

Adair County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Adair County Memorial Hospital
June 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	7
Statements of Revenues, Expenses and Changes in Net Assets	8
Statements of Cash Flows	9
Notes to Financial Statements	11
Supplementary Information	
Combining Balance Sheet – June 30, 2007	23
Combining Schedule of Revenues, Expenses and Changes in Net Assets	24
Schedules of Patient Service Revenues	25
Schedules of Other Revenues	27
Schedules of Operating Expenses	28
Schedules of Patient Receivables and Allowance for Uncollectible Accounts	29
Schedules of Supplies and Prepaid Expense	30
Schedule of Officials – Year Ended June 30, 2007	31
Schedules of Financial and Statistical Data	32
Schedule of Insurance Coverage – Year Ended June 30, 2007	33
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	34
Schedule of Findings and Responses	38



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa

We have audited the accompanying balance sheet of Adair County Memorial Hospital as of June 30, 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the year 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 audit. The financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2006, were audited by other accountants whose report dated August 17, 2006 expressed an unqualified opinion on those statements.

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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Adair County Memorial Hospital as of June 30, 2007, and its changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We and the other accountants have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2007 and 2006, respectively. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The supplemental information as of and for the year ended June 30, 2006, was audited by other accountants whose report dated August 17, 2006, expressed an unqualified opinion on such information in relation to the basic financial statements as of and for the year ended June 30, 2006, taken as a whole.

BKD, LLP

Kansas City, Missouri
October 30, 2007

Adair County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

This management's discussion and analysis of the financial performance of Adair County Memorial Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2007 and 2006. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- The Hospital's net assets increased by \$1,247,460. This is from \$849,685 of the Hospital's Excess Revenues and Capital Grants and Contributions and the Foundation's capital campaign pledges of \$397,775.
- The Hospital's patient service revenues increased \$63,367 or 1% from 2006 to 2007 and \$569,847 or 9% from 2005 to 2006.
- The accounts receivable increased 19% between 2006 and 2007 and had decreased 24% between 2005 and 2006. Allowance for uncollectible accounts stayed at 20% of gross accounts receivable.
- The Hospital took on \$9 million in debt service through revenue bonds to finance an extensive expansion and renovation project.

Using This Annual Report

The Hospital's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net assets; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about any Hospital's finances is "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. The Hospital's total net assets—the difference between assets and liabilities—is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$1,247,460 or 32% in 2007 over 2006 and \$506,505 or 15% in 2006 over 2005 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 1,010,977	\$ 854,274	\$ 1,136,878
Other current assets	3,726,192	3,704,309	3,235,357
Capital assets, net	1,871,264	1,327,526	995,454
Other noncurrent assets	<u>9,662,670</u>	<u>21,739</u>	<u>246,782</u>
Total assets	<u><u>\$ 16,271,103</u></u>	<u><u>\$ 5,907,848</u></u>	<u><u>\$ 5,614,471</u></u>
Liabilities			
Current liabilities	\$ 1,966,182	\$ 1,788,387	\$ 1,934,976
Long-term debt	<u>9,107,875</u>	<u>169,875</u>	<u>236,414</u>
Total liabilities	<u>11,074,057</u>	<u>1,958,262</u>	<u>2,171,390</u>
Net Assets			
Invested in capital assets, net of related debt	1,626,361	1,091,111	627,122
Restricted expendable	515,105	50,434	52,217
Unrestricted	<u>3,055,580</u>	<u>2,808,041</u>	<u>2,763,742</u>
Total net assets	<u>5,197,046</u>	<u>3,949,586</u>	<u>3,443,081</u>
Total liabilities and net assets	<u><u>\$ 16,271,103</u></u>	<u><u>\$ 5,907,848</u></u>	<u><u>\$ 5,614,471</u></u>

Operating Results and Changes in the Hospital's Net Assets

In 2007 and 2006, the Hospital's excess of revenues over expenses increased by \$769,744 and \$410,979, respectively, as shown in Table 2. This increase is made up of several different components.

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues			
Net patient service revenue	\$ 6,759,017	\$ 6,695,650	\$ 6,125,803
Other operating revenues	<u>285,634</u>	<u>299,072</u>	<u>276,168</u>
Total operating revenues	<u>7,044,651</u>	<u>6,994,722</u>	<u>6,401,971</u>
Operating Expenses			
Salaries and wages and employee benefits	3,990,617	3,959,007	2,828,653
Medical and professional fees	1,365,045	1,378,815	1,260,587
Depreciation and amortization	224,076	204,274	169,788
Other operating expenses	<u>1,886,480</u>	<u>1,960,976</u>	<u>2,677,315</u>
Total operating expenses	<u>7,466,218</u>	<u>7,503,072</u>	<u>6,936,343</u>
Operating Loss	<u>(421,567)</u>	<u>(508,350)</u>	<u>(534,372)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,022,452	838,564	838,962
Interest expense	(9,264)	(15,991)	(29,263)
Interest income	115,686	83,236	41,726
Non-capital grants and gifts	<u>62,437</u>	<u>13,520</u>	<u>194,663</u>
Total nonoperating revenues	<u>1,191,311</u>	<u>919,329</u>	<u>1,046,088</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	769,744	410,979	511,716
Capital Grants and Contributions	<u>477,716</u>	<u>95,526</u>	<u>109,983</u>
Increase in Net Assets	<u>\$ 1,247,460</u>	<u>\$ 506,505</u>	<u>\$ 621,699</u>

Operating Loss

The Hospital recorded an operating loss for 2007 and 2006. There was improvement in operations, the loss decreased 17% from 2006 and the loss decreased 5% from 2005 to 2006. Revenues increased only slightly from the prior year, but volumes in some key areas such as inpatient days and outpatient surgery were down slightly from 2006.

