

Audubon County Memorial Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Audubon 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	22
Combining Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2007	23
Schedules of Patient Service Revenues - Hospital	24
Schedules of Other Operating Revenues - Hospital	25
Schedules of Operating Expenses - Hospital.....	26
Schedules of Patient Receivables and Allowance for Uncollectible Accounts - Hospital	27
Schedules of Supplies and Prepaid Expense - Hospital.....	28
Schedule of Officials – Hospital - Year Ended June 30, 2007	29
Schedules of Financial and Statistical Data - Hospital.....	30
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>.....	31
Schedule of Findings and Responses	35



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the accompanying balance sheets of Audubon County Memorial Hospital as of June 30, 2007 and 2006 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Audubon County Memorial Hospital as of June 30, 2007 and 2006, and its changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2007, on our consideration of Audubon County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information in 2007 and 2006. Other accountants have applied similar limited procedures to management's discussion and analysis for 2005. We did not audit the information and express no opinion on it.

Board of Trustees
Audubon County Memorial Hospital
Page 2

Our audits were 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. The combining information is presented for purposes of additional analysis of the government financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audit 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.

/s/ **BKD, LLP**

Kansas City, Missouri
October 17, 2007

Audubon 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 Audubon 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

- Cash and cash equivalents increased between 2007 and 2006 by \$723,201 or 63% and decreased between 2006 and 2005 by \$132,663 or 10%.
- The Hospital's net assets increased \$1,985,041 or 15% in 2007 over 2006 and increased \$802,222 or 7% in 2006 over 2005.
- The Hospital reported operating income in 2007 of \$548,470 and operating income in 2006 of \$87,336.
- Net nonoperating revenues increased by \$742,549 or 110% in 2007 compared to 2006 and increased by \$102,399 or 18% in 2006 compared to 2005.

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 \$1,985,041 or 15% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 1,063,633	\$ 822,686	\$ 998,665
Other current assets	7,305,610	4,784,244	5,301,376
Capital assets, net	4,997,671	5,146,859	5,400,615
Other noncurrent assets	<u>3,014,569</u>	<u>3,526,458</u>	<u>2,123,087</u>
Total assets	<u>\$ 16,381,483</u>	<u>\$ 14,280,247</u>	<u>\$ 13,823,743</u>
Liabilities			
Current liabilities	\$ 1,271,868	\$ 1,122,673	\$ 1,435,391
Long-term debt	<u>49,500</u>	<u>82,500</u>	<u>115,500</u>
Total liabilities	<u>1,321,368</u>	<u>1,205,173</u>	<u>1,550,891</u>
Net Assets			
Invested in capital assets, net of related debt	4,915,171	5,031,359	5,252,115
Restricted expendable	55	45	613
Restricted nonexpendable	10,000	10,000	10,000
Unrestricted	<u>10,134,889</u>	<u>8,033,670</u>	<u>7,010,124</u>
Total net assets	<u>15,060,115</u>	<u>13,075,074</u>	<u>12,272,852</u>
Total liabilities and net assets	<u>\$ 16,381,483</u>	<u>\$ 14,280,247</u>	<u>\$ 13,823,743</u>

In 2007, gross accounts receivable increased by \$299,750 from fiscal year 2006. Net days in accounts receivable increased from 41 in 2006 to 47 in fiscal year 2007. Allowance for bad debt decreased by \$64,200 and contractual adjustments increased by \$82,800, mostly due to managed care contracts.

Cash and general fund deposits have increased by \$1.074 million due to the Hospital's ability to invest most of the net income for the fiscal year and increased interest rates. Board-designated time certificates and savings have also increased by \$411,675 for the year due to the ability to fund depreciation at 100% and not spend the full amount funded on capital assets.

Capital assets actually increased by \$591,273 between year 2006 and 2007 due to a building project along with an increase in accumulated depreciation of \$740,831 for a net decrease in assets of \$149,188.

Long-term debt continues to decrease each year by \$33,000. This represents a zero interest ten-year loan from Guthrie County REC.

In 2006, the balance sheet changed in five major areas. An additional \$230,338 in cash and certificates of deposit were added in fiscal year 2006 due to the net income received in the year. This allows Audubon County Memorial Hospital to continue to grow and improve.

Patient accounts receivable, net of allowance, decreased by \$175,979. This was due to the decrease in gross days of six. Gross days in 2005 were 53 at fiscal year end, and gross days for fiscal year 2006 were 47 at year-end. The reduction in accounts receivable allowed the Hospital to set aside additional cash to earn more interest income.

Audubon County Memorial Hospital asked for an additional \$50,000 in property taxes for fiscal year 2007, thus, increasing the property taxes receivable.

Capital assets actually increased by \$345,743 between year 2005 and 2006 along with an increase in accumulated depreciation of \$599,499, for a net decrease in assets of \$253,756 between the two years.

