

**Clarke County Public Hospital
Osceola, Iowa**

FINANCIAL REPORT

June 30, 2007

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**Clarke County Public Hospital
OFFICIALS
June 30, 2007**

BOARD OF TRUSTEES

Officers

Donald Waltz, Chair
James Schipper, Vice Chair and Treasurer
Sally Riekema, Secretary

Members

Rick Buesch
Neville Clayton
Bev Edwards
Teresa Woods

Expiration of term

December 31, 2010
December 31, 2008
December 31, 2010

December 31, 2008
December 31, 2008
December 31, 2012
December 31, 2012

CHIEF EXECUTIVE OFFICER

Brian Evans

CHIEF FINANCIAL OFFICER

Michael Thilges

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clarke County Public Hospital as of June 30, 2007 and 2006, and the results of its operations and its 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 August 29, 2007 on our consideration of Clarke County Public 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.

Management's discussion and analysis on pages 5-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 29, 2007

Clarke County Public Hospital MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of Clarke County Public Hospital, we offer readers of the financial statements this narrative overview and analysis of the Hospital's financial performance during the fiscal years ended June 30, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which follow this section.

Overview of the Financial Statements

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

Required Financial Statements

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

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

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

Financial Highlights

- Total assets increased by \$1,842,961 or 10% to \$19,262,394
- Total noncurrent assets whose use is limited decreased by \$384,878 to \$3,301,926
- Total property and equipment increased by \$2,506,636 to \$12,535,116
- Total fund equity increased by \$1,104,304 to \$8,621,878
- Total long-term debt increased by \$462,375 to \$7,088,567
- Net patient service revenue increased by \$724,377, or 6% primarily due to continuing increased reimbursement by third-party payors under the Hospital's Critical Access Hospital status
- Expenses increased by \$723,050, or 6% to \$12,848,375

Financial Analysis of the Hospital

The balance sheets and the statements of revenues, expenses, and changes in fund equity report the fund equity of the Hospital and the changes in them. The Hospital's fund equity, the difference between assets and liabilities, is a way to measure financial health or financial position. Over time, sustained increases or decreases in the Hospital's fund equity is one indicator of whether its financial health is improving or deteriorating. However, other nonfinancial factors such as changes in economic conditions, population growth and new or changed government legislation should also be considered.

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

Table 1
Condensed Balance Sheets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current assets	\$ 2,270,380	\$ 2,490,434	\$ 2,864,764
Noncurrent assets whose use is limited	3,301,926	3,686,804	2,083,150
Property and equipment	12,535,116	10,028,480	10,140,708
Other assets	<u>1,154,972</u>	<u>1,213,715</u>	<u>1,252,458</u>
Total assets	<u>\$19,262,394</u>	<u>\$17,419,433</u>	<u>\$16,341,080</u>
Current liabilities	\$ 2,955,744	\$ 2,563,556	\$ 1,726,354
Long-term debt, less current maturities	6,604,772	6,218,303	6,626,184
Other noncurrent liabilities	<u>1,080,000</u>	<u>1,120,000</u>	<u>1,140,000</u>
Total liabilities	<u>\$10,640,516</u>	<u>\$ 9,901,859</u>	<u>\$ 9,492,538</u>
Invested in capital assets, net of related debt	\$ 5,446,549	\$ 3,402,288	\$ 3,122,939
Restricted	700,060	699,818	697,363
Unrestricted	<u>2,475,269</u>	<u>3,415,468</u>	<u>3,028,240</u>
Total fund equity	<u>\$ 8,621,878</u>	<u>\$ 7,517,574</u>	<u>\$ 6,848,542</u>

As depicted in Table 1, total assets increased in fiscal year 2007 to \$19,262,394. During fiscal year 2007, the Hospital completed a construction project consisting of renovation of a portion of the existing Hospital. Construction costs were funded by the Hospital's assets whose use is limited, designated by Board for plant replacement and expansion.

