monthly payments of 80,865 including interest at 3.91%, with the final payment due June, 2039. The interest rate is variable and the Bonds stipulate the rate will reset initially December, 2021 then every five years following. At those dates, the interest rate will be set using a defined interest rate index. At June 30, 2012 the remaining balance on these Bonds is \$16,167,800.

The Bonds contain 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 2009D, 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, 2039. As of June 30, 2012 the remaining principal and interest on the Series Bonds was \$46,467,753. 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, 2012 and 2011:

|  | <b>Year ended June 30</b> |                        |
|--|---------------------------|------------------------|
|  | <b>2012</b>               | <b>2011</b>            |
| Change in fund equity                                  | \$ 45,077                 | \$1,169,045            |
| Provision for depreciation                             | 2,853,386                 | 927,017                |
| Interest expense on the Bonds                          | <u>1,220,192</u>          | <u>—</u>               |
| <br>Pledged net revenues                               | <br><u>\$4,118,655</u>    | <br><u>\$2,096,062</u> |
| <br>Principal and interest requirements                |                           |                        |
| Hospital Revenue Refunding Bonds, Series 2009A         | \$ 787,172                | \$ 787,665             |
| Hospital Revenue Bonds, Series 2009B                   | 79,630                    | 3,115                  |
| Hospital Revenue Bond Anticipation Notes, Series 2009D | <u>769,168</u>            | <u>546,814</u>         |
| <br>Totals   | <br><u>\$1,635,970</u>    | <br><u>\$1,337,594</u> |

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

| <b>Year ending<br/>June 30</b> | <b>Revenue Bonds</b>   |                        |                         | <b>Total<br/>principal</b> | <b>Interest</b>         | <b>Total</b>            |
|--------------------------------|------------------------|------------------------|-------------------------|----------------------------|-------------------------|-------------------------|
|                                | <b>Series 2009A</b>    | <b>Series 2009B</b>    | <b>Series 2009D</b>     |                            |                         |                         |
| 2013                           | \$ 235,000             | \$ 38,261              | \$ 344,352              | \$ 617,613                 | \$ 1,247,603            | \$ 1,865,216            |
| 2014                           | 245,000                | 39,785                 | 358,060                 | 642,845                    | 1,222,971               | 1,865,816               |
| 2015                           | 255,000                | 41,368                 | 372,314                 | 668,682                    | 1,196,599               | 1,865,281               |
| 2016                           | 270,000                | 43,015                 | 387,135                 | 700,150                    | 1,168,401               | 1,868,551               |
| 2017                           | 280,000                | 44,728                 | 402,546                 | 727,274                    | 1,138,317               | 1,865,591               |
| 2018-2022                      | 1,655,000              | 251,805                | 2,266,248               | 4,173,053                  | 5,167,942               | 9,340,995               |
| 2023-2027                      | 6,610,000              | 306,078                | 2,754,698               | 9,670,776                  | 4,068,355               | 13,739,131              |
| 2028-2032                      | —                      | 372,047                | 3,348,424               | 3,720,471                  | 2,657,859               | 6,378,330               |
| 2033-2037                      | —                      | 452,235                | 4,070,118               | 4,522,353                  | 1,000,077               | 5,522,430               |
| 2038-2039                      | —                      | <u>207,100</u>         | <u>1,863,905</u>        | <u>2,071,005</u>           | <u>85,407</u>           | <u>2,156,412</u>        |
| Totals                         | 9,550,000              | 1,796,422              | 16,167,800              | 27,514,222                 | 18,953,531              | 46,467,753              |
| Less current maturities        | <u>235,000</u>         | <u>38,261</u>          | <u>344,352</u>          | <u>617,613</u>             | <u>1,247,603</u>        | <u>1,865,216</u>        |
| <br>Total long-term debt       | <br><u>\$9,315,000</u> | <br><u>\$1,758,161</u> | <br><u>\$15,823,448</u> | <br><u>\$26,896,609</u>    | <br><u>\$17,705,928</u> | <br><u>\$44,602,537</u> |