Operating expenses were well controlled for 2007 and decreased 1% from the prior year.

Nonoperating Revenues and Expenses

Nonoperating revenue increased over 2006 by 30% due to an increase in grants and contributions, interest income and property taxes, while 2006 was a decrease of 12% compared to 2005, primarily related to a decrease in gifts that year.

Contributions

The Hospital had significant growth in contributions in 2007. The noncapital contributions grew \$48,917 over 2006. Restricted capital contributions and grants amounted to \$477,716, including \$397,775 from the Foundation Capital Campaign. The majority of the funds are designated to be used for the building project and nurse call system.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2007, 2006 and 2005, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

Capital assets increased \$543,738 over 2006. This increase was due to the addition of a new cardiac monitor and gastric scope, but the majority of the increase was for construction in progress as work on the new addition and renovation commenced. The project will add new patient rooms and remodel and expand the radiology, laboratory, emergency and outpatient surgery departments. The cost of the project is expected to be approximately \$9.8 million. A significant portion of the funding will be obtained through a low interest loan from USDA and the remainder comes from revenue bonds and a capital fundraising campaign.

Debt

The Hospital did not enter any new capital leases in 2007.

The details of the notes payable are:

There is a mortgage to finance the purchase of the home health agency building. The mortgage has monthly payments of \$726 through July 2012. The interest is variable and is adjustable in sixty months from July 2002. At June 30, 2006, the interest rate is 3.95%. A note payable to finance the purchase of medical and office equipment costs of a family practice clinic. The loan calls for monthly payments of \$2,645, the interest rate is 4.75% and the final payment is due April 2008. There is a note payable for the purchase of a house and land used for office space adjacent to the Hospital with monthly payments of \$506, including interest at 4.5% through February 2024. Finally, there is a note payable for a boiler system in monthly installments of \$2,440, including interest at 4.75% through September 2009.

The Hospital issued \$9 million in revenue bonds to finance the expansion and renovation project. The \$4.5 million have an interest rate of 4% and will mature in June 2009. A low interest USDA loan has been secured to pay those bonds at maturity. The other \$4.5 million is in long-term bonds with varying maturities, with final maturity December 2037 and the average interest rate on these bonds is 4.96%.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling (641) 743-7238.

Adair County Memorial Hospital

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash	\$ 1,354,449	\$ 1,358,663
Promises to contribute - current portion	96,654	-
Short-term investments	981,798	1,003,837
Patient accounts receivable, net of allowance; of \$274,650 and \$257,695 in 2007 and 2006	1,010,977	854,274
Property taxes receivable	986,950	974,015
Other receivables	17,659	16,650
Estimates due from third-party payers	4,418	50,000
Supplies	184,164	208,255
Prepaid expenses	100,100	92,889
	<u>4,737,169</u>	<u>4,558,583</u>
Noncurrent Deposits and Other		
Certificates of deposit	110,380	-
Externally restricted		
Promises to contribute	395,853	-
Held under bond indenture agreement	8,966,668	-
	<u>9,472,901</u>	<u>-</u>
Less amount required to meet current obligations	96,654	-
	<u>9,376,247</u>	<u>-</u>
Capital Assets, Net of Accumulated Depreciation	<u>1,871,264</u>	<u>1,327,526</u>
Other Assets		
Deferred financing costs	277,727	-
Other Assets	8,696	21,739
	<u>286,423</u>	<u>21,739</u>
Total Assets	<u>\$ 16,271,103</u>	<u>\$ 5,907,848</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 62,000	\$ 66,540
Accounts payable	524,593	483,934
Accrued payroll and related liabilities	292,014	263,898
Accrued interest	100,625	-
Deferred revenue for property taxes	<u>986,950</u>	<u>974,015</u>
Total current liabilities	1,966,182	1,788,387
Long-term Debt	<u>9,107,875</u>	<u>169,875</u>
Total liabilities	<u>11,074,057</u>	<u>1,958,262</u>
Net Assets		
Invested in capital assets, net of related debt	1,626,361	1,091,111
Restricted-expendable for		
Capital assets	510,117	13,044
Specific operating activities	4,988	37,390
Unrestricted	<u>3,055,580</u>	<u>2,808,041</u>
Total net assets	<u>5,197,046</u>	<u>3,949,586</u>
Total Liabilities and Net Assets	<u><u>\$ 16,271,103</u></u>	<u><u>\$ 5,907,848</u></u>