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

Table 2
Condensed Statements of Revenues, Expenses, and Changes in Fund Equity

	Year ended June 30		
	2007	2006	2005
Net patient service revenue	\$12,435,860	\$11,711,483	\$ 9,716,845
Other revenue	<u>215,455</u>	<u>213,896</u>	<u>258,361</u>
Total revenue	<u>12,651,315</u>	<u>11,925,379</u>	<u>9,975,206</u>
Salaries	4,668,730	4,689,337	4,100,800
Supplies and expenses	6,472,954	5,956,486	5,379,166
Provision for depreciation	<u>1,706,691</u>	<u>1,479,502</u>	<u>1,318,467</u>
Total expenses	<u>12,848,375</u>	<u>12,125,325</u>	<u>10,798,433</u>
Operating (loss)	<u>(197,060)</u>	<u>(199,946)</u>	<u>(823,227)</u>
County taxes	1,120,259	1,113,732	1,138,198
Investment income	235,080	164,031	70,861
Unrestricted contributions	301,310	3,383	144,034
Interest expense	<u>(428,790)</u>	<u>(435,844)</u>	<u>(438,791)</u>
Total nonoperating gains (losses)	<u>1,227,859</u>	<u>845,302</u>	<u>914,302</u>
Excess of revenues over expenses before contributions	1,030,799	645,356	91,075
Restricted contributions	<u>73,505</u>	<u>23,676</u>	<u>107,864</u>
Change in fund equity	1,104,304	669,032	198,939
Total fund equity, beginning	<u>7,517,574</u>	<u>6,848,542</u>	<u>6,649,603</u>
Total fund equity, ending	<u>\$ 8,621,878</u>	<u>\$ 7,517,574</u>	<u>\$ 6,848,542</u>

Operating and Financial Performance

The following summarizes the Hospital's statement of revenues, expenses and changes in fund equity between June 30, 2007 and 2006.

Net Patient Service Revenue: Net patient service revenue is a product of volume, price increases and payor mix.

Volume: Adult and pediatric discharges for fiscal year 2007 were 310 compared to 320 in fiscal year 2006. Average length of stay increased as patient days increased to 1,040 from 945 in 2006. Volume on the outpatient side indicated positive growth in 2007. In 2007, gross outpatient charges increased to \$10,439,405 compared to \$9,875,261 in 2006.

Price Increase: As is customary annually, the Hospital did review its charge structure and incorporated certain price increases in 2007. Overall, gross patient service revenue increased to \$13,250,633 from \$12,720,490 in 2006. Emergency service and diagnostic imaging reflected the most significant growth in 2007.

Payor Mix: The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. As a result of this continuing designation, contractual adjustments and bad debts declined to \$686,651 in 2007 compared to \$962,800 in 2006.

A summary of the percentages of gross charges for patient services by primary payor is presented in Table 3.

Table 3
Payor Mix by Percentage

	<u>Year ended June 30</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	48%	50%	51%
Medicaid	6	7	7
Commercial insurance	37	32	31
Patients	<u>9</u>	<u>11</u>	<u>11</u>
Totals	<u>100%</u>	<u>100%</u>	<u>100%</u>

Other Revenue

Other revenue increased slightly to \$215,455 in 2007 compared to \$213,896 in 2006.

Expenses

Approximately 40% of Hospital's expenses are for salaries. Total salaries decreased by 1% to \$4,668,730 in 2007 from \$4,689,337 in 2006. The Hospital department experiencing the most significant decrease in 2007 was medical and surgical.

Approximately 50% of Hospital's expenses are for supplies and expenses. Total supplies and expenses increased by 14% to \$6,472,954 in 2007 from \$5,956,486 in 2006. The Hospital departments experiencing the most significant increase were medical and surgical, physical therapy and administration.

Approximately 10% of Hospital's expenses relate to provision for depreciation. The provision for depreciation increased to \$1,706,691 in 2007 from \$1,479,502 in 2006.

Nonoperating Gains (Losses)

Nonoperating gains (losses) increased to \$1,227,859 from \$845,302 in 2006, primarily due to a significant increase in unrestricted contributions to \$301,310 in 2007.

Property and Equipment

At the end of 2007, the Hospital had \$12,535,116 invested in property and equipment, net of accumulated depreciation. The Notes to the Financial Statements provide more detail of changes in property and equipment. In 2007, \$4,297,051 was spent to acquire property and equipment, including \$2,777,962 to complete a construction project consisting of renovation of a portion of the existing Hospital.