A summary of changes in long-term debt for the year ended June 30, 2012 follows:

|  | <b>Beginning<br/>balance</b> | <b>Additions</b>        | <b>Principal<br/>payments</b> | <b>Ending<br/>balance</b> | <b>Amount<br/>due within<br/>one year</b> |
|--|------------------------------|-------------------------|-------------------------------|---------------------------|---|
| Hospital Revenue Refunding Bonds, Series 2009A         | \$ 9,780,000                 | \$ —                    | \$ 230,000                    | \$ 9,550,000              | \$ 235,000                                |
| Hospital Revenue Bonds, Series 2009B                   | 50,000                       | 1,765,000               | 18,578                        | 1,796,422                 | 38,261                                    |
| Hospital Revenue Bond Anticipation Notes, Series 2009C | 16,335,000                   | —                       | 16,335,000                    | —                         | —   |
| Hospital Revenue Bonds, Series 2009D                   | —                            | 16,335,000              | 167,200                       | 16,167,800                | 344,352                                   |
| Note payable, equipment                                | <u>20,599</u>                | <u>—</u>                | <u>20,599</u>                 | <u>—</u>                  | <u>—</u>                                  |
| <br>Totals   | <br><u>\$26,185,599</u>      | <br><u>\$18,100,000</u> | <br><u>\$16,771,377</u>       | <br><u>\$27,514,222</u>   | <br><u>\$ 617,613</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<br/>balance</u> | <u>Additions</u> | <u>Principal<br/>payments</u> | <u>Ending<br/>balance</u> | <u>Amount<br/>due within<br/>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>                         |

**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, 2010.

**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 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, 2012, regular plan members were required to contribute 5.38% of their annual salary and the Hospital was required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2012, 2011 and 2010 were \$900,074 \$745,843 and \$656,392, respectively, equal to the required contributions for each year.

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

**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, 2012 and 2011.

|   | <u>2012</u>       | <u>2011</u>       |
|---|-------------------|-------------------|
| Charges foregone, based on established rates                          | \$ <u>458,521</u> | \$ <u>414,121</u> |
| Equivalent percentage of charity care patients to all patients served | <u>1.3%</u>       | <u>1.2%</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, 2012 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.

For the year ended June 30, 2012, the following is a comparison of reported amounts to the County Hospital budget:

|                                 | <u>GAAP<br/>basis</u> | <u>Budget<br/>basis<br/>adjustments</u> | <u>Budget<br/>basis</u> | <u>County<br/>Hospital<br/>Budget</u> |
|---------------------------------|-----------------------|---|-------------------------|---------------------------------------|
| Amount to be raised by taxation | \$ 1,155,091          | \$ —                                    | \$ 1,155,091            | \$ 1,130,751                          |
| Other revenues/receipts         | <u>22,752,000</u>     | <u>19,376,310</u>                       | <u>42,128,310</u>       | <u>40,535,485</u>                     |
|                                 | 23,907,091            | 19,376,310                              | 43,283,401              | 41,666,236                            |
| Expenses/expenditures           | <u>23,862,014</u>     | <u>18,082,772</u>                       | <u>41,944,786</u>       | <u>42,394,167</u>                     |
| Net                             | 45,077                | 1,293,538                               | 1,338,615               | (727,931)                             |
| Balance, beginning              | <u>21,351,630</u>     | <u>(6,976,494)</u>                      | <u>14,375,136</u>       | <u>10,790,079</u>                     |
| Balance, ending                 | <u>\$21,396,707</u>   | <u>\$ (5,682,956)</u>                   | <u>\$15,713,751</u>     | <u>\$10,062,148</u>                   |

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

**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

We have audited the financial statements of Crawford County Memorial Hospital as of and for the periods ended June 30, 2012 and 2011, and our report thereon dated September 21, 2012, which appears on page 4, was qualified for the effects of the omission of Hospital Foundation of Crawford County. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the financial statements as a whole.