Adair County Memorial Hospital
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 6,922,776	\$ 6,895,650
Provision for uncollectible accounts	(163,759)	(200,000)
Net patient service revenue	<u>6,759,017</u>	<u>6,695,650</u>
Other	<u>285,634</u>	<u>299,072</u>
Total operating revenues	<u>7,044,651</u>	<u>6,994,722</u>
Operating Expenses		
Salaries and wages	3,050,794	3,020,896
Employee benefits	939,823	938,111
Medical professional fees	1,365,045	1,378,815
Supplies and expenses	1,202,018	1,277,693
General services	192,827	197,086
Administrative services	432,203	431,470
Depreciation and amortization	224,076	204,274
Insurance	<u>59,432</u>	<u>54,727</u>
Total operating expenses	<u>7,466,218</u>	<u>7,503,072</u>
Operating Loss	<u>(421,567)</u>	<u>(508,350)</u>
Nonoperating Revenues (Expenses)		
Property taxes	1,022,452	838,564
Interest expense	(9,264)	(15,991)
Interest income	115,686	83,236
Noncapital grants and gifts	<u>62,437</u>	<u>13,520</u>
Total nonoperating revenues	<u>1,191,311</u>	<u>919,329</u>
Excess of Revenues over Expenses Before Capital Grants and Contributions	769,744	410,979
Capital Grants and Contributions	<u>477,716</u>	<u>95,526</u>
Increase in Net Assets	1,247,460	506,505
Net Assets, Beginning of Year	<u>3,949,586</u>	<u>3,443,081</u>
Net Assets, End of Year	<u>\$ 5,197,046</u>	<u>\$ 3,949,586</u>

Adair County Memorial Hospital
Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	\$ 6,647,896	\$ 6,454,712
Payments to suppliers and contractors	(3,500,401)	(4,068,925)
Payments to and on behalf of employees	(3,962,501)	(3,074,007)
Other receipts, net	187,971	299,072
	<u>(627,035)</u>	<u>(389,148)</u>
Noncapital Financing Activities		
Property taxes	1,022,452	838,564
Noncapital grants and gifts	62,437	13,520
	<u>1,084,889</u>	<u>852,084</u>
Capital and Related Financing Activities		
Proceeds from issuance of capital debt	9,000,000	-
Gifts for capital purchases	477,716	95,526
Principal paid on capital debt and leases	(66,540)	(131,917)
Deferred financing costs	(257,614)	-
Interest paid on capital debt and leases	(9,264)	(15,991)
Purchase of capital assets	(367,844)	(523,303)
	<u>8,776,454</u>	<u>(575,685)</u>
Investing Activities		
Interest on deposits and investments	115,686	95,236
Purchase of investments	(9,265,867)	43,776
Change in non-current cash and investments	(88,341)	200,000
	<u>(9,238,522)</u>	<u>339,012</u>
Increase (Decrease) in Cash	(4,214)	226,263
Cash, Beginning of Year	1,358,663	1,132,400
Cash, End of Year	\$ 1,354,449	\$ 1,358,663

Adair County Memorial Hospital
Statements of Cash Flows (Continued)
Years Ended June 30, 2007 and 2006

	2007	2006
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used in Operating Activities		
Operating loss	\$ (421,567)	\$ (524,341)
Depreciation and amortization	224,076	204,274
Changes in operating assets and liabilities		
Patient accounts receivable, net	(156,703)	282,604
Supplies	24,091	(11,848)
Prepaid expenses and other assets	(7,211)	1,833
Estimated amounts due from and to third-party payers	45,582	(523,542)
Accounts payable and accrued expenses	(335,303)	182,785
Other assets and liabilities	-	(913)
Net cash used in operating activities	\$ (627,035)	\$ (389,148)
 Supplemental Cash Flows Information		
Capital assets acquisitions included in liabilities	\$ 407,040	\$ -

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Adair County Memorial Hospital (Hospital) is an 18-bed public hospital organized under Chapter 347 of the Code of Iowa. The Board of Trustees is elected by voters of Adair County. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Adair County area.

The Hospital is the beneficiary of the Adair County Health Foundation, a legally separate not-for-profit corporation. The Foundation was formed to “protect and promote the best interest of the Adair County Memorial Hospital and Adair County Home Care and to promote and strive for improvement and betterment of their facilities and services. The Foundation is a component unit of the Hospital and, thus, is reflected in the accompanying financial statements using the blended method.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The Hospital prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

Use of Estimates

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

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Property Taxes

The Hospital received approximately 12% and 11% of its financial support from property tax revenues in the years ended June 30, 2007 and 2006, respectively, which were used to support operations. The Hospital levies the tax in March of each year based on assessed valuation of property in the County as of the second preceding January 1. Tax bills are sent by the County in August and the taxes are payable half on September 1 and March 1, and become delinquent after October 1 and April 1, respectively.

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 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 that 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.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

Noncurrent Deposits and Other

Noncurrent deposits and other include (1) assets restricted by donors, (2) assets restricted under indenture agreements, and (3) internally designated assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes. Such amounts include certificates of deposit and promises to contribute by donors.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 to 25 years
Buildings, improvements and fixed equipment	5 to 40 years
Major moveable equipment	3 to 20 years

The Hospital capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowing. Total interest incurred was:

	2007	2006
Interest costs capitalized (net of interest earnings on project funds)	\$ 14,200	\$ -
Interest costs charged to expense	9,264	15,991
 Total interest incurred (net of interest earnings on project funds)	 \$ 23,464	 \$ 15,991

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using bonds outstanding method.

Compensated Absences

Hospital policies permit most employees to accumulate paid time off benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Net Assets

Net assets of the Hospital are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt, or restricted expendable net assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$27,722 and \$31,624 for 2007 and 2006, respectively.

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

Adair County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Reclassification

Certain reclassifications have been made to the 2006 financial statements to conform to the 2007 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- ◆ **Medicare.** Inpatient and outpatient services and defined capital cost related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for certain services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Fiscal Intermediary. Estimated settlements have been reflected in the accompanying financial statements.
- ◆ **Medicaid.** Inpatient and outpatient services rendered to Medicaid Program beneficiaries were reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid Program.

Approximately 58% and 60% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively.