Current liabilities have decreased by \$312,718 from fiscal year 2005 to fiscal year 2006. This is due in part to a stop loss payment for health insurance made to us in error of \$200,680 that was on the books as of June 30, 2005 and accrued payroll with 19 days of accrual for fiscal year 2005 and only 6 days of accrual for fiscal year 2006 amounting to a difference of \$91,578.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$1,985,041 or 15% 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	\$ 8,223,487	\$ 7,322,553	\$ 7,138,050
Other operating revenues	<u>108,452</u>	<u>105,843</u>	<u>112,113</u>
Total operating revenues	<u>8,331,939</u>	<u>7,428,396</u>	<u>7,250,163</u>
Operating Expenses			
Salaries and wages and employee benefits	3,581,449	3,482,796	3,321,696
Medical professional fees	545,487	549,347	538,311
Depreciation and amortization	804,321	767,206	692,926
Other operating expenses	<u>2,852,212</u>	<u>2,541,711</u>	<u>2,376,385</u>
Total operating expenses	<u>7,783,469</u>	<u>7,341,060</u>	<u>6,929,318</u>
Operating Income	<u>548,470</u>	<u>87,336</u>	<u>320,845</u>

(Continued)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Nonoperating Revenues			
Property taxes	\$ 473,050	\$ 419,812	\$ 420,086
Investment income	351,222	231,756	142,526
Non-capital gifts	<u>591,922</u>	<u>22,077</u>	<u>8,634</u>
Total nonoperating revenues	<u>1,416,194</u>	<u>673,645</u>	<u>571,246</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,964,664	760,981	892,091
Capital Grants and Contributions	<u>20,377</u>	<u>41,241</u>	<u>35,636</u>
Increase in Net Assets	<u>\$ 1,985,041</u>	<u>\$ 802,222</u>	<u>\$ 927,727</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2007, 2006 and 2005, the Hospital has reported an operating income. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Audubon County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

In 2007, the following changes were noted:

- Inpatient revenue decreased by only \$24,063 in 2007, while patient days decreased by 123 (this includes acute care and swing bed); however, the Hospital increased patient charges for fiscal year 2007 by 5%.
- Outpatient revenues increased by \$1,272,241 with an increase in outpatient visits of 1,218.
- Overall, net patient service revenue increased by \$900,934 or a 12% increase from fiscal year 2006 to 2007. Net patient service revenue also includes a decrease in the provision for bad debt by \$87,322 and an increase in contractual adjustments of \$433,966.
- Operating expenses increased by 6%, some of this was attributed to an increase in wages and benefits of 2.8% and an increase in depreciation of 4.4%.

During 2006, the following changes were noted:

- Inpatient service revenue decreased \$127,503 or 7.5%. Inpatient acute days decreased 82 days or 10%; however, the Hospital increased charges for fiscal year 2006 by 5%. Two of the three primary admitting doctors had decreases in patient admittance for fiscal year 2006.
- The Hospital stopped providing obstetrics services beginning in fiscal year 2006, which meant a decrease of approximately \$40,000 in lost revenue from fiscal year 2005 for these services. This does not take into account the lost revenue from prenatal care (example: ultrasounds and lab work) or postnatal care.
- Swing-bed patient days decreased by 169 days, which equates to approximately \$220,000 in decreased revenue from fiscal year 2005.
- Outpatient revenues increased by \$273,284 despite a decrease in outpatient visits of 1,529. The increase in revenue is due primarily to an increase in pharmacy revenue of \$355,000. This is attributed to an increase in chemotherapy drugs.
- Overall, net patient service revenue increased by \$184,503 or 3% from 2005 to 2006.
- Operating expenses increased by 5.9% due mostly to inflationary factors.

Nonoperating Revenues

Nonoperating revenues consist primarily of property taxes levied by the Hospital, investment income and noncapital gifts, all of which increased by \$742,549 or 110% from 2006 to 2007 and increased by \$102,399 or 18% from 2006 as compared to 2005. The increase in investment income in 2007 and 2006 was \$119,466 and \$89,230, respectively. The Hospital increased investments for longer terms at higher interest rates to earn additional interest income. Additional increases were due to the receipt of additional non-capital gifts in 2007 and 2006. The increase in 2007 also includes an increase in property taxes of \$53,238, which is due to an increase in the county tax asking of \$50,000 for fiscal year 2007.

Gifts for capital and noncapital items received in fiscal year 2007 increased by \$612,299. This is primarily due to a large gift to the Audubon County Hospital Foundation of \$409,500. Grants and gifts for capital and non-capital items received in fiscal year 2006 increased by \$14,377. During 2006, we received \$8,573 in SHIP grants, \$12,565 in HRSA grants, \$2,500 from the Auxiliary and \$18,728 from trusts and memorials.

Contributions

The Hospital received contributions of \$612,299 from various individuals (see above) in 2007, an increase of \$548,982 from 2006.

The Hospital received contributions of \$63,318 from various individuals in 2006, an increase of \$19,048 or 43% from 2005.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2007, the Hospital had \$5.0 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2007, the Hospital purchased new capital assets costing \$657,603. This includes construction in progress of \$381,683 for a building project.

At the end of 2006, the Hospital had \$5.1 million invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements. In 2006, the Hospital purchased new capital assets costing \$537,235.

Debt

The only long-term debt that the Hospital has is the zero interest note payable. Audubon County Memorial Hospital pays \$33,000 on this loan annually.

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 712.563.2611.

