

**Crawford County Memorial Hospital
Denison, Iowa**

FINANCIAL REPORT

June 30, 2013

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**Crawford County Memorial Hospital
OFFICIALS
June 30, 2013**

BOARD OF TRUSTEES

Expiration of term

Officers

Larry Struck, President

December 31, 2016

Thomas Eller, Vice President/Secretary

December 31, 2014

Carol Swanson, Treasurer

December 31, 2014

Members

LaVerne Ambrose

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December 31, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Crawford County Memorial Hospital
Denison, Iowa

We have audited the accompanying financial statements of Crawford County Memorial Hospital, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Crawford County Memorial Hospital, as of June 30, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of law, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 20, 2013

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, 2013 and 2012. 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 net position. 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 \$203,248 to \$51,734,467
- Total assets whose use is limited increased by \$356,005 to \$8,883,680
- Total property and equipment decreased by \$2,273,272 to \$31,858,313
- Total net position decreased by \$189,094 to \$21,207,613
- Total long-term debt, including current maturities, decreased by \$617,613 to \$26,896,609
- Net patient service revenue increased by \$2,137,651, or 10%, to \$24,402,868
- Operating expenses increased by \$1,597,129, or 7%, to \$25,459,143

Financial Analysis of the Hospital

The balance sheet and the statement of revenues, expenses, and changes in net position report the net position of the Hospital and the changes in them. The Hospital's net position, 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 net position are one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

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

Table 1
Condensed Balance Sheets

	June 30		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current assets	\$ 8,532,474	\$ 6,843,455	\$ 8,459,850
Assets whose use is limited	8,883,680	8,527,675	8,691,990
Property and equipment	31,858,313	34,131,585	34,123,002
Other assets	<u>2,460,000</u>	<u>2,435,000</u>	<u>2,190,000</u>
Total assets	<u>\$51,734,467</u>	<u>\$51,937,715</u>	<u>\$53,464,842</u>
Current liabilities	\$ 2,913,090	\$ 2,364,399	\$ 5,038,212
Long-term debt, less current maturities	26,253,764	26,896,609	25,935,000
Other noncurrent liabilities	<u>1,360,000</u>	<u>1,280,000</u>	<u>1,140,000</u>
Total liabilities	<u>\$30,526,854</u>	<u>\$30,541,008</u>	<u>\$32,113,212</u>
Net investment in capital assets	\$ 6,855,500	\$ 8,564,573	\$11,723,209
Restricted	74,804	142,197	147,021
Unrestricted	<u>14,277,309</u>	<u>12,689,937</u>	<u>9,481,400</u>
Total net position	<u>\$21,207,613</u>	<u>\$21,396,707</u>	<u>\$21,351,630</u>

As depicted in Table 1, total assets decreased slightly in fiscal year 2013 to \$51,734,467.

A summary of the Hospital's historical statements of revenues, expenses, and changes in net position is presented in Table 2.

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Year ended June 30		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net patient service revenue	\$24,402,868	\$22,265,217	\$20,817,966
Other revenue	<u>674,943</u>	<u>1,543,755</u>	<u>273,014</u>
Total revenue	<u>25,077,811</u>	<u>23,808,972</u>	<u>21,090,980</u>
Salaries	11,899,684	11,520,786	11,361,626
Supplies and expenses	10,540,115	9,487,842	8,841,039
Provision for depreciation	<u>3,019,344</u>	<u>2,853,386</u>	<u>927,017</u>
Total operating expenses	<u>25,459,143</u>	<u>23,862,014</u>	<u>21,129,682</u>
Operating (loss)	<u>(381,332)</u>	<u>(53,042)</u>	<u>(38,702)</u>
County taxes	1,285,848	1,155,091	1,102,809
Investment income	53,643	99,320	110,318
Unrestricted contributions	1,000	39,682	-
Transfer from related Foundation	152,276	128,116	-
Interest and amortization expense	(1,300,529)	(1,276,310)	(5,380)
Loss on disposal of equipment	<u>-</u>	<u>(47,780)</u>	<u>-</u>
Total nonoperating gains (losses)	<u>192,238</u>	<u>98,119</u>	<u>1,207,747</u>
Change in net position	(189,094)	45,077	1,169,045
Total net position, beginning	<u>21,396,707</u>	<u>21,351,630</u>	<u>20,182,585</u>
Total net position, ending	<u>\$21,207,613</u>	<u>\$21,396,707</u>	<u>\$21,351,630</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, 2013 and 2012. 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 2012 and 2011 fiscal years, the Hospital was focused on the financing and construction of a new replacement facility. While the financial 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 2013 Actions

For the fiscal year ending June 30, 2013, significant results were achieved to increase future revenues and further control expense for future years. In addition, the following operational initiatives were completed in fiscal year 2013.