The Hospital has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: Deposits, Investments and Interest Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial risk requires compliance with the provisions of state law.

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 were entirely covered by federal depository insurance or 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.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital had only certificates of deposit investments at June 30, 2007 and 2006.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	<u>2007</u>	<u>2006</u>
Carrying value		
Deposits	\$ 11,413,295	\$ 2,354,492
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,354,449	\$ 1,358,663
Assets held under bond indenture agreement	8,966,668	-
Short-term investments	981,798	995,829
Other noncurrent cash and deposits	110,380	-
	<u>\$ 11,413,295</u>	<u>\$ 2,354,492</u>

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$115,686 and \$83,236, respectively.

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2007 and 2006 consisted of:

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

	2007	2006
Medicare	\$ 285,947	\$ 250,887
Medicaid	106,564	77,185
Other third-party payers	404,508	423,820
Patients	488,608	360,077
	1,285,627	1,111,969
Less allowance for uncollectible accounts	274,650	257,695
	\$ 1,010,977	\$ 854,274

Note 5: Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006 follows:

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2007					
Land	\$ 25,806	\$ -	\$ -	\$ -	\$ 25,806
Land improvements	164,742	-	-	-	164,742
Buildings and leasehold improvements	925,494	-	-	-	925,494
Fixed equipment	592,976	-	-	-	592,976
Major movable equipment	1,553,652	64,573	(52,075)	-	1,566,150
Construction in progress	298,995	710,311	-	(20,113)	989,193
	3,561,665	774,884	(52,075)	(20,113)	4,264,361
Less accumulated depreciation					
Land improvements	(89,186)	(10,025)	-	-	(99,211)
Buildings and leasehold improvements	(650,202)	(22,375)	-	-	(672,577)
Fixed equipment	(424,578)	(16,601)	-	-	(441,179)
Major movable equipment	(1,070,173)	(162,032)	52,075	-	(1,180,130)
	(2,234,139)	(211,033)	52,075	-	(2,393,097)
Capital assets, net	\$ 1,327,526	\$ 563,851	\$ -	\$ (20,113)	\$ 1,871,264

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 25,806	\$ -	\$ -	\$ -	\$ 25,806
Land improvements	164,742	-	-	-	164,742
Buildings and leasehold improvements	889,504	35,990	-	-	925,494
Fixed equipment	586,281	6,695	-	-	592,976
Major movable equipment	1,397,147	199,467	-	(42,962)	1,553,652
Construction in progress	17,844	281,151	-	-	298,995
	<u>3,081,324</u>	<u>523,303</u>	<u>-</u>	<u>(42,962)</u>	<u>3,561,665</u>
Less accumulated depreciation					
Land improvements	(77,405)	(11,781)	-	-	(89,186)
Buildings and leasehold improvements	(621,911)	(28,291)	-	-	(650,202)
Fixed equipment	(406,740)	(17,838)	-	-	(424,578)
Major movable equipment	(979,814)	(133,321)	-	42,962	(1,070,173)
	<u>(2,085,870)</u>	<u>(191,231)</u>	<u>-</u>	<u>42,962</u>	<u>(2,234,139)</u>
Capital assets, net	<u>\$ 995,454</u>	<u>\$ 332,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,327,526</u>

The Hospital began a construction project to expand the Hospital facility during the year ended June 30, 2007. Total costs expected on the project are \$9,800,000. Total amounts spent as of June 30, 2007 were approximately \$1,000,000. The Hospital financed \$9,000,000 of this project with the Series 2007 Hospital Revenue and Anticipation Notes (*see Note 7*) and the remainder is to be financed with Hospital funds and capital contributions.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 6: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended June 30, 2007 and 2006:

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Union State Bank Notes (A)	\$ 236,415	\$ -	\$ (66,540)	\$ 169,875	\$ 62,000
Hospital revenue bonds					
Series 2007A (B)	-	4,500,000	-	4,500,000	-
Hospital revenue bonds					
Series 2007B (C)	-	4,500,000	-	4,500,000	-
	<u>-</u>	<u>4,500,000</u>	<u>-</u>	<u>4,500,000</u>	<u>-</u>
Total long-term debt	<u>\$ 236,415</u>	<u>\$ 9,000,000</u>	<u>\$ (66,540)</u>	<u>\$ 9,169,875</u>	<u>\$ 62,000</u>
2006					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Union State Bank Notes (A)	\$ 301,618	\$ -	\$ (65,203)	\$ 236,415	\$ 66,540
Capital lease obligations (D)	66,714	-	(66,714)	-	-
	<u>66,714</u>	<u>-</u>	<u>(66,714)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u>\$ 368,332</u>	<u>\$ -</u>	<u>\$ (131,917)</u>	<u>\$ 236,415</u>	<u>\$ 66,540</u>

- (A) The Union State Bank notes payable consists of four separate notes with monthly payments approximately \$6,300 in the aggregate, interest rates ranging from 3.75% to 4.5%, collateralized by property and equipment, due at various dates through 2012.
- (B) Series 2007A Hospital Revenue Bonds; \$4,500,000 maturing serially at varying amounts through 2038, semiannual interest payments at rates ranging from 4.1% to 5.1%; collateralized by the Hospital's net revenues.

The Hospital Revenue Bond Indentures places limits on the incurrence of additional borrowings and requires that the Hospital satisfy certain measures of financial performance as long as the bonds are outstanding.