*Denman & Company, LLP*

**DENMAN & COMPANY, LLP**

West Des Moines, Iowa  
September 21, 2012

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

| <u>Age of accounts<br/>(by date of discharge)</u>                                | <u>Amounts</u>     |                    | <u>Percent to total</u> |                |
|--|--------------------|--------------------|-------------------------|----------------|
|  | <u>June 30</u>     |                    | <u>June 30</u>          |                |
|  | <u>2012</u>        | <u>2011</u>        | <u>2012</u>             | <u>2011</u>    |
| 0 - 30 days (includes patients in Hospital at end of year)                       | \$2,382,606        | \$1,861,126        | 44.98%                  | 42.22%         |
| 31 - 60 days   | 739,549            | 727,975            | 13.96                   | 16.51          |
| 61 - 90 days   | 375,131            | 358,677            | 7.08                    | 8.14           |
| 91 - 150 days  | 811,821            | 531,733            | 15.33                   | 12.06          |
| Over 150 days  | <u>987,660</u>     | <u>928,954</u>     | <u>18.65</u>            | <u>21.07</u>   |
| Totals   | <u>5,296,767</u>   | <u>4,408,465</u>   | <u>100.00%</u>          | <u>100.00%</u> |
| Allowances   |                    |                    |                         |                |
| Contractual  |                    |                    |                         |                |
| Medicare   | 720,000            | 480,000            |                         |                |
| Medicaid   | 160,000            | 60,000             |                         |                |
| Other  | 220,000            | 200,000            |                         |                |
| Bad debts  | <u>420,000</u>     | <u>460,000</u>     |                         |                |
| Total allowances   | <u>1,520,000</u>   | <u>1,200,000</u>   |                         |                |
| Totals   | <u>\$3,776,767</u> | <u>\$3,208,465</u> |                         |                |
| <b>NET PATIENT SERVICE REVENUE<br/>PER CALENDAR DAY</b>                          | <u>\$ 60,834</u>   | <u>\$ 57,036</u>   |                         |                |
| <b>NUMBER OF DAYS NET PATIENT SERVICE<br/>REVENUE IN NET PATIENT RECEIVABLES</b> | <u>62</u>          | <u>56</u>          |                         |                |

**ANALYSIS OF ALLOWANCE FOR BAD DEBTS**

|   | <u>Amounts</u>            |                   | <u>Percent of net patient<br/>service revenue</u> |             |
|---|---------------------------|-------------------|---|-------------|
|   | <u>Year ended June 30</u> |                   | <u>Year ended June 30</u>                         |             |
|   | <u>2012</u>               | <u>2011</u>       | <u>2012</u>                                       | <u>2011</u> |
| <b>BALANCE</b> , beginning                    | \$ 460,000                | \$ 420,000        |   |             |
| <b>ADD</b>                                    |                           |                   |   |             |
| Provision for bad debts                       | 1,146,145                 | 1,243,286         | 5.13%   | 5.97%       |
| Recoveries of accounts previously written off | <u>374,536</u>            | <u>334,004</u>    | 1.68  | 1.60        |
|   | 1,980,681                 | 1,997,290         |   |             |
| <b>DEDUCT</b>                                 |                           |                   |   |             |
| Accounts written off                          | <u>1,560,681</u>          | <u>1,537,290</u>  | 6.99  | 7.38        |
| <b>BALANCE</b> , ending                       | <u>\$ 420,000</u>         | <u>\$ 460,000</u> |   |             |

**Crawford County Memorial Hospital**  
**PATIENT SERVICE REVENUE**  
Year ended June 30, 2012, with comparative totals for 2011