- Physician recruitment received major emphasis.
 - During November, an Obstetrics and Gynecology specialist was added to our clinic staff.
 - During May, an orthopedic surgeon was added to our clinic staff.
 - During May, we integrated an established local family medicine practice and clinic facility into the clinic operations.
 - During June, employment agreement was negotiated to add a general surgeon to begin in August, 2013.
 - Completed a community analysis of physician service demand to create a Board approved Medical Staff Development Plan to meet community health demands.

- Beginning in January, 2013 a new employee health plan was introduced which redirected use of services to the Hospital. The savings in health plan expense is estimated to be \$400,000 annually.
- During January, employee pay increases were transitioned from a fixed increase system to a merit based system.
- Purchased equity in a group purchasing program which enabled capital equipment savings exceeding \$250,000 for the fiscal year, to purchase orthopedic equipment, and is anticipated to provide ongoing savings of 8-12% of supply expense for future years.
- Implemented a new cultural alignment program, PRIDE, to further assure consistent delivery of high quality care.
- Continued to hold the old facility in a mothball status and market to potential occupants.
- As to revenue capacity increase, initiated transition from revenue cycle review on a three year rolling basis to computerized revenue cycle platform to enable continuous updates to assure compliance with coding and revenue receipt in a more timely manner. In addition, increased charges an average of six percent.

Operating and Financial Performance (continued)

Fiscal Year 2014 Plans

In addition to continuing the implementation efforts initiated in fiscal year 2013 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, expansion is being developed to increase the clinic space available for the provision of specialist care by employed OB/GYN, Orthopedic and General Surgery providers. In addition, work will continue to transition the acquired City Center clinic to a provider based rural health clinic.
- **New Service Evaluation:** Discussion has been initiated to review the potential of expanded services in dialysis, laboratory, and health coach programs.
- **Local Provider Expansion:** It is expected that the Hospital will continue provider expansion in primary care to include the addition of allied health and physician staff to the primary care services offered by the Hospital.
- **Electronic Medical Records:** It is anticipated the Hospital will continue to work towards Stage 2 of meaningful use status, as defined by federal directives. In addition, it is anticipated full implementation of a clinic based electronic medical record will be completed.
- **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 financial viability, service provision and quality for local consumers of care. In addition, the Hospital will implement a certified application counselor program to assist local resident access to applicable federal benefit programs who are currently without health insurance plan benefits.

While the future is difficult to accurately predict, the targeted efforts initiated in fiscal year 2013 are intended to position the Hospital to create a successful future. The key program initiatives include local provider expansion, marketing to include internal emphasis on superior customer service, and continuation of service growth initiatives with expected market share increase of 5% for the fiscal year ending 2014.

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. The following changes may lead to adverse impact in future years.

- 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.

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.

Operating and Financial Performance (continued)

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 2013 were 572 compared to 554 in fiscal year 2012. Average length of stay decreased slightly as medical, surgical and obstetrical patient days increased to 1,463 from 1,452 in 2012. Swing bed, skilled care discharges for fiscal year 2013 were 94 compared to 105 in fiscal year 2012. Average length of stay increased as swing bed, skilled care patient days increased to 708 from 668 in 2012. Volume on the outpatient side indicated positive growth in 2013. In 2013, gross outpatient charges increased to \$31,624,834 compared to \$29,704,618 in 2012. Operating room, emergency service, laboratory and CT scans reflected the most significant growth in 2013.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2013. Overall, gross patient service revenue increased to \$36,272,184 from \$33,999,524 in 2012.

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 \$11,869,316 in 2013 compared to \$11,734,307 in 2012, representing 33% and 35% of gross patient charges for each of the years ended June 30, 2013 and 2012, 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

	<u>Year ended June 30</u>		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Medicare	42%	42%	42%
Medicaid	11	11	11
Commercial insurance	41	41	42
Patients	<u>6</u>	<u>6</u>	<u>5</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue decreased to \$674,943 in 2013 compared to \$1,543,755 in 2012, primarily due to a significant decrease in electronic health records meaningful use incentive revenue.