- (C) Series 2007B Subordinate Hospital Revenue Bond Anticipation Note; \$4,500,000 maturing June 2009 with semiannual interest payments at 4.05%. The Hospital has been approved for a loan through USDA Rural Development for a total of \$4,500,000 which will be used to refinance the principal of this Bond at maturity. The terms of the USDA loan include interest only payments monthly for the first 24 months, then principal and interest to maturity in 2039, interest rate to be determined at closing (current USDA rate is 4.125%).

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

(D) The Hospital had entered into agreements to acquire equipment under capital leases, which were paid off during 2006.

Scheduled principal and interest payments on recorded long-term debt other than Hospital Revenue Bonds are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 67,877	\$ 61,717	\$ 6,160
2009	22,049	17,813	4,236
2010	14,795	11,064	3,731
2011	14,795	11,531	3,264
2012	14,795	12,012	2,783
2013 – 2017	31,080	20,832	10,248
2018 – 2022	30,354	25,175	5,179
2023 – 2027	10,119	9,731	388
	<u>\$ 205,864</u>	<u>\$ 169,875</u>	<u>\$ 35,989</u>

Scheduled principal and interest payments on Hospital Revenue Bonds are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2008	\$ 466,307	\$ -	\$ 466,307
2009	4,899,691	4,500,000	399,691
2010	290,904	75,000	215,904
2011	292,726	80,000	212,726
2012	294,301	85,000	209,301
2013 – 2017	1,463,901	475,000	988,901
2018 – 2022	1,469,675	600,000	869,675
2023 – 2027	1,458,340	745,000	713,340
2028 – 2032	1,455,345	950,000	505,345
2033 – 2037	1,441,540	1,210,000	231,540
2038	287,140	280,000	7,140
	<u>\$ 13,819,870</u>	<u>\$ 9,000,000</u>	<u>\$ 4,819,870</u>

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 7: Restricted Net Assets

At June 30, 2007 and 2006, restricted expendable net assets were available for the following purposes:

	2007	2006
Bulding and equipment	\$ 510,117	\$ 13,044
Specific operating expenses	4,988	37,390
	\$ 515,105	\$ 50,434

Note 8: Pension Plan

Plan Description

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

Funding Policy

Plan members are required to contribute 3.7% of their annual covered salaries and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$170,458, \$168,113 and \$156,511, respectively, which equaled the required contributions for each year.

Note 9: Network Administration and Support Services Agreement

The Hospital has entered into an agreement with another health care organization to provide administration and support services. Administration and support services fees of \$150,610 and \$159,798 were incurred for the years ended June 30, 2007 and 2006, respectively.

Adair County Memorial Hospital
Notes to Financial Statements
June 30, 2007 and 2006

Note 10: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on a cash basis following required public notice and hearings for all funds. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures.

The following is a reconciliation between reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2007:

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 1,022,452	\$ -	\$ 1,022,452	\$ 1,021,344
Other revenues/receipts	<u>7,228,775</u>	<u>23,708</u>	<u>7,252,483</u>	<u>7,254,393</u>
	8,251,227	23,708	8,274,935	8,275,737
Expenses/disbursements	<u>7,475,482</u>	<u>221,769</u>	<u>7,697,251</u>	<u>7,870,619</u>
	775,745	(198,061)	577,684	405,118
Balance, beginning of year	<u>3,949,586</u>	<u>(424,236)</u>	<u>3,525,350</u>	<u>3,525,350</u>
Balance, end of year	<u>\$ 4,725,331</u>	<u>\$ (622,297)</u>	<u>\$ 4,103,034</u>	<u>\$ 3,930,468</u>

Supplementary Information

Adair County Memorial Hospital
Combining Balance Sheet
June 30, 2007

Assets

	Adair County Memorial Hospital	Foundation	Total
Current Assets			
Cash	\$ 1,352,527	\$ 1,922	\$ 1,354,449
Current portion of promises to contribute		96,654	96,654
Short-term investments	981,798		981,798
Patient accounts receivable, net of allowance; of \$274,650	1,010,977		1,010,977
Property taxes receivable	986,950		986,950
Other receivables	17,659		17,659
Estimates due from third-party payors	4,418		4,418
Supplies	184,164		184,164
Prepaid expenses	100,100		100,100
	<hr/>	<hr/>	<hr/>
Total current assets	4,638,593	98,576	4,737,169
	<hr/>	<hr/>	<hr/>
Noncurrent Deposits and Other			
Certificates of deposit	110,380		110,380
Externally restricted			
Promises to contribute		395,853	395,853
Held under bond indenture agreement	8,966,668		8,966,668
	<hr/>	<hr/>	<hr/>
	9,077,048	395,853	9,472,901
Less amount required to meet current obligations		96,654	96,654
	<hr/>	<hr/>	<hr/>
	9,077,048	299,199	9,376,247
	<hr/>	<hr/>	<hr/>
Capital Assets, Net of Accumulated Depreciation	1,871,264		1,871,264
	<hr/>		<hr/>
Other Assets			
Deferred financing costs	277,727		277,727
Other Assets	8,696		8,696
	<hr/>		<hr/>
	286,423		286,423
	<hr/>		<hr/>
Total Assets	<u>\$ 15,873,328</u>	<u>\$ 397,775</u>	<u>\$ 16,271,103</u>