Audubon County Memorial Hospital

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 1,292,522	\$ 867,118
Certificates of deposit	5,019,305	2,907,469
Patient accounts receivable, net of allowance; 2007 – \$104,560, 2006 – \$168,766	1,063,633	822,686
Property taxes receivable	471,496	471,421
Other receivables	25,080	24,750
Estimated amounts due from third-party payers	225,000	255,000
Supplies	215,147	208,110
Prepaid expenses	<u>57,060</u>	<u>50,376</u>
Total current assets	<u>8,369,243</u>	<u>5,606,930</u>
Noncurrent Cash and Investments		
Internally designated	3,004,514	2,455,940
Restricted by donors for		
Scholarships	55	45
Endowment	10,000	10,000
Certificates of deposit	<u>—</u>	<u>1,060,473</u>
	<u>3,014,569</u>	<u>3,526,458</u>
Capital Assets, Net	<u>4,997,671</u>	<u>5,146,859</u>
Total Assets	<u>\$ 16,381,483</u>	<u>\$ 14,280,247</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 33,000	\$ 33,000
Accounts payable	406,123	271,278
Accrued expenses	361,249	346,974
Deferred revenue for property taxes	<u>471,496</u>	<u>471,421</u>
Total current liabilities	1,271,868	1,122,673
Long-term Debt	<u>49,500</u>	<u>82,500</u>
Total liabilities	<u>1,321,368</u>	<u>1,205,173</u>
Net Assets		
Invested in capital assets, net of related debt	4,915,171	5,031,359
Restricted		
Expendable for scholarships	55	45
Nonexpendable endowment	10,000	10,000
Unrestricted	<u>10,134,889</u>	<u>8,033,670</u>
Total net assets	<u>15,060,115</u>	<u>13,075,074</u>
Total Liabilities and Net Assets	<u>\$ 16,381,483</u>	<u>\$ 14,280,247</u>

Audubon 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	\$ 8,322,702	\$ 7,509,090
Provision for uncollectible accounts	<u>(99,215)</u>	<u>(186,537)</u>
Net patient service revenue	8,223,487	7,322,553
Other	<u>108,452</u>	<u>105,843</u>
Total operating revenues	<u>8,331,939</u>	<u>7,428,396</u>
Operating Expenses		
Salaries and wages	2,698,388	2,596,412
Employee benefits	883,061	886,384
Medical professional fees	545,487	549,347
Supplies and other	1,976,604	1,761,498
General services	319,237	327,401
Administrative services	498,142	395,434
Insurance	58,229	57,378
Depreciation	<u>804,321</u>	<u>767,206</u>
Total operating expenses	<u>7,783,469</u>	<u>7,341,060</u>
Operating Income	<u>548,470</u>	<u>87,336</u>
Nonoperating Revenues		
Property taxes	473,050	419,812
Investment income	351,222	231,756
Noncapital gifts	<u>591,922</u>	<u>22,077</u>
Total nonoperating revenues	<u>1,416,194</u>	<u>673,645</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,964,664	760,981
Capital Grants and Contributions	<u>20,377</u>	<u>41,241</u>
Increase in Net Assets	1,985,041	802,222
Net Assets, Beginning of Year	<u>13,075,074</u>	<u>12,272,852</u>
Net Assets, End of Year	<u>\$ 15,060,115</u>	<u>\$ 13,075,074</u>

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

	<u>2007</u>	<u>2006</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 7,668,550	\$ 7,177,790
Payments to suppliers and contractors	(3,086,780)	(3,074,625)
Payments to employees	(3,567,174)	(3,804,208)
Other receipts, net	<u>108,452</u>	<u>105,841</u>
Net cash provided by operating activities	<u>1,123,048</u>	<u>404,798</u>
Noncapital Financing Activities		
Property taxes supporting operations	473,050	419,812
Noncapital gifts	<u>591,922</u>	<u>22,077</u>
Net cash provided by noncapital financing activities	<u>1,064,972</u>	<u>441,889</u>
Capital and Related Financing Activities		
Principal paid on capital debt	(33,000)	(33,000)
Capital grants and gifts	20,377	41,241
Proceeds from sale of capital assets	700	—
Purchase of capital assets	<u>(501,968)</u>	<u>(513,448)</u>
Net cash used in capital and related financing activities	<u>(513,891)</u>	<u>(505,207)</u>
Investing Activities		
Interest on deposits	351,222	231,756
Purchase of deposits	(6,152,566)	(5,061,567)
Proceeds from disposition of deposits	4,987,314	4,355,668
Changes in investments	<u>(136,898)</u>	<u>—</u>
Net cash used in investing activities	<u>(950,928)</u>	<u>(474,143)</u>
Increase (Decrease) in Cash and Cash Equivalents	723,201	(132,663)
Cash and Cash Equivalents, Beginning of Year	<u>1,139,097</u>	<u>1,271,760</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,862,298</u>	<u>\$ 1,139,097</u>

(Continued)

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

	2007	2006
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 1,292,522	\$ 867,118
Cash in noncurrent cash and investments		
Internally designated	569,776	271,979
	\$ 1,862,298	\$ 1,139,097
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	\$ 548,470	\$ 87,336
Depreciation and amortization	804,321	767,206
(Gain) loss on sale of capital assets	1,770	(2)
Changes in operating assets and liabilities		
Patient accounts receivable, net	(240,947)	175,979
Supplies and prepaid expenses	(14,051)	(5,964)
Estimated amounts due from and to third-party payers	30,000	(320,742)
Accounts payable and accrued expenses	(6,515)	(299,015)
Net cash provided by operating activities	\$ 1,123,048	\$ 404,798
Supplemental Cash Flow Information		
Trade-in value for new equipment	\$ —	\$ 23,785
Capital asset acquisitions included in accounts payable	155,635	—

Audubon 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

Audubon County Memorial Hospital (“Hospital”) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital and Audubon County Hospital Foundation (Foundation) are collectively referred to here as the Organization. The Organization primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Audubon County area and the surrounding area in South Central Iowa. Audubon County Hospital Foundation (“Foundation”) is organized under Chapter 504A of the Code of Iowa.

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.

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be closely related. The Foundation’s objectives are to “promote the best interest of the Audubon County Memorial Hospital and to promote and strive for improvement and betterment of said facilities and services.” It is organized primarily to hold certain assets for and benefit the Hospital.