Expenses

Approximately 50% of Hospital's expenses are for salaries. Total salaries increased by 3% to \$11,899,684 in 2013 from \$11,520,786 in 2012. The most significant increase related to emergency and outpatient service and fiscal and administrative service.

Approximately 40% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 7% to \$10,540,115 in 2013 from \$9,487,842 in 2012. The most significant increases related to operating room, pharmacy and clinics.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$3,019,344 in 2013 from \$2,853,386 in 2012.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$192,238 from \$98,119 in 2012, primarily due to an increase in county taxes.

Property and Equipment

At the end of 2013, the Hospital had \$31,858,313 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 2013, \$746,072 was spent to acquire property and equipment.

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

Table 4
Property and Equipment

	June 30		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Land	\$ 449,900	\$ 419,900	\$ 419,900
Land improvements	3,374,962	3,374,962	3,374,962
Buildings	11,389,174	11,131,674	10,679,563
Fixed equipment	21,094,603	20,949,444	20,434,151
Major movable equipment	<u>14,382,238</u>	<u>14,068,825</u>	<u>12,477,706</u>
Subtotal	50,690,877	49,944,805	47,386,282
Less accumulated depreciation	<u>18,832,564</u>	<u>15,813,220</u>	<u>13,263,280</u>
Property and equipment	<u>\$31,858,313</u>	<u>\$34,131,585</u>	<u>\$34,123,002</u>

Debt Administration

At year end, the Hospital had \$26,896,609 in current and long-term debt related to Hospital Revenue Bonds, a decrease of \$617,613 from 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 85% of the Hospital's total liabilities as of year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on the budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the notes to financial statements. A comparison of the Hospital's fiscal year 2013 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

Table 5
Actual vs Budget

	<u>Actual budget basis</u>	<u>Annual County Hospital budget</u>	<u>Variance</u>
Amount to be raised by taxation	\$ 1,285,848	\$ 1,263,900	\$ 21,948
Other revenues/receipts	<u>25,284,730</u>	<u>24,453,706</u>	<u>831,024</u>
	26,570,578	25,717,606	852,972
Expenses/expenditures	<u>24,983,206</u>	<u>25,220,515</u>	<u>(237,309)</u>
Net	<u>\$ 1,587,372</u>	<u>\$ 497,091</u>	<u>\$1,090,281</u>

Actual other revenues/receipts results were lower than County Hospital budget primarily due to increased net patient service revenue. Expenses/expenditures were lower than County Hospital budget primarily due to decreased capital expenditures.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2014 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**

ASSETS	June 30	
	2013	2012
CURRENT ASSETS		
Cash	\$ 2,590,852	\$ 1,404,184
Assets whose use is limited-required for current liabilities	-	281,100
Patient receivables, less allowances for contractual adjustments and bad debts	4,498,332	3,776,767
Other receivables	14,723	16,990
Estimated third-party payor settlements	700,000	800,000
Inventories	437,787	357,599
Prepaid expenses	290,780	206,815
Total current assets	<u>8,532,474</u>	<u>6,843,455</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash and cash equivalents	8,006,344	7,860,595
Interest receivable	8,736	13,773
	<u>8,015,080</u>	<u>7,874,368</u>
Restricted for payment of long-term debt and interest		
Cash and cash equivalents	868,600	934,407
Total assets whose use is limited	<u>8,883,680</u>	<u>8,808,775</u>
Less assets whose use is limited and that are required for current liabilities	-	281,100
Noncurrent assets whose use is limited	<u>8,883,680</u>	<u>8,527,675</u>
PROPERTY AND EQUIPMENT		
Less accumulated depreciation	50,690,877	49,944,805
Total property and equipment	<u>18,832,564</u>	<u>15,813,220</u>
	<u>31,858,313</u>	<u>34,131,585</u>
OTHER ASSETS		
Unamortized financing costs	1,100,000	1,155,000
Succeeding year property tax receivable	1,360,000	1,280,000
Total other assets	<u>2,460,000</u>	<u>2,435,000</u>
Totals	<u>\$51,734,467</u>	<u>\$51,937,715</u>