Liabilities and Net Assets

	Adair County Memorial		
	Hospital	Foundation	Total
Current Liabilities			
Current maturities of long-term debt	\$ 62,000		\$ 62,000
Accounts payable	524,593		524,593
Accrued payroll and related liabilities	292,014		292,014
Accrued interest	100,625		100,625
Deferred revenue for property taxes	986,950		986,950
	<hr/>		<hr/>
Total current liabilities	1,966,182		1,966,182
Long-term Debt	9,107,875		9,107,875
	<hr/>		<hr/>
Total liabilities	11,074,057		11,074,057
	<hr/>		<hr/>
Net Assets			
Invested in capital assets, net of related debt	1,626,361		1,626,361
Restricted-expendable for			
Capital assets	112,342	\$ 397,775	510,117
Specific operating activities	4,988		4,988
Unrestricted	3,055,580		3,055,580
	<hr/>	<hr/>	<hr/>
Total net assets	4,799,271	397,775	5,197,046
	<hr/>	<hr/>	<hr/>
Total Liabilities and Net Assets	<u>\$ 15,873,328</u>	<u>\$ 397,775</u>	<u>\$ 16,271,103</u>

Adair County Memorial Hospital
Combining Schedule of Revenues, Expenses and Changes in Net Assets
June 30, 2007

	Adair County Memorial Hospital	Foundation	Total
Operating Revenues			
Net patient service revenue before provision for uncollectible accounts	\$ 6,922,776		\$ 6,922,776
Provision for uncollectible accounts	(163,759)		(163,759)
Net patient service revenue	6,759,017		6,759,017
Other	285,634		285,634
	7,044,651		7,044,651
Operating Expenses			
Salaries and wages	3,050,794		3,050,794
Employee benefits	939,823		939,823
Medical professional fees	1,365,045		1,365,045
Supplies and expenses	1,202,018		1,202,018
General services	192,827		192,827
Administrative services	432,203		432,203
Depreciation and amortization	224,076		224,076
Insurance	59,432		59,432
	7,466,218		7,466,218
	(421,567)		(421,567)
Operating Loss			
Nonoperating Revenues (Expenses)			
Property taxes	1,022,452		1,022,452
Interest expense	(9,264)		(9,264)
Interest income	115,686		115,686
Noncapital grants and gifts	62,437		62,437
	1,191,311		1,191,311
Excess of Revenues over Expenses Before Capital Grants and Contributions	769,744		769,744
Capital Grants and Contributions	79,941	\$ 397,775	477,716
Increase in Net Assets	849,685	397,775	1,247,460
Net Assets, Beginning of Year	3,949,586		3,949,586
Net Assets, End of Year	\$ 4,799,271	\$ 397,775	\$ 5,197,046

Adair County Memorial Hospital

Schedules of Patient Service Revenues

June 30, 2007

	2007				2006			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
Daily Patient Services								
Medical and surgical	\$ 579,108	\$ 579,108	\$ -	\$ -	\$ 600,000	\$ 600,000	\$ -	\$ -
Swing bed	90,764	-	-	90,764	71,595	-	-	71,595
Hospital Physician	40,425	850	39,575	-	35,649	1,130	34,519	-
	<u>710,297</u>	<u>579,958</u>	<u>39,575</u>	<u>90,764</u>	<u>707,244</u>	<u>601,130</u>	<u>34,519</u>	<u>71,595</u>
Nursing Services								
Operating and recovery rooms	518,305	22,368	495,937	-	610,413	56,763	552,390	1,260
Emergency room	236,980	1,952	235,028	-	232,348	894	231,454	-
Emergency physicians	153,703	471	153,232	-	182,255	138	182,117	-
	<u>908,988</u>	<u>24,791</u>	<u>884,197</u>	<u>-</u>	<u>1,025,016</u>	<u>57,795</u>	<u>965,961</u>	<u>1,260</u>
Other Professional Services								
Laboratory	1,270,171	166,719	1,087,711	15,741	1,115,439	163,598	940,601	11,240
Central services and supplies	223,999	57,836	159,759	6,404	272,646	77,770	189,623	5,253
Blood administration	39,863	14,992	24,871	-	64,816	42,796	22,020	-
Electrocardiology	222,612	25,512	196,784	316	211,300	30,543	177,860	2,897
Ambulance	271,281	3,628	267,653	-	289,947	2,670	287,277	-
Radiology	527,080	50,999	473,062	3,019	488,272	50,570	435,509	2,193
MRI	270,074	10,257	258,121	1,696	270,426	16,269	254,157	-
Mammography	48,876	-	48,876	-	49,320	-	49,320	-
CT	612,009	101,484	510,525	-	523,547	87,685	432,170	3,692
Home health	529,572	-	529,572	-	519,834	-	519,834	-
Pharmacy	534,055	200,920	286,801	46,334	527,316	216,470	272,770	38,076
Intravenous therapy	60,751	13,042	47,667	42	86,188	11,465	74,687	36
Ultrasound	152,379	10,849	140,331	1,199	163,609	1,253	162,356	-
Anesthesiology	151,956	7,382	144,574	-	135,375	12,797	122,578	-
Respiratory therapy	116,613	108,576	4,749	3,288	148,432	124,368	7,131	16,933
Physical therapy	405,826	8,184	378,402	19,240	330,370	8,789	305,747	15,834
Occupational therapy	39,000	1,899	24,445	12,656	29,061	2,496	17,347	9,218
Speech therapy	9,902	426	8,750	726	3,601	618	2,280	703
Fontanelle Clinic	271,336	-	271,336	-	290,641	-	290,641	-
Stuart Clinic	177,963	-	177,963	-	173,561	-	173,561	-
Physician fees	820,399	2,946	817,453	-	804,619	4,804	799,815	-
Observation rooms	135,257	1,025	134,232	-	160,141	130	160,011	-
	<u>6,890,974</u>	<u>786,676</u>	<u>5,993,637</u>	<u>110,661</u>	<u>6,658,461</u>	<u>855,091</u>	<u>5,697,295</u>	<u>106,075</u>