|   | <u>2012</u>        |                     |                     | <u>2011</u>         |
|---|--------------------|---------------------|---------------------|---------------------|
|   | <u>Inpatient</u>   | <u>Outpatient</u>   | <u>Total</u>        | <u>Total</u>        |
| <b>DAILY PATIENT SERVICES</b>                             |                    |                     |                     |                     |
| Medical, surgical and obstetrical                         | \$1,511,778        | \$ -                | \$ 1,511,778        | \$ 1,611,577        |
| Swing bed   | 307,839            | -                   | 307,839             | 270,777             |
| Nursery   | 122,366            | -                   | 122,366             | 112,740             |
|   | <u>1,941,983</u>   | <u>-</u>            | <u>1,941,983</u>    | <u>1,995,094</u>    |
| <b>OTHER NURSING SERVICES</b>                             |                    |                     |                     |                     |
| Operating room  | 401,013            | 3,178,855           | 3,579,868           | 3,627,503           |
| Recovery room   | 67,408             | 612,181             | 679,589             | 595,278             |
| Delivery room   | 194,704            | -                   | 194,704             | 171,859             |
| Emergency service   | 85,015             | 2,950,846           | 3,035,861           | 3,170,968           |
| Observation room  | -                  | 302,309             | 302,309             | 201,697             |
| Same day surgery  | -                  | 438,145             | 438,145             | 238,227             |
|   | <u>748,140</u>     | <u>7,482,336</u>    | <u>8,230,476</u>    | <u>8,005,532</u>    |
| <b>OTHER PROFESSIONAL SERVICES</b>                        |                    |                     |                     |                     |
| Laboratory  | 522,815            | 4,436,793           | 4,959,608           | 4,809,601           |
| Electrocardiology   | 18,276             | 274,315             | 292,591             | 316,453             |
| Radiology   | 78,288             | 1,952,692           | 2,030,980           | 1,932,752           |
| CT scans  | 101,319            | 1,661,962           | 1,763,281           | 2,376,154           |
| MRI   | 68,146             | 1,652,505           | 1,720,651           | 1,493,548           |
| Ultrasound  | 77,848             | 1,254,551           | 1,332,399           | 1,373,412           |
| Pharmacy  | 518,455            | 2,063,383           | 2,581,838           | 2,345,342           |
| Oncology  | 2,079              | 110,074             | 112,153             | 63,675              |
| Anesthesiology  | 137,515            | 472,176             | 609,691             | 606,817             |
| Respiratory therapy                                       | 241,369            | 371,501             | 612,870             | 773,112             |
| Cardiac rehabilitation                                    | -                  | 145,339             | 145,339             | 130,506             |
| Ambulance   | 84,569             | 921,247             | 1,005,816           | 1,143,601           |
| Physical therapy  | 152,440            | 1,286,387           | 1,438,827           | 1,340,232           |
| Occupational therapy                                      | 34,853             | 112,991             | 147,844             | 158,172             |
| Speech therapy  | 25,332             | 70,395              | 95,727              | 31,201              |
| Clinics   | -                  | 5,435,971           | 5,435,971           | 5,456,858           |
|   | <u>2,063,304</u>   | <u>22,222,282</u>   | <u>24,285,586</u>   | <u>24,351,436</u>   |
| Totals  | <u>\$4,753,427</u> | <u>\$29,704,618</u> | 34,458,045          | 34,352,062          |
| Charity care charges foregone, based on established rates |                    |                     | (458,521)           | (414,121)           |
| Total gross patient service revenue                       |                    |                     | 33,999,524          | 33,937,941          |
| Provisions for contractual adjustments and bad debts      |                    |                     | (11,734,307)        | (13,119,975)        |
| Total net patient service revenue                         |                    |                     | <u>\$22,265,217</u> | <u>\$20,817,966</u> |

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

|                         | <u>Year ended June 30</u> |                         |
|-------------------------|---------------------------|-------------------------|
|                         | <u>2012</u>               | <u>2011</u>             |
| Contractual adjustments |                           |                         |
| Medicare                | \$ 4,954,408              | \$ 6,216,081            |
| Medicaid                | 1,400,964                 | 1,414,725               |
| Other adjustments       | 4,232,790                 | 4,245,883               |
| Provision for bad debts | <u>1,146,145</u>          | <u>1,243,286</u>        |
| <br>Totals              | <br><u>\$11,734,307</u>   | <br><u>\$13,119,975</u> |