Crawford County Memorial Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Year ended June 30	
	2013	2012
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2013 \$1,165,156; 2012 \$1,146,145	\$24,402,868	\$22,265,217
OTHER REVENUE	<u>674,943</u>	<u>1,543,755</u>
Total revenue	<u>25,077,811</u>	<u>23,808,972</u>
EXPENSES		
Nursing service	5,457,076	4,510,545
Other professional service	9,279,829	9,120,252
General service	1,447,564	1,567,629
Fiscal and administrative service and unassigned expenses	6,255,330	5,810,202
Provision for depreciation	<u>3,019,344</u>	<u>2,853,386</u>
Total operating expenses	<u>25,459,143</u>	<u>23,862,014</u>
Operating (loss)	<u>(381,332)</u>	<u>(53,042)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,285,848	1,155,091
Investment income	53,643	99,320
Unrestricted contributions	1,000	39,682
Transfer from related foundation	152,276	128,116
Interest and amortization expense	(1,300,529)	(1,276,310)
Loss on disposal of equipment	<u>—</u>	<u>(47,780)</u>
Total nonoperating gains (losses)	<u>192,238</u>	<u>98,119</u>
Change in net position	<u>(189,094)</u>	<u>45,077</u>
TOTAL NET POSITION		
Beginning	<u>21,396,707</u>	<u>21,351,630</u>
Ending	<u>\$21,207,613</u>	<u>\$21,396,707</u>

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

	Year ended June 30	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$23,781,303	\$20,556,915
Cash paid to suppliers for goods and services	(10,207,113)	(9,404,006)
Cash paid to employees for services	(11,869,013)	(11,844,111)
Other operating revenue received	<u>674,943</u>	<u>1,543,755</u>
Net cash and cash equivalents provided by operating activities	<u>2,380,120</u>	<u>852,553</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes	1,285,848	1,155,091
Contributions received	1,000	39,682
Transfer from related foundation	<u>152,276</u>	<u>128,116</u>
Net cash and cash equivalents provided by noncapital financing activities	<u>1,439,124</u>	<u>1,322,889</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from issuance of long-term debt	-	18,100,000
Principal payments on long-term debt	(617,613)	(16,771,377)
Interest paid on long-term debt	(1,247,629)	(1,209,610)
Acquisition of property and equipment	<u>(746,072)</u>	<u>(5,551,763)</u>
Net cash and cash equivalents (used in) capital and related financing activities	<u>(2,611,314)</u>	<u>(5,432,750)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	<u>58,680</u>	<u>120,394</u>
Net cash and cash equivalents provided by investing activities	<u>58,680</u>	<u>120,394</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,266,610	(3,136,914)
CASH AND CASH EQUIVALENTS		
Beginning	<u>10,199,186</u>	<u>13,336,100</u>
Ending	<u>\$11,465,796</u>	<u>\$10,199,186</u>

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

	Year ended June 30	
	2013	2012
RECONCILIATION OF OPERATING (LOSS) TO NET CASH AND CASH EQUIVALENTS PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (381,332)	\$ (53,042)
Adjustments to reconcile operating (loss) to net cash and cash equivalents provided by operating activities		
Depreciation	3,019,344	2,853,386
Changes in assets and liabilities		
(Increase) in patient receivables	(721,565)	(568,302)
Decrease in other receivables	2,267	7,107
(Increase) decrease in net estimated third-party payor settlements	100,000	(1,140,000)
(Increase) in inventories	(80,188)	(120,510)
(Increase) decrease in prepaid expenses	(83,965)	104,427
Increase in accounts payable	478,022	8,494
Increase (decrease) in accrued employee compensation	30,671	(323,325)
Increase in payroll taxes and amounts withheld from employees	16,866	84,318
Net cash and cash equivalents provided by operating activities	\$ 2,380,120	\$ 852,553
 RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 2,590,852	\$ 1,404,184
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash and cash equivalents	8,006,344	7,860,595
Restricted for payment of long-term debt and interest, cash and cash equivalents	868,600	934,407
Total per statement of cash flows	\$11,465,796	\$10,199,186

See Notes to Financial Statements.

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

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.

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.

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.

Net Position

Net position is presented in the following three components:

Net investment in capital assets

Net investment in capital assets 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 net position 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 net position 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 Net Position

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 2012 financial statements in order to conform with the 2013 presentation, with no effect on the change in net position.

NOTE 2 CASH AND CASH EQUIVALENTS

The Hospital's deposits in banks at June 30, 2013 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.