Adair County Memorial Hospital
Schedules of Patient Service Revenues (Continued)
June 30, 2007

	2007				2006			
	Total	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed
Gross Patient Service Revenue	8,510,259	\$ 1,391,425	\$ 6,917,409	\$ 201,425	8,390,721	\$ 1,514,016	\$ 6,697,775	\$ 178,930
Contractual Adjustments	1,587,483				1,495,071			
Net Patient Service Revenue before Provision for Uncollectible Accounts	6,922,776				6,895,650			
Provision for Uncollectible Accounts	(163,759)				(200,000)			
Net Patient Service Revenue	<u>\$ 6,759,017</u>				<u>\$ 6,695,650</u>			

Adair County Memorial Hospital
Schedules of Other Revenues
Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 48,809	\$ 58,611
Lifeline	28,160	27,865
Grant	159,016	176,738
Other	<u>49,649</u>	<u>35,858</u>
	<u>\$ 285,634</u>	<u>\$ 299,072</u>

Adair County Memorial Hospital

Schedules of Operating Expenses

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Medical and surgical	\$ 826,945	\$ 727,248	\$ 99,697	\$ 830,136	\$ 688,305	\$ 141,831
Emergency room	223,182	23,225	199,957	176,910	24,744	152,166
Operating and recovery rooms	94,949	37,716	57,233	90,456	58,887	31,569
Nursing administration	63,098	60,879	2,219	62,327	60,320	2,007
Hospital Physician	59,854	-	59,854	107,132	-	107,132
	<u>1,268,028</u>	<u>849,068</u>	<u>418,960</u>	<u>1,266,961</u>	<u>832,256</u>	<u>434,705</u>
Other Professional Services						
Laboratory	372,303	147,620	224,683	374,588	143,141	231,447
Blood administration	34,385	-	34,385	24,298	-	24,298
Electrocardiology	58,958	7,217	51,741	68,652	6,211	62,441
Ambulance	207,454	182,200	25,254	204,030	174,731	29,299
Stress Test	-	-	-	-	-	-
Radiology	358,070	182,615	175,455	308,338	163,498	144,840
MRI	61,531	-	61,531	72,210	-	72,210
Mammography	35,689	-	35,689	41,942	-	41,942
CT	165,788	-	165,788	196,843	-	196,843
Ultrasound	35,220	-	35,220	52,776	-	52,776
Home health	551,765	415,577	136,188	530,418	400,356	130,062
Pharmacy	168,443	-	168,443	201,025	-	201,025
Intravenous solutions	2,017	-	2,017	24,220	-	24,220
Anesthesiology	64,325	-	64,325	74,490	-	74,490
Respiratory therapy	12,812	-	12,812	11,953	-	11,953
Physical therapy	108,599	-	108,599	106,417	-	106,417
Occupational therapy	21,962	-	21,962	16,563	-	16,563
Speech therapy	10,600	-	10,600	4,140	-	4,140
Stuart Clinic	261,542	118,852	142,690	294,558	143,155	151,403
Fontanelle Clinic	296,303	124,776	171,527	306,839	146,448	160,391
Greenfield clinic	697,001	245,755	451,246	695,442	252,310	443,132
Renal Clinic	34,762	22,559	12,203	31,894	21,075	10,819
Medical records	85,423	70,339	15,084	81,839	68,069	13,770
Observation care	1,225	1,225	-	1,675	1,675	-
Lifeline	20,661	-	20,661	17,322	-	17,322
	<u>3,666,838</u>	<u>1,518,735</u>	<u>2,148,103</u>	<u>3,742,472</u>	<u>1,520,669</u>	<u>2,221,803</u>
General Services						
Operation of plant	169,405	38,775	130,630	182,467	44,803	137,664
Dietary	149,383	110,588	38,795	152,483	113,239	39,244
Housekeeping	112,342	88,940	23,402	101,138	80,960	20,178
	<u>431,130</u>	<u>238,303</u>	<u>192,827</u>	<u>436,088</u>	<u>239,002</u>	<u>197,086</u>
Administrative Services	<u>876,891</u>	<u>444,688</u>	<u>432,203</u>	<u>860,439</u>	<u>428,969</u>	<u>431,470</u>
Employee Benefits	939,823		939,823	938,111		938,111
Depreciation and Amortization	224,076		224,076	204,274		204,274
Insurance	59,432		59,432	54,727		54,727
	<u>2,100,222</u>	<u>444,688</u>	<u>1,655,534</u>	<u>2,057,551</u>		<u>1,628,582</u>
	<u>\$ 7,466,218</u>	<u>\$ 3,050,794</u>	<u>\$ 4,415,424</u>	<u>\$ 7,503,072</u>	<u>\$ 3,020,896</u>	<u>\$ 4,482,176</u>

Adair County Memorial Hospital
Schedules of Patient Receivables and
Allowance for Uncollectible Accounts
Years Ended June 30, 2007 and 2006