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

**Table 4
Property and Equipment**

	June 30		
	2007	2006	2005
Land	\$ 9,550	\$ 9,550	\$ 9,550
Land improvements	207,072	207,072	189,772
Building	11,332,590	8,524,438	8,453,347
Fixed equipment	3,167,391	2,912,882	2,918,586
Major movable equipment	5,916,462	5,194,713	4,218,475
Medical office building	1,105,415	1,105,415	1,098,085
Construction in progress	—	116,727	—
Subtotal	<u>21,738,480</u>	<u>18,070,797</u>	<u>16,887,815</u>
Less accumulated depreciation	<u>(9,203,364)</u>	<u>(8,042,317)</u>	<u>(6,747,107)</u>
Property and equipment	<u>\$12,535,116</u>	<u>\$10,028,480</u>	<u>\$10,140,708</u>

Debt Administration

At year end, the Hospital had \$6,085,000 in current and long-term debt related to Hospital Revenue Bonds, Series 2001. This has decreased by \$250,000 in fiscal year 2007, which was the required amount of principal payment on the outstanding Bonds for fiscal year 2007. More detailed information about the Hospital's outstanding debt is presented in the Notes to Financial Statements. Note that the Bonds represent approximately 60% of the Hospital's total liabilities as of year end.

At year end, the Hospital had \$1,003,567 in current and long-term notes payable. This has increased in fiscal year 2007. This increase is the result of issuance of a note payable, equipment in 2007, offset by the required payments made on the outstanding notes for fiscal year 2007. More detailed information about the Hospital's notes payable are presented in the Notes to Financial Statements. Note that total notes payable represent approximately 10% of the Hospital's total liabilities at year end.

Performance Compared to County Hospital Budget

The Hospital prepares its annual County Hospital budget on a basis, budget basis, which differs from generally accepted accounting principles, GAAP basis. More detailed information as to major differences between County Hospital budget and GAAP bases are presented in the Notes to Financial Statements. A comparison of the Hospital's fiscal year 2007 actual budget basis financial information to its annual County Hospital budget is presented in Table 5.

**Table 5
Actual vs County Hospital Budget**

	Actual budget basis	Annual County Hospital budget	Variance
Amount to be raised by taxation	\$ 1,285,589	\$ 1,243,290	\$ 42,299
Other revenues/receipts	<u>13,261,210</u>	<u>12,382,507</u>	<u>878,703</u>
	14,546,799	13,625,797	921,002
Expenses/expenditures	<u>15,570,480</u>	<u>16,043,853</u>	<u>(473,373)</u>
Net	<u>\$ (1,023,681)</u>	<u>\$ (2,418,056)</u>	<u>\$ 1,394,375</u>

Actual other revenues/receipts results were higher than County Hospital budget primarily due to increased net patient service revenue under Critical Access Hospital Status and positive outpatient growth.

Economic and Other Factors and Next Year's Budget

The Hospital's board and management considered many factors when setting the fiscal year 2008 budget. Of primary importance are the market forces and environmental factors impacting healthcare such as:

- Medicare and Medicaid reimbursement rates
- Reimbursement rates of other payors
- Cost of supplies
- Facility expansion and growth in demand for services
- Technology advancements

Contacting Clarke County Public Hospital's Management

This financial report is designed to provide users with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability. If you have questions about this report or need additional information, contact Clarke County Public Hospital at (641) 342-2184 or write care of: Chief Financial Officer, Clarke County Public Hospital, 800 South Fillmore, Osceola, Iowa 50213-1619.