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Medicare	\$1,792,832	\$1,336,775
Medicaid	404,085	694,277
Commercial insurance	2,045,332	1,574,517
Patients	<u>1,976,083</u>	<u>1,691,198</u>
Total patient receivables	6,218,332	5,296,767
Less allowances for contractual adjustments and bad debts	<u>(1,720,000)</u>	<u>(1,520,000)</u>
Net patient receivables	<u>\$4,498,332</u>	<u>\$3,776,767</u>

NOTE 4 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited restricted for payment of long-term debt and interest are as follows for the year ended June 30, 2013:

	<u>Interest Funds</u>	<u>Reserve Fund</u>	<u>Total</u>
Balance, beginning of year	\$ 142,197	\$ 792,210	\$ 934,407
Transfer from current assets, cash	1,689,939	-	1,689,939
Interest earned	63	1,586	1,649
Principal and interest payments	<u>(1,757,395)</u>	<u>-</u>	<u>(1,757,395)</u>
Balance, end of year	<u>\$ 74,804</u>	<u>\$ 793,796</u>	<u>\$ 868,600</u>

NOTE 5 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2013</u>		<u>June 30, 2012</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 449,900	\$ -	\$ 419,900	\$ -
Land improvements	3,374,962	794,433	3,374,962	580,224
Buildings	11,389,174	3,852,212	11,131,674	3,561,704
Fixed equipment	21,094,603	5,375,252	20,949,444	4,152,556
Major movable equipment	<u>14,382,238</u>	<u>8,810,667</u>	<u>14,068,825</u>	<u>7,518,736</u>
Totals	<u>\$50,690,877</u>	<u>\$18,832,564</u>	<u>\$49,944,805</u>	<u>\$15,813,220</u>

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

NOTE 5 PROPERTY AND EQUIPMENT (continued)

A summary of changes in property and equipment for the year ended June 30, 2013 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 419,900	\$ 30,000	\$ -	\$ 449,900
Land improvements	3,374,962	-	-	3,374,962
Buildings	11,131,674	257,500	-	11,389,174
Fixed equipment	20,949,444	145,159	-	21,094,603
Major movable equipment	<u>14,068,825</u>	<u>313,413</u>	-	<u>14,382,238</u>
Totals	49,944,805	746,072	-	50,690,877
Less accumulated depreciation	<u>(15,813,220)</u>	<u>(3,019,344)</u>	-	<u>(18,832,564)</u>
Net property and equipment	<u>\$34,131,585</u>	<u>\$(2,273,272)</u>	<u>\$ -</u>	<u>\$31,858,313</u>

A summary of changes in property and equipment for the year ended June 30, 2012 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending 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>

NOTE 6 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,315,000	\$ 9,550,000
Hospital Revenue Bonds, Series 2009B	1,758,161	1,796,422
Hospital Revenue Bonds, Series 2009D	<u>15,823,448</u>	<u>16,167,800</u>
	26,896,609	27,514,222
Less current maturities	<u>642,845</u>	<u>617,613</u>
Long-term debt, net of current maturities	<u>\$26,253,764</u>	<u>\$26,896,609</u>

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

NOTE 6 LONG-TERM DEBT (continued)

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 4.3% to 6.4%. At June 30, 2013, the remaining balance on these Bonds is \$9,315,000. 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, 2013.

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, 2013, the remaining balance on these Bonds is \$1,758,161.

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, 2013 the remaining balance on these Bonds is \$15,823,448.

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

As to the above Bonds, Series 2009A, 2009B and 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, 2013 the remaining principal and interest on the Series Bonds was \$44,602,536. 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, 2013 and 2012:

	<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>
Change in net position	\$ (189,094)	\$ 45,077
Provision for depreciation	3,019,344	2,853,386
Interest expense on the Bonds	<u>1,245,529</u>	<u>1,220,192</u>
Pledged net revenues	<u>\$4,075,779</u>	<u>\$4,118,655</u>
Principal and interest requirements		
Hospital Revenue Refunding Bonds, Series 2009A	\$ 786,157	\$ 787,172
Hospital Revenue Bonds, Series 2009B	107,696	79,630
Hospital Revenue Bond Anticipation Notes, Series 2009D	<u>969,289</u>	<u>769,168</u>
Totals	<u>\$1,863,142</u>	<u>\$1,635,970</u>

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

NOTE 6 LONG-TERM DEBT (continued)