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days Since Discharge				
0 – 60	\$ 900,258	\$ 884,825	63%	67%
61 – 120	204,923	132,784	14%	10%
121 – 365	213,046	212,400	15%	16%
366 and over	104,400	85,066	7%	6%
	<u>1,422,627</u>	<u>1,315,075</u>	<u>100%</u>	<u>100%</u>
Contractual allowances	137,000	203,106		
Allowance for uncollectible accounts	<u>274,650</u>	<u>257,695</u>		
	<u>411,650</u>	<u>460,801</u>		
	<u>\$ 1,010,977</u>	<u>\$ 854,274</u>		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 257,695	\$ 199,000
Provision for year	199,485	200,000
Recoveries of accounts previously written off	35,525	73,558
	<u>492,705</u>	<u>472,558</u>
Less accounts written off	218,055	214,863
Balance, end of year	<u>\$ 274,650</u>	<u>\$ 257,695</u>

Adair County Memorial Hospital
Schedules of Supplies and Prepaid Expense
Years Ended June 30, 2007 and 2006

Supplies

	2007	2006
General	\$ 133,710	\$ 138,503
Pharmacy	38,285	56,878
Clinics and Home Care	12,169	12,874
	\$ 184,164	\$ 208,255

Prepaid Expense

	2007	2006
Insurance	\$ 80,937	\$ 74,671
Maintenance and other	19,163	18,218
	\$ 100,100	\$ 92,889

Adair County Memorial Hospital

Schedule of Officials

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Roger Queck	Chairperson	2008
Sherry Kramer	Vice Chairperson	2012
Paul Nelson	Treasurer	2010
Kara Ladd	Secretary	2008
Mike Cass	Member	2010
Roberta Caltrider	Member	2008
Everett Shepherd	Member	2012
Hospital Officials		
Myrna Erb-Gundel	Chief Executive Officer	
Lisa Blazek	Chief Financial Officer	

Adair County Memorial Hospital
Schedules of Financial and Statistical Data
Years Ended June 30, 2007 and 2006

	2007	2006
Patient Days (Exclusive of swing bed)		
Medicare	741	910
Medicaid	32	41
Private and other	247	183
	1,020	1,134
Medicare and Medicaid Percent	76%	84%
Discharges (Exclusive of swing bed)		
Medicare	215	297
Medicaid	16	21
Private and other	105	81
	336	399
Average Length of Stay in Days	3	3

Adair County Memorial Hospital
Schedule of Insurance Coverage
Year Ended June 30, 2007

Chubb Group of Insurance Companies

Policy No. 3579-39-80, expiring October 1, 2007

Property blanket building and contents	\$	7,665,041
Loss of income and extra expense		8,920,000
Personal property in-transit		25,000
Personal property at a temporary storage site		25,000
Nuclear hazard		5,000,000
Valuable papers		1,000,000
Accounts receivable		400,000
EDP Media/Software		250,000
Employee dishonesty		250,000
Depositors forgery		250,000

Policy No., expiring October 1, 2007

Comprehensive automobile liability		
Liability		1,000,000
Hired and non-owned auto physical damage		25,000

PIC Wisconsin

Comprehensive hospital liability, expiring October 1, 2007

Hospital professional liability, Policy No. 129611	1,000,000/3,000,000
General liability, Policy No. 129611	1,000,000/3,000,000
Employee benefits, Policy No. 129611	1,000,000/3,000,000

Excess liability, expiring October 1, 2007

Excess medical liability, Policy No. 129611	3,000,000/3,000,000
Umbrella liability, Policy No. 129611	3,000,000/3,000,000

Chubb Group of Insurance Companies.

Policy No., expiring October 1, 2007

Directors' and officers' liability	1,000,000/1,000,000
------------------------------------	---------------------



**Independent Accountants' Report on Internal Control
Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of the Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Trustees
Adair County Memorial Hospital
Greenfield, Iowa

We have audited the financial statements of Adair County Memorial Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated October 30, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

The following comments about the Hospital's compliance with certain provisions of Iowa law for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our independent audit of the financial statements of the Hospital for the year ended June 30, 2007. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily examined. In addition, it should be noted that our audit was not directed primarily toward obtaining knowledge of compliance with the following items. Our procedures do not provide a legal determination on the Hospital's compliance with those requirements.

Official Depository Banks

A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007.

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditures

We did not note any questionable expenditures that we believe may constitute an unlawful expenditure from public funds or questionable disbursements that may not meet the public purpose requirements as defined in an Attorney General's opinion dated April 25, 1979 and Hospital policy.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. Mileage reimbursement was approved for employees not in excess of the IRS limits.

Business Transactions

We noted no transactions between the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Board of Trustees.

Trustee Minutes

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

Deposits and Investments

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

Unclaimed Property

The Hospital was required to file an annual report of unclaimed property report with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

We did not note any disbursements for equipment or supplies that we believe were not in accordance with Chapter 347.13(3) of the Code of Iowa.

Compensation of Hospital Administrator, Assistants and Employees

No instances were noted in which compensation for the administrator, assistants or employees was determined other than in accordance with Chapter 347.13(5) of the Code of Iowa.

Internal Revenue Service Information Returns and Outside Services

We noted no instances where the Hospital failed to properly prepare a Form 1099 for outside services of \$600 or more or failed to properly classify workers as independent contractors versus employees.

We also noted certain additional matters that we reported to the Hospital's management in a separate letter dated October 30, 2007.

Board of Trustees
Adair County Memorial Hospital
Page 4

This report is intended solely for the information and use of the governing body, management, others within the Hospital and the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

Kansas City, Missouri
October 30, 2007

Adair County Memorial Hospital
Schedule of Findings and Responses
Year Ended June 30, 2007

Reference Number	Finding	Status
None		