Audubon County Hospital Foundation is combined with data of the Hospital for financial reporting purposes using the blending method. The Foundation is a legally separate corporation that is, in substance, a part of the Hospital’s operations. Transactions between the Hospital and the Foundation are eliminated in preparation of the financial statements.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2007 and 2006, cash equivalents consisted primarily of interest-bearing accounts.

Property Taxes

The Hospital received approximately 6% of its financial support from property tax revenues for both years ended June 30, 2007 and 2006, 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 and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters other than those related to employee health claims, for which the Hospital is self-insured. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at the time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

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.

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation benefits that may be realized as paid time off. Expense and the related liability are recognized as benefits are earned. 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.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Net Assets

Net assets of the Hospital are classified in four 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. Restricted nonexpendable net assets are noncapital assets that are required to be maintained in perpetuity as specified by parties external to the Hospital, such as permanent endowments. 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 \$27,182 and \$40,913 for 2007 and 2006, respectively.

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.

The Foundation is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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 tentative rates 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 are 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 61% 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 discounts from established charges and prospectively determined rates.

Note 3: Deposits, Investments and Investment 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. Certificates of deposit are considered deposits.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities 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 no investments at June 30, 2007 and 2006.

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

At June 30, 2007, the Foundation had the following investments and maturities:

Type	Fair Value	June 30, 2007 Maturities in Years Less Than 1
Money market mutual funds - Foundation	\$ 19,567	\$ <u>19,567</u>
Equity mutual funds - Foundation	<u>117,331</u>	
	<u>\$ 136,898</u>	

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2007	2006
Carrying value		
Deposits	\$ 9,189,198	\$ 7,300,745
Investments	136,898	—
Other	<u>300</u>	<u>300</u>
	<u>\$ 9,326,396</u>	<u>\$ 7,301,045</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,292,522	\$ 867,118
Certificates of deposit	5,019,305	2,907,469
Noncurrent cash and investments		
Internally designated	3,004,514	2,455,940
Restricted by donors for		
Scholarships	55	45
Endowment	10,000	10,000
Certificates of deposit	<u>—</u>	<u>1,060,473</u>
	<u>\$ 9,326,396</u>	<u>\$ 7,301,045</u>

Investment Income

Investment income for the years ended June 30, 2007 and 2006 consisted of:

	2007	2006
Interest and dividend income	\$ 346,123	\$ 231,756
Net increase in fair value of investments	<u>5,099</u>	<u>—</u>
	<u>\$ 351,222</u>	<u>\$ 231,756</u>

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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:

	2007	2006
Medicare	\$ 511,658	\$ 327,811
Medicaid	44,309	46,383
Other third-party payers	416,328	450,886
Patients	195,898	166,372
	1,168,193	991,452
Less allowance for uncollectible accounts	104,560	168,766
	\$ 1,063,633	\$ 822,686

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	\$ 68,389	\$ —	\$ —	\$ —	\$ 68,389
Land improvements	394,425	—	—	—	394,425
Buildings	6,235,544	2,600	—	—	6,238,144
Fixed equipment	628,860	26,200	—	—	655,060
Major movable equipment	3,365,064	247,120	65,960	—	3,546,224
Construction in progress	—	381,683	—	—	381,683
	10,692,282	657,603	65,960	0	11,283,925
Less accumulated depreciation					
Land improvements	204,677	27,653	—	—	232,330
Buildings	2,943,587	339,347	—	—	3,282,934
Fixed equipment	431,052	27,110	—	—	458,162
Major movable equipment	1,966,107	410,211	63,490	—	2,312,828
	5,545,423	804,321	63,490	0	6,286,254
Capital assets, net	\$ 5,146,859	\$ (146,718)	\$ 2,470	\$ 0	\$ 4,997,671

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

	Beginning Balance	Additions	Disposals	Transfers/ Adjustments	Ending Balance
2006					
Land	\$ 68,389	\$ —	\$ —	\$ —	\$ 68,389
Land improvements	394,425	—	—	—	394,425
Buildings	6,214,526	9,651	—	11,367	6,235,544
Fixed equipment	628,860	—	—	—	628,860
Major movable equipment	2,896,125	370,824	191,492	289,607	3,365,064
Construction in progress	<u>144,214</u>	<u>156,760</u>	<u>—</u>	<u>(300,974)</u>	<u>0</u>
	<u>10,346,539</u>	<u>537,235</u>	<u>191,492</u>	<u>0</u>	<u>10,692,282</u>
Less accumulated depreciation					
Land improvements	176,884	27,793	—	—	204,677
Buildings	2,604,004	339,583	—	—	2,943,587
Fixed equipment	404,418	26,634	—	—	431,052
Major movable equipment	<u>1,760,618</u>	<u>373,196</u>	<u>167,707</u>	<u>—</u>	<u>1,966,107</u>
	<u>4,945,924</u>	<u>767,206</u>	<u>167,707</u>	<u>0</u>	<u>5,545,423</u>
Capital assets, net	<u>\$ 5,400,615</u>	<u>\$ (229,971)</u>	<u>\$ 23,785</u>	<u>\$ 0</u>	<u>\$ 5,146,859</u>

Construction in progress in 2007 relates to a building addition with a total cost expected to be \$1.1 million and proposed completion in 2008. The Hospital will use internal funds to complete the project.

Note 6: Medical Malpractice Insurance

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.