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

Year ending June 30	Revenue Bonds			Total principal	Interest	Total
	Series 2009A	Series 2009B	Series 2009D			
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	295,000	46,508	418,571	760,079	1,106,512	1,866,591
2019-2023	1,750,000	261,829	2,356,463	4,368,292	4,973,357	9,341,649
2024-2028	2,340,000	318,262	2,864,358	5,522,620	3,811,771	9,334,391
2029-2033	3,135,000	386,858	3,481,719	7,003,577	2,332,153	9,335,730
2034-2038	745,000	470,238	4,232,143	5,447,381	733,349	6,180,730
2039	—	105,570	950,139	1,055,709	22,497	1,078,206
Totals	9,315,000	1,758,161	15,823,448	26,896,609	17,705,927	44,602,536
Less current maturities	<u>245,000</u>	<u>39,785</u>	<u>358,060</u>	<u>642,845</u>	<u>1,222,971</u>	<u>1,865,816</u>
Total long-term debt	<u>\$9,070,000</u>	<u>\$1,718,376</u>	<u>\$15,465,388</u>	<u>\$26,253,764</u>	<u>\$16,482,956</u>	<u>\$42,736,720</u>

A summary of changes in long-term debt for the year ended June 30, 2013 follows:

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
Hospital Revenue Refunding Bonds, Series 2009A	\$ 9,550,000	\$ —	\$ 235,000	\$ 9,315,000	\$ 245,000
Hospital Revenue Bonds, Series 2009B	1,796,422	—	38,261	1,758,161	39,785
Hospital Revenue Bonds, Series 2009D	16,167,800	—	344,352	15,823,448	358,060
Totals	<u>\$27,514,222</u>	<u>\$ —</u>	<u>\$ 617,613</u>	<u>\$26,896,609</u>	<u>\$ 642,845</u>

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

	Beginning balance	Additions	Principal payments	Ending balance	Amount due within one year
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>
Totals	<u>\$26,185,599</u>	<u>\$18,100,000</u>	<u>\$16,771,377</u>	<u>\$27,514,222</u>	<u>\$ 617,613</u>

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

NOTE 7 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the period ended June 30, 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 8 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, 2013 and 2012.

	2013	2012
Charges foregone, based on established rates	\$ <u>582,884</u>	\$ <u>458,521</u>
Equivalent percentage of charity care patients to all patients served	<u>1.6%</u>	<u>1.3%</u>

NOTE 9 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, 2013 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.

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

NOTE 10 DEFINED BENEFIT PENSION PLAN

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

For the year ended June 30, 2013, regular plan members were required to contribute 5.78% of their annual salary and the Hospital was required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$984,729, \$900,074 and \$745,843, respectively, equal to the required contributions for each year.

NOTE 11 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

For the year ended June 30, 2013, the following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital Budget</u>
Amount to be raised by taxation	\$ 1,285,848	\$ —	\$ 1,285,848	\$ 1,263,900
Other revenues/receipts	<u>23,984,201</u>	<u>1,300,529</u>	<u>25,284,730</u>	<u>24,453,706</u>
	25,270,049	1,300,529	26,570,578	25,717,606
Expenses/expenditures	<u>25,459,143</u>	<u>(475,937)</u>	<u>24,983,206</u>	<u>25,220,515</u>
Net	(189,094)	1,776,466	1,587,372	497,091
Balance, beginning	<u>21,396,707</u>	<u>(8,706,770)</u>	<u>12,689,937</u>	<u>7,932,235</u>
Balance, ending	<u>\$21,207,613</u>	<u>\$(6,930,304)</u>	<u>\$14,277,309</u>	<u>\$ 8,429,326</u>

NOTE 12 OTHER POSTEMPLOYMENT BENEFITS

The Hospital has implemented Governmental Accounting Standards Board, GASB, Statement No. 45, Accounting and Financial Reporting by Employees for Postemployment Benefits Other Than Pensions. An actuarial valuation has been performed and the other post employment benefit has been judged by management to be immaterial to the financial statements.

NOTE 13 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 years ended June 30, 2013 and 2012, and have issued our report thereon dated September 20, 2013, which contained an unmodified opinion on those financial statements. Our audits were performed 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, the 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 20, 2013