**OTHER REVENUE**

|  | <u>Year ended June 30</u> |                       |
|--|---------------------------|-----------------------|
|  | <u>2012</u>               | <u>2011</u>           |
| Electronic health records meaningful use incentive revenue | \$1,230,412               | \$ —                  |
| Cafeteria  | 69,590                    | 45,167                |
| Rental income  | 62,077                    | 51,075                |
| Sale of supplies and drugs                                 | 3,810                     | 4,948                 |
| Wellness   | 51,852                    | 58,848                |
| Lifeline   | 40,635                    | 33,756                |
| Miscellaneous  | <u>85,379</u>             | <u>79,220</u>         |
| <br>Totals   | <br><u>\$1,543,755</u>    | <br><u>\$ 273,014</u> |

**Crawford County Memorial Hospital**  
**EXPENSES**  
Year ended June 30, 2012, with comparative totals for 2011

|                                   | <u>2012</u>      |                  |                  | <u>2011</u>      |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | <u>Salaries</u>  | <u>Other</u>     | <u>Total</u>     | <u>Total</u>     |
| <b>NURSING SERVICE</b>            |                  |                  |                  |                  |
| Nursing administration            | \$ 227,288       | \$ 7,381         | \$ 234,669       | \$ 273,889       |
| Medical and surgical              | 1,007,500        | 93,974           | 1,101,474        | 1,166,665        |
| Obstetrical                       | 230,981          | 21,317           | 252,298          | 237,733          |
| Nursery                           | 60,830           | 4,155            | 64,985           | 75,149           |
| Operating room                    | 436,928          | 554,676          | 991,604          | 958,744          |
| Recovery room                     | 27,162           | -                | 27,162           | 17,995           |
| Delivery room                     | 46,373           | 6,762            | 53,135           | 56,681           |
| Emergency and outpatient service  | 576,645          | 1,208,573        | 1,785,218        | 1,606,919        |
| Total nursing service             | <u>2,613,707</u> | <u>1,896,838</u> | <u>4,510,545</u> | <u>4,393,775</u> |
| <b>OTHER PROFESSIONAL SERVICE</b> |                  |                  |                  |                  |
| Laboratory                        | 324,921          | 500,457          | 825,378          | 817,354          |
| Electrocardiology                 | 59,964           | 4,768            | 64,732           | 66,270           |
| Radiology                         | 324,524          | 202,605          | 527,129          | 481,157          |
| CT scans                          | 22,284           | 112,611          | 134,895          | 161,136          |
| MRI                               | -                | 170,819          | 170,819          | 208,083          |
| Ultrasound                        | 144,971          | 29,286           | 174,257          | 167,216          |
| Pharmacy                          | 204,707          | 519,508          | 724,215          | 738,087          |
| Oncology                          | 18,053           | 101,461          | 119,514          | 33,692           |
| Anesthesiology                    | 444,903          | 14,278           | 459,181          | 473,095          |
| Respiratory therapy               | 105,123          | 87,738           | 192,861          | 213,020          |
| Cardiac rehabilitation            | 53,467           | 2,299            | 55,766           | 52,119           |
| Ambulance                         | 410,683          | 72,339           | 483,022          | 486,707          |
| Physical therapy                  | 432,145          | 18,968           | 451,113          | 449,998          |
| Occupational therapy              | 33,954           | 95               | 34,049           | 37,701           |
| Speech therapy                    | -                | 46,782           | 46,782           | 20,416           |
| Clinics                           | 3,448,978        | 609,404          | 4,058,382        | 4,031,179        |
| Health information management     | 330,577          | 55,429           | 386,006          | 463,758          |
| Quality assurance                 | 121,555          | 8,486            | 130,041          | 48,533           |
| Utilization review                | 80,649           | 1,461            | 82,110           | 80,119           |
| Total other professional service  | <u>6,561,458</u> | <u>2,558,794</u> | <u>9,120,252</u> | <u>9,029,640</u> |
| <b>GENERAL SERVICE</b>            |                  |                  |                  |                  |
| Dietary                           | 349,426          | 165,762          | 515,188          | 488,738          |
| Plant engineering                 | 312,707          | 435,316          | 748,023          | 599,184          |
| Housekeeping                      | 180,882          | 43,961           | 224,843          | 218,177          |
| Laundry                           | 18,236           | 61,339           | 79,575           | 61,294           |
| Total general service             | <u>861,251</u>   | <u>706,378</u>   | <u>1,567,629</u> | <u>1,367,393</u> |