Note 7: Employee Health Claims

Substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$30,000 per covered person. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. Changes in the balance of claims liabilities during 2007 and 2006 are summarized as follows:

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

	2007	2006
Balance, beginning of year	\$ 94,300	\$ 349,287
Current year claims and changes in estimates	621,623	376,071
Claim payments	(655,150)	(631,058)
Balance, end of year	\$ 60,773	\$ 94,300

Note 8: Long-term Debt

The following is a summary of long-term debt 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					
Note payable, non-interest bearing (A)	\$ 115,500	\$ 0	\$ (33,000)	\$ 82,500	\$ 33,000
	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Note payable, non-interest bearing (A)	\$ 148,500	\$ 0	\$ (33,000)	\$ 115,500	\$ 33,000

(A) Note Payable, which is non-interest bearing dated September 1999, for the construction of an in-house physicians clinic and for the construction of a clinic in Exira, Iowa. The note payable calls for repayment through September 2009 with quarterly installments of \$8,250.

The debt service requirements as of June 30, 2007 are as follows:

Year Ending June 30,	Total to be Paid		Principal
2008	\$ 33,000	\$ 33,000	33,000
2009	33,000	33,000	33,000
2010	16,500	16,500	16,500
	\$ 82,500	\$ 82,500	82,500

Audubon County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 9: Operating Leases

On January 1, 2000, the Hospital, as lessor, leased an area of the Hospital building and a clinic building in Exira, Iowa, to be used as medical office space under ten-year operating lease agreements. The leases contain provisions to automatically renew for another ten-year period, unless written termination notice is given 90 days prior to renewal. Rental income will be recognized over the term of the leases. Lease payments to be received on a monthly basis total \$2,477.

Future minimum rentals receivable at June 30, 2007, were:

2008	\$	29,720
2009		29,720
2010		<u>14,862</u>
Future minimum lease payments	\$	<u>74,302</u>

Note 10: 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 \$152,700, \$149,200 and \$145,700, respectively, which equaled the required contributions for each year.

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

Note 11: 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 \$222,890 and \$203,298 were incurred for the years ended June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the Hospital had accounts payable to the organization of approximately \$24,700 and \$20,700, respectively.

Note 12: Budget and Budgetary Accounting

In accordance with the Code of Iowa, the Hospital 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 the Hospital reported amounts and cash basis presentation as well as a comparison to budget, for the year ended June 30, 2007:

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 473,050	\$ —	\$ 473,050	\$ 471,421
Other revenues/receipts	<u>8,723,204</u>	<u>(210,947)</u>	<u>8,512,257</u>	<u>7,007,774</u>
	9,196,254	(210,947)	8,985,307	7,479,195
Expenses/disbursements	<u>7,750,763</u>	<u>20,695</u>	<u>7,771,458</u>	<u>7,689,364</u>
	1,445,491	(231,642)	1,213,849	(210,169)
Balance, beginning of year	<u>13,075,074</u>	<u>(487,669)</u>	<u>12,587,405</u>	<u>12,587,405</u>
Balance, end of year	<u>\$ 14,520,565</u>	<u>\$ (719,311)</u>	<u>\$ 13,801,254</u>	<u>\$ 12,377,236</u>

Supplementary Information

Audubon County Memorial Hospital
Combining Balance Sheet
June 30, 2007

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,231,750	\$ 60,772		\$ 1,292,522
Certificates of deposit	4,677,722	341,583		5,019,305
Patient accounts receivable, net of allowance; 2007 – \$104,560	1,063,633			1,063,633
Property taxes receivable	471,496			471,496
Other receivables	25,080			25,080
Estimated amounts due from third-party payers	225,000			225,000
Supplies	215,147			215,147
Prepaid expenses	<u>57,060</u>			<u>57,060</u>
Total current assets	<u>7,966,888</u>	<u>402,355</u>		<u>8,369,243</u>
Noncurrent Cash and Investments				
Internally designated	2,867,616	136,898		3,004,514
Restricted by donors for				
Scholarships	55			55
Endowment	<u>10,000</u>			<u>10,000</u>
	<u>2,877,671</u>	<u>136,898</u>		<u>3,014,569</u>
Capital Assets, Net	<u>4,997,245</u>	<u>426</u>		<u>4,997,671</u>
Total Assets	<u>\$ 15,841,804</u>	<u>\$ 539,679</u>	<u>\$ 0</u>	<u>\$ 16,381,483</u>
Liabilities and Net Assets				
Current Liabilities				
Current maturities of long-term debt	\$ 33,000			\$ 33,000
Accounts payable	406,123			406,123
Accrued expenses	361,120	\$ 129		361,249
Deferred revenue for property taxes	<u>471,496</u>			<u>471,496</u>
Total current liabilities	1,271,739	129		1,271,868
Long-term Debt				
	<u>49,500</u>			<u>49,500</u>
Total liabilities	<u>1,321,239</u>	<u>129</u>		<u>1,321,368</u>
Net Assets				
Invested in capital assets, net of related debt	4,914,745	426		4,915,171
Restricted				
Expendable for scholarships	55			55
Nonexpendable endowment	10,000			10,000
Unrestricted	<u>9,595,765</u>	<u>539,124</u>		<u>10,134,889</u>
Total net assets	<u>14,520,565</u>	<u>539,550</u>		<u>15,060,115</u>
Total Liabilities and Net Assets	<u>\$ 15,841,804</u>	<u>\$ 539,679</u>	<u>\$ 0</u>	<u>\$ 16,381,483</u>

Audubon County Memorial Hospital
Combining Statement of Revenues, Expenses and Changes in Net Assets
Year Ended June 30, 2007