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

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
0 - 30 days (includes patients in Hospital at end of year)	\$2,444,998	\$2,382,606	39.32%	44.98%
31 - 60 days	976,137	739,549	15.70	13.96
61 - 90 days	683,417	375,131	10.99	7.08
91 - 150 days	816,263	811,821	13.12	15.33
Over 150 days	<u>1,297,517</u>	<u>987,660</u>	<u>20.87</u>	<u>18.65</u>
Totals	<u>6,218,332</u>	<u>5,296,767</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	700,000	720,000		
Medicaid	160,000	160,000		
Other	400,000	220,000		
Bad debts	<u>460,000</u>	<u>420,000</u>		
Total allowances	<u>1,720,000</u>	<u>1,520,000</u>		
Totals	<u>\$4,498,332</u>	<u>\$3,776,767</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 66,857</u>	<u>\$ 60,834</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>67</u>	<u>62</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
BALANCE , beginning	\$ 420,000	\$ 460,000		
ADD				
Provision for bad debts	1,165,156	1,146,145	4.77%	5.13%
Recoveries of accounts previously written off	<u>360,180</u>	<u>374,536</u>	1.48	1.68
	1,945,336	1,980,681		
DEDUCT				
Accounts written off	<u>1,485,336</u>	<u>1,560,681</u>	6.09	6.99
BALANCE , ending	<u>\$ 460,000</u>	<u>\$ 420,000</u>		

Crawford County Memorial Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2013, with comparative totals for 2012

	<u>2013</u>			<u>2012</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical, surgical and obstetrical	\$1,721,878	\$ -	\$ 1,721,878	\$ 1,511,778
Swing bed	361,196	-	361,196	307,839
Nursery	114,127	-	114,127	122,366
	<u>2,197,201</u>	<u>-</u>	<u>2,197,201</u>	<u>1,941,983</u>
OTHER NURSING SERVICES				
Operating room	535,940	3,523,622	4,059,562	3,579,868
Recovery room	56,692	579,091	635,783	679,589
Delivery room	160,326	983	161,309	194,704
Emergency service	80,857	3,287,807	3,368,664	3,035,861
Observation room	-	394,495	394,495	302,309
Same day surgery	-	452,664	452,664	438,145
	<u>833,815</u>	<u>8,238,662</u>	<u>9,072,477</u>	<u>8,230,476</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	570,559	4,882,469	5,453,028	4,959,608
Electrocardiology	23,178	288,945	312,123	292,591
Radiology	91,320	2,178,003	2,269,323	2,030,980
CT scans	104,523	1,974,952	2,079,475	1,763,281
MRI	50,100	1,723,193	1,773,293	1,720,651
Ultrasound	105,609	1,368,594	1,474,203	1,332,399
Pharmacy	521,225	2,143,488	2,664,713	2,581,838
Oncology	679	60,897	61,576	112,153
Anesthesiology	118,576	513,080	631,656	609,691
Respiratory therapy	300,934	415,730	716,664	612,870
Cardiac rehabilitation	-	137,784	137,784	145,339
Ambulance	131,839	1,027,143	1,158,982	1,005,816
Physical therapy	131,289	1,294,958	1,426,247	1,438,827
Occupational therapy	29,922	81,326	111,248	147,844
Speech therapy	19,465	59,722	79,187	95,727
Clinics	-	5,235,888	5,235,888	5,435,971
	<u>2,199,218</u>	<u>23,386,172</u>	<u>25,585,390</u>	<u>24,285,586</u>
Totals	<u>\$5,230,234</u>	<u>\$31,624,834</u>	36,855,068	34,458,045
Charity care charges foregone, based on established rates			(582,884)	(458,521)
Total gross patient service revenue			36,272,184	33,999,524
Provisions for contractual adjustments and bad debts			(11,869,316)	(11,734,307)
Total net patient service revenue			<u>\$24,402,868</u>	<u>\$22,265,217</u>

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

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
Contractual adjustments		
Medicare	\$ 5,439,410	\$ 4,954,408
Medicaid	712,764	1,400,964
Other adjustments	4,551,986	4,232,790
Provision for bad debts	<u>1,165,156</u>	<u>1,146,145</u>
 Totals	 <u>\$11,869,316</u>	 <u>\$11,734,307</u>

OTHER REVENUE

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
Electronic health records meaningful use incentive revenue	\$ 371,573	\$1,230,412
Cafeteria	71,482	69,590
Rental income	48,412	62,077
Sale of supplies and drugs	3,523	3,810
Wellness	46,593	51,852
Lifeline	29,158	40,635
Miscellaneous	<u>104,202</u>	<u>85,379</u>
 Totals	 <u>\$ 674,943</u>	 <u>\$1,543,755</u>

Crawford County Memorial Hospital
EXPENSES
Year ended June 30, 2013, with comparative totals for 2012