**Crawford County Memorial Hospital**  
**EXPENSES (continued)**  
Year ended June 30, 2012, with comparative totals for 2011

|  | <u>2012</u>         |                     |                     | <u>2011</u>         |
|--|---------------------|---------------------|---------------------|---------------------|
|  | <u>Salaries</u>     | <u>Other</u>        | <u>Total</u>        | <u>Total</u>        |
| <b>FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES</b> |                     |                     |                     |                     |
| Fiscal and administrative service                                | \$ 1,484,370        | \$ 1,138,416        | \$ 2,622,786        | \$ 2,585,791        |
| FICA   | -                   | 761,681             | 761,681             | 713,350             |
| IPERS  | -                   | 900,074             | 900,074             | 745,843             |
| Group health and life insurance                                  | -                   | 1,114,955           | 1,114,955           | 979,585             |
| Insurance  | -                   | 410,706             | 410,706             | 387,288             |
| Total fiscal and administrative service and unassigned expenses  | <u>1,484,370</u>    | <u>4,325,832</u>    | <u>5,810,202</u>    | <u>5,411,857</u>    |
| <b>PROVISION FOR DEPRECIATION</b>                                | <u>-</u>            | <u>2,853,386</u>    | <u>2,853,386</u>    | <u>927,017</u>      |
| Total expenses   | <u>\$11,520,786</u> | <u>\$12,341,228</u> | <u>\$23,862,014</u> | <u>\$21,129,682</u> |

**Crawford County Memorial Hospital  
STATISTICS**

|                                   | <b>Year ended June 30</b> |                    |
|-----------------------------------|---------------------------|--------------------|
|                                   | <b><u>2012</u></b>        | <b><u>2011</u></b> |
| <b>PATIENT DAYS</b>               |                           |                    |
| Medical, surgical and obstetrical | 1,452                     | 1,645              |
| Swing bed                         |                           |                    |
| Skilled care                      | 668                       | 578                |
| Intermediate care                 | 38                        | 23                 |
| Nursery                           | <u>273</u>                | <u>266</u>         |
| Totals                            | <u>2,431</u>              | <u>2,512</u>       |
| <b>DISCHARGES</b>                 |                           |                    |
| Medical, surgical and obstetrical | 554                       | 647                |
| Swing bed                         |                           |                    |
| Skilled care                      | 105                       | 94                 |
| Intermediate care                 | 13                        | 10                 |
| Nursery                           | <u>126</u>                | <u>119</u>         |
| Totals                            | <u>798</u>                | <u>870</u>         |
| <b>AVERAGE LENGTH OF STAY</b>     |                           |                    |
| Medical, surgical and obstetrical | 2.62                      | 2.54               |
| Swing bed                         |                           |                    |
| Skilled care                      | 6.36                      | 6.15               |
| Intermediate care                 | 2.92                      | 2.30               |
| Nursery                           | 2.17                      | 2.24               |

**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, 2012, and have issued our report thereon dated September 21, 2012. 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*.

Comments involving statutory and other legal matters about the Hospital's and Foundation's operations for the year ended June 30, 2012 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 21, 2012

**Crawford County Memorial Hospital  
SCHEDULE OF FINDINGS  
Year ended June 30, 2012**

**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, 2012**

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

**12-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, 2012.

**12-II-B QUESTIONABLE EXPENDITURES**

No questionable expenditures of Hospital funds were noted.

**12-II-C TRAVEL EXPENSES**

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

**12-II-D BUSINESS TRANSACTIONS**

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

**12-II-E BOARD MINUTES**

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

**12-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.