	Audubon County Memorial Hospital	Audubon County Hospital Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 8,322,702			\$ 8,322,702
Provision for uncollectible accounts	<u>(99,215)</u>			<u>(99,215)</u>
Net patient service revenue	8,223,487			8,223,487
Other	<u>108,452</u>			<u>108,452</u>
Total operating revenues	<u>8,331,939</u>			<u>8,331,939</u>
Operating Expenses				
Salaries and wages	2,673,321	\$ 25,067		2,698,388
Employee benefits	883,061			883,061
Medical professional fees	545,487			545,487
Supplies and other	1,976,604			1,976,604
General services	319,237			319,237
Administrative services	490,823	34,800	\$ (27,481)	498,142
Insurance	58,229			58,229
Depreciation	<u>804,001</u>	<u>320</u>		<u>804,321</u>
Total operating expenses	<u>7,750,763</u>	<u>60,187</u>	<u>(27,481)</u>	<u>7,783,469</u>
Operating Income (Loss)	<u>581,176</u>	<u>(60,187)</u>	<u>27,481</u>	<u>548,470</u>
Nonoperating Revenues				
Property taxes	473,050			473,050
Investment income	333,707	17,515		351,222
Noncapital gifts	<u>9,700</u>	<u>582,222</u>		<u>591,922</u>
Total nonoperating revenues	<u>816,457</u>	<u>599,737</u>		<u>1,416,194</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,397,633	539,550	27,481	1,964,664
Capital Grants and Contributions	<u>47,858</u>		<u>(27,481)</u>	<u>20,377</u>
Increase in Net Assets	1,445,491	539,550	0	1,985,041
Net Assets, Beginning of Year	<u>13,075,074</u>		<u>0</u>	<u>13,075,074</u>
Net Assets, End of Year	<u>\$ 14,520,565</u>	<u>\$ 539,550</u>	<u>\$ 0</u>	<u>\$ 15,060,115</u>

Audubon County Memorial Hospital
Schedules of Patient Service Revenues - Hospital
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Daily Patient Services						
Medical and surgical	\$ 474,295	\$ 287,032	\$ 187,263	\$ 426,779	\$ 326,691	\$ 100,088
Skilled nursing care	148,132	148,132		138,416	138,416	
Coronary care	2,528	2,528		3,005	3,005	
Obstetric	0			874	874	
Nursery	0			656	656	
	<u>624,955</u>	<u>437,692</u>	<u>187,263</u>	<u>569,730</u>	<u>469,642</u>	<u>100,088</u>
Nursing Services						
Emergency	280,276	6,013	274,263	242,314	8,726	233,588
Operating room	1,154,980	59,865	1,095,115	1,035,851	37,069	998,782
Recovery room	112,047	4,456	107,591	104,284	4,042	100,242
Delivery and labor room	0			95		95
	<u>1,547,303</u>	<u>70,334</u>	<u>1,476,969</u>	<u>1,382,544</u>	<u>49,837</u>	<u>1,332,707</u>
Other Professional Services						
Anesthesiology	442,750	25,278	417,472	388,539	17,264	371,275
Radiology	2,978,183	253,222	2,724,961	2,624,675	264,969	2,359,706
Blood service	52,629	21,157	31,472	31,280	15,221	16,059
Laboratory	1,599,002	192,507	1,406,495	1,438,252	222,259	1,215,993
Intravenous therapy	18,352	9,044	9,308	13,785	6,970	6,815
Respiratory therapy	68,879	35,051	33,828	57,125	26,605	30,520
Physical therapy	298,690	51,165	247,525	306,851	46,944	259,907
Speech therapy	10,871	3,118	7,753	10,278	2,888	7,390
Occupational therapy	6,879	5,670	1,209	5,561	3,741	1,820
Electrocardiology	102,778	28,214	74,564	91,233	30,989	60,244
Cardiology	74,079	1,315	72,764	64,123		64,123
Cardiac rehabilitation	23,451		23,451	14,917		14,917
Electroencephalography	2,349		2,349	2,237		2,237
Medical and surgical supplies	610,401	149,633	460,768	588,729	135,873	452,856
Pharmacy	1,898,049	264,382	1,633,667	1,538,007	279,751	1,258,256
Sleep study	45,691		45,691	39,100	65	39,035
Clinic	78,447	573	77,874	69,194		69,194
	<u>8,311,480</u>	<u>1,040,329</u>	<u>7,271,151</u>	<u>7,283,886</u>	<u>1,053,539</u>	<u>6,230,347</u>
Patient Service Revenue	10,483,738	\$ <u>1,548,355</u>	\$ <u>8,935,383</u>	9,236,160	\$ <u>1,573,018</u>	\$ <u>7,663,142</u>
Contractual Adjustments	(2,161,036)			(1,727,070)		
Net Patient Service Revenue Before Provision for Uncollectible Accounts	8,322,702			7,509,090		
Provision for Uncollectible Accounts	(99,215)			(186,537)		
Net Patient Service Revenue	\$ <u>8,223,487</u>			\$ <u>7,322,553</u>		

Audubon County Memorial Hospital
Schedules of Other Operating Revenues - Hospital
Years Ended June 30, 2007 and 2006

	2007	2006
Other Revenues		
Cafeteria meals	\$ 19,802	\$ 19,582
Space rental	28,490	30,140
Grants	3,250	1,594
Gain (loss) on sale of capital assets	(1,770)	2
Other	58,680	54,525
	\$ 108,452	\$ 105,843