	<u>2013</u>			<u>2012</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 230,007	\$ 8,484	\$ 238,491	\$ 234,669
Medical and surgical	1,038,340	136,057	1,174,397	1,101,474
Obstetrical	258,625	34,353	292,978	252,298
Nursery	56,412	4,074	60,486	64,985
Operating room	439,850	871,129	1,310,979	991,604
Recovery room	26,331	-	26,331	27,162
Delivery room	39,266	4,596	43,862	53,135
Emergency and outpatient service	1,048,535	1,261,017	2,309,552	1,785,218
Total nursing service	<u>3,137,366</u>	<u>2,319,710</u>	<u>5,457,076</u>	<u>4,510,545</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	331,663	529,342	861,005	825,378
Electrocardiology	54,249	3,291	57,540	64,732
Radiology	380,479	239,704	620,183	527,129
CT scans	-	109,362	109,362	134,895
MRI	-	37,206	37,206	170,819
Ultrasound	140,186	28,947	169,133	174,257
Pharmacy	244,097	711,211	955,308	724,215
Oncology	24,110	90,586	114,696	119,514
Anesthesiology	422,217	80,683	502,900	459,181
Respiratory therapy	107,626	88,012	195,638	192,861
Cardiac rehabilitation	52,680	1,456	54,136	55,766
Ambulance	166,932	64,966	231,898	483,022
Physical therapy	366,025	124,826	490,851	451,113
Occupational therapy	26,895	275	27,170	34,049
Speech therapy	-	38,420	38,420	46,782
Clinics	3,478,863	756,796	4,235,659	4,058,382
Health information management	295,540	71,160	366,700	386,006
Quality assurance	111,753	10,139	121,892	130,041
Utilization review	88,861	1,271	90,132	82,110
Total other professional service	<u>6,292,176</u>	<u>2,987,653</u>	<u>9,279,829</u>	<u>9,120,252</u>
GENERAL SERVICE				
Dietary	338,595	162,816	501,411	515,188
Plant engineering	317,147	323,333	640,480	748,023
Housekeeping	206,161	34,781	240,942	224,843
Laundry	-	64,731	64,731	79,575
Total general service	<u>861,903</u>	<u>585,661</u>	<u>1,447,564</u>	<u>1,567,629</u>

Crawford County Memorial Hospital
EXPENSES (continued)
Year ended June 30, 2013, with comparative totals for 2012

	<u>2013</u>			<u>2012</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Fiscal and administrative service	\$ 1,608,239	\$ 1,265,373	\$ 2,873,612	\$ 2,622,786
FICA	-	787,749	787,749	761,681
IPERS	-	984,729	984,729	900,074
Group health and life insurance	-	1,175,903	1,175,903	1,114,955
Insurance	-	433,337	433,337	410,706
Total fiscal and administrative service and unassigned expenses	<u>1,608,239</u>	<u>4,647,091</u>	<u>6,255,330</u>	<u>5,810,202</u>
PROVISION FOR DEPRECIATION	<u>-</u>	<u>3,019,344</u>	<u>3,019,344</u>	<u>2,853,386</u>
Total expenses	<u>\$11,899,684</u>	<u>\$13,559,459</u>	<u>\$25,459,143</u>	<u>\$23,862,014</u>

**Crawford County Memorial Hospital
STATISTICS**

	Year ended June 30	
	<u>2013</u>	<u>2012</u>
PATIENT DAYS		
Medical, surgical and obstetrical	1,463	1,452
Swing bed		
Skilled care	708	668
Intermediate care	45	38
Nursery	<u>255</u>	<u>273</u>
Totals	<u>2,471</u>	<u>2,431</u>
DISCHARGES		
Medical, surgical and obstetrical	572	554
Swing bed		
Skilled care	94	105
Intermediate care	19	13
Nursery	<u>120</u>	<u>126</u>
Totals	<u>805</u>	<u>798</u>
AVERAGE LENGTH OF STAY		
Medical, surgical and obstetrical	2.56	2.62
Swing bed		
Skilled care	7.53	6.36
Intermediate care	2.37	2.92
Nursery	2.13	2.17

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Crawford County Memorial Hospital, as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting, internal control, to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

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 that a material misstatement of the Hospital's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
September 20, 2013

**Crawford County Memorial Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2013**

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, 2013**

Part II—Findings Related to Required Statutory Reporting

13-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, 2013.

13-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

13-II-C TRAVEL EXPENSES

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

13-II-D BUSINESS TRANSACTIONS

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

13-II-E BOARD MINUTES

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

13-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.