Audubon County Memorial Hospital
Schedules of Operating Expenses - Hospital
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Daily Patient Services						
Nursing administration	\$ 75,047	\$ 67,552	\$ 7,495	\$ 73,816	\$ 64,460	\$ 9,356
Medical and surgical	718,794	691,034	27,760	694,466	674,223	20,243
Obstetric	0			494	494	
Nursery	0			276	276	
Operating room	266,233	86,789	179,444	303,925	74,850	229,075
Delivery and labor room	0			25	25	
Emergency service	283,766	282,448	1,318	260,793	259,620	1,173
	<u>1,343,840</u>	<u>1,127,823</u>	<u>216,017</u>	<u>1,333,795</u>	<u>1,073,948</u>	<u>259,847</u>
Other Professional Services						
Laboratory	508,926	224,476	284,450	465,740	208,311	257,429
Central supply	295,710	4,118	291,592	262,664	15,674	246,990
Intravenous therapy	3,604		3,604	2,658		2,658
Electrocardiology	8,571	912	7,659	7,910	1,546	6,364
Electroencephalography	956	250	706	675	121	554
Cardiac rehabilitation	10,305	8,516	1,789	6,681	6,580	101
Cardiology	7,169		7,169	6,190		6,190
Radiology	872,532	176,143	696,389	825,698	175,964	649,734
Pharmacy	794,186	104,429	689,757	657,324	98,142	559,182
Anesthesiology	149,145		149,145	138,889		138,889
Respiratory therapy	38,204	31,612	6,592	39,870	30,317	9,553
Physical therapy	140,608	49,876	90,732	148,566	43,373	105,193
Speech therapy	6,309		6,309	5,504		5,504
Occupational therapy	5,412		5,412	4,718	4,718	
Sleep study	22,626		22,626	18,000		18,000
Specialty clinics	140,714	137,288	3,426	142,760	131,162	11,598
Medical records	142,152	103,435	38,717	142,931	109,872	33,059
	<u>3,147,129</u>	<u>841,055</u>	<u>2,306,074</u>	<u>2,876,778</u>	<u>825,780</u>	<u>2,050,998</u>
General Services						
Operation of plant	311,339	110,189	201,150	320,266	106,576	213,690
Dietary	221,665	135,528	86,137	211,593	131,195	80,398
Housekeeping	105,193	83,728	21,465	101,848	80,613	21,235
Laundry	29,867	19,382	10,485	33,618	21,540	12,078
	<u>668,064</u>	<u>348,827</u>	<u>319,237</u>	<u>667,325</u>	<u>339,924</u>	<u>327,401</u>
Administrative Services	<u>846,439</u>	<u>355,616</u>	<u>490,823</u>	<u>752,194</u>	<u>356,760</u>	<u>395,434</u>
Employee Benefits	<u>883,061</u>	<u>883,061</u>	<u>883,061</u>	<u>886,384</u>	<u>886,384</u>	<u>886,384</u>
Insurance	<u>58,229</u>	<u>58,229</u>	<u>58,229</u>	<u>57,378</u>	<u>57,378</u>	<u>57,378</u>
Depreciation	<u>804,001</u>	<u>804,001</u>	<u>804,001</u>	<u>767,206</u>	<u>767,206</u>	<u>767,206</u>
	<u>\$ 7,750,763</u>	<u>\$ 2,673,321</u>	<u>\$ 5,077,442</u>	<u>\$ 7,341,060</u>	<u>\$ 2,596,412</u>	<u>\$ 4,744,648</u>

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

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days Since Discharge				
0 – 30	\$ 897,928	\$ 686,266	62%	58%
31 – 60	307,608	279,962	22	24
61 – 90	103,782	83,082	7	7
91 and over	<u>129,707</u>	<u>130,151</u>	<u>9</u>	<u>11</u>
	1,439,025	1,179,461	<u>100%</u>	<u>100%</u>
Less:				
Contractual allowances	270,832	188,009		
Allowance for uncollectible accounts	<u>104,560</u>	<u>168,766</u>		
	<u>\$ 1,063,633</u>	<u>\$ 822,686</u>		
Net Patient Service Revenue per Calendar day (Excluding provision for bad debt)	<u>\$ 22,801</u>	<u>\$ 19,838</u>		
Days of Net Patient Service Revenue in Accounts Receivable at Year End	<u>47</u>	<u>41</u>		

Allowance for Uncollectible Accounts

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 168,766	\$ 178,132
Provision for year	99,215	186,537
Recoveries of accounts previously written off	<u>342,014</u>	<u>317,938</u>
	609,995	682,607
Less accounts written off	<u>505,435</u>	<u>513,841</u>
Balance, end of year	<u>\$ 104,560</u>	<u>\$ 168,766</u>

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

Supplies

	2007	2006
General stores	\$ 98,567	\$ 81,520
Pharmacy	99,733	103,508
Laboratory	<u>16,847</u>	<u>23,082</u>
	<u>\$ 215,147</u>	<u>\$ 208,110</u>

Prepaid Expense

	2007	2006
Insurance	\$ 13,927	\$ 14,619
Service contracts	38,876	28,179
Other	<u>4,257</u>	<u>7,578</u>
	<u>\$ 57,060</u>	<u>\$ 50,376</u>

Audubon County Memorial Hospital

Schedule of Officials - Hospital

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Jay D. Mendenhall	Chairman	December 31, 2012
Mark Kessler	Vice Chairman	December 31, 2010
Wayne Hansen	Secretary	December 31, 2010
Paul Schultz, DDS	Treasurer	December 31, 2012
Karen E. Nelson	Member	December 31, 2012
Daniel Smith	Member	December 31, 2008
Connie S. Faga	Member	December 31, 2008
Hospital Officials		
Tom Smith	CEO/Administrator	
Joan Fancher	Assistant Administrator	
Karen McGuire	Chief Financial Officer	

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

	2007	2006
Patient Days		
Acute	614	741
Swing-bed	426	422
Nursery	—	2
	<u>1,040</u>	<u>1,165</u>
Admissions (Acute)	215	243
Discharges (Acute)	213	243
Average Length of Stay in Days (Acute)	2.88	3.05
Beds	25	25
Occupancy Percentage (Acute)	6.73%	8.12%



**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
Audubon County Memorial Hospital
Audubon, Iowa

We have audited the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated October 17, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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. We consider the deficiency described in the accompanying schedule of findings and responses as item 07-1 to be a significant deficiency in internal control over financial reporting.

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 Hospital'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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

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*.

We also noted certain additional matters that are reported below or we reported to the Hospital's management in a separate letter dated October 17, 2007.

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 expenses/disbursements during the year ended June 30, 2007 exceeded amounts budgeted.

Criteria or Specific Requirement – Management is responsible for maintaining expenses to the amount budgeted.

Condition – Actual expenses exceeded those budgeted for the year ended June 30, 2007.

Context – Actual expenses exceeded those budgeted.

Effect – There was an excess of expenses to what was approved with the budget.

Cause – Actual expenses were greater than anticipated.

Recommendation – Management should maintain expenses to the amount budgeted yearly.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendation. Management will seek to not have expenses in excess of budgeted amounts.

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.

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 allowable limits.

Business Transactions

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

Unclaimed Property

Prior to November 1, 2006, the Hospital was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no exceptions to 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.

The Hospital's responses to the findings identified in our audit are described above and in the accompanying schedule of findings and responses. We did not audit the Hospital's responses and, accordingly, we express no opinion on them.

* * * * *

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

/s/ **BKD, LLP**

Kansas City, Missouri
October 17, 2007

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

Reference Number	Finding
07-1	<p>Criteria or Specific Requirement—Management is responsible for establishing and maintaining effective internal control over financial reporting.</p> <p>Condition—One individual has significant incompatible duties in the purchases cycle.</p> <p>Context—The individual responsible for processing cash disbursements has duties that include access to assets, recording and monitoring responsibilities.</p> <p>Effect—Potential misstatements in the financial statements or misappropriations of assets due to error or fraud could occur and not be prevented or detected in a timely manner.</p> <p>Cause—Duties in the purchases cycle are not adequately segregated and monitoring or other compensating controls are insufficient.</p> <p>Recommendation—Management should periodically evaluate the costs versus the benefits of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which benefits are determined to exceed costs.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make any changes that are cost effective and operationally feasible within the next year.</p>



Board of Trustees and Management
Audubon County Memorial Hospital
Audubon, Iowa

In planning and performing our audit of the financial statements of Audubon County Memorial Hospital as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Hospital's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control. As such, our consideration of internal control would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

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 of the Hospital's financial statements on a timely basis. A control deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that, even if the control operates as designed, a control objective is not always met. A control deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or qualifications to perform the control effectively.

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

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 Hospital's financial statements will not be prevented or detected by the Hospital's internal controls.

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2006 audit engagement in a letter dated September 15, 2006.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording and monitoring of transactions. To reduce the possibility of errors or fraud going undetected in the normal course of business, we encourage management to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

We observed the following individual having incompatible duties within the financial statement reporting transaction cycles:

Purchases and Cash Disbursement Cycle

- The Chief Financial Officer has the ability to issue a check, authorize payment, has access to signed checks and can perform all recording functions and reconciliations.

Control Deficiencies

Segregation of Duties

We observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Revenue and Cash Receipts Cycle

- The Business Office Manager has the ability to receive payments, prepare and generate a billing document, record discounts and adjustments and change online patient billing and master files.
- The Foundation employee has duties, which include receiving contributions, preparing receipts lists and reporting amounts to be recorded.

Although there are some mitigating procedures in place to compensate for the lack of segregation of duties, the above circumstances create situations where intentional or unintentional errors could occur and not be detected timely. While we realize it may be a challenge to eliminate all conflicting duties, it is important for management and the Board of Trustees to be aware of this risk and consider re-assigning duties.

Contractual and Bad Debt Allowances

The Hospital calculates allowances for accounts receivable on a monthly basis. However, there was a discrepancy between the Hospital calculation and the allowance calculated using actual interim payment percentages. We encourage management to review the monthly allowance calculation and compare to realized reimbursement rates and payment percentages.

Other Matter

We offer the following comment related to new audit standards. The matter discussed herein is not considered to be a material weakness, significant deficiency or other control deficiency in internal control over financial reporting.

New Risk Assessment Audit Standards

The AICPA issued the new Risk Assessment Suite of Standards (Statements of Auditing Standards numbers 104 through 111) in 2005 and 2006. These Statements establish standards and provide guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit and provide guidance on the design and performance of the audit procedures whose nature, timing and extent are designed to address the assessed risks. In addition, the Statements establish standards and guidance on planning and supervision, the nature of audit evidence, and evaluating whether the audit evidence obtained affords a reasonable basis for an opinion on the financial statements.

Overall, the primary objective of these Statements is to enhance the auditor's application of the audit risk model in conducting audits by specifying a more in-depth understanding of the organization and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the organization is doing to mitigate the risks. These Standards are effective for audits of financial statements with fiscal years beginning on or after December 15, 2006.

These Standards will have a significant impact on the Hospital's audit for the year ending June 30, 2008. We will provide additional information about these Standards as part of the audit planning process in 2008.

* * * * *

This communication is intended solely for the information and use of the Board of Trustees and Management and is not intended to be and should not be used by anyone other than these specified parties.

/s/ **BKD, LLP**

Kansas City, Missouri
October 17, 2007