**Clarke County Public Hospital
BALANCE SHEETS**

ASSETS	June 30	
	2007	2006
CURRENT ASSETS		
Cash	\$ 492,850	\$ 310,312
Assets whose use is limited-required for current liabilities	403,344	282,521
Patient receivables, less allowances for contractual adjustments and bad debts	1,161,909	1,636,820
Other receivables	19,889	24,613
Inventories	185,590	214,649
Prepaid expenses	6,798	21,519
	<u>2,270,380</u>	<u>2,490,434</u>
ASSETS WHOSE USE IS LIMITED		
Designated by board for plant replacement and expansion		
Cash	1,176,646	1,293,301
Certificates of deposit	1,343,133	1,764,583
Interest receivable	21,630	63,894
Designated by board for special purpose		
Cash	<u>463,801</u>	<u>147,729</u>
	3,005,210	3,269,507
Restricted for payment of long-term debt and interest		
Cash	56,185	55,943
Certificate of deposit	<u>643,875</u>	<u>643,875</u>
Total assets whose use is limited	3,705,270	3,969,325
Less assets whose use is limited and that are required for current liabilities	<u>403,344</u>	<u>282,521</u>
Noncurrent assets whose use is limited	<u>3,301,926</u>	<u>3,686,804</u>
PROPERTY AND EQUIPMENT	21,738,480	18,070,797
Less accumulated depreciation	<u>9,203,364</u>	<u>8,042,317</u>
Total property and equipment	<u>12,535,116</u>	<u>10,028,480</u>
OTHER ASSETS		
Unamortized financing costs	74,972	93,715
Succeeding year property tax receivable	<u>1,080,000</u>	<u>1,120,000</u>
Total other assets	<u>1,154,972</u>	<u>1,213,715</u>
Totals	<u>\$19,262,394</u>	<u>\$17,419,433</u>

See Notes to Financial Statements.

Clarke County Public Hospital
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND EQUITY

	Year ended June 30	
	2007	2006
NET PATIENT SERVICE REVENUE , net of provision for bad debts 2007 \$611,498; 2006 \$657,167	\$12,435,860	\$11,711,483
OTHER REVENUE	<u>215,455</u>	<u>213,896</u>
Total revenue	<u>12,651,315</u>	<u>11,925,379</u>
EXPENSES		
Nursing service	3,772,665	3,708,540
Other professional service	2,911,799	2,843,015
General service	1,267,020	1,146,247
Fiscal and administrative service and unassigned expenses	3,190,200	2,948,021
Provision for depreciation	<u>1,706,691</u>	<u>1,479,502</u>
Total expenses	<u>12,848,375</u>	<u>12,125,325</u>
Operating (loss)	<u>(197,060)</u>	<u>(199,946)</u>
NONOPERATING GAINS (LOSSES)		
County taxes	1,120,259	1,113,732
Investment income	235,080	164,031
Unrestricted contributions	301,310	3,383
Interest expense	<u>(428,790)</u>	<u>(435,844)</u>
Total nonoperating gains (losses)	<u>1,227,859</u>	<u>845,302</u>
Excess of revenues over expenses before contributions	1,030,799	645,356
RESTRICTED CONTRIBUTIONS	<u>73,505</u>	<u>23,676</u>
Change in fund equity	1,104,304	669,032
TOTAL FUND EQUITY		
Beginning	<u>7,517,574</u>	<u>6,848,542</u>
Ending	<u>\$ 8,621,878</u>	<u>\$ 7,517,574</u>

**Clarke County Public Hospital
STATEMENTS OF CASH FLOWS**

	Year ended June 30	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from patients and third-party payors	\$12,790,771	\$11,947,291
Cash paid to suppliers for goods and services	(6,356,418)	(5,844,153)
Cash paid to employees for services	(4,624,132)	(4,575,856)
Other operating revenue received	215,455	213,896
Net cash provided by operating activities	2,025,676	1,741,178
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
County taxes received	1,120,259	1,113,732
Unrestricted contributions	301,310	3,383
Net cash provided by noncapital financing activities	1,421,569	1,117,115
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of property and equipment	(3,888,634)	(1,335,496)
Proceeds from issuance of long-term debt	977,059	-
Principal payments on long-term debt	(514,684)	(391,577)
Interest paid on long-term debt	(411,088)	(418,061)
Contributions received, restricted for purchase of equipment	73,505	23,676
Net cash (used in) capital and related financing activities	(3,763,842)	(2,121,458)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	277,344	107,797
Purchase of certificates of deposit	(78,550)	(1,522,387)
Proceeds from maturities of certificates of deposit	500,000	503,600
Net cash provided by (used in) investing activities	698,794	(910,990)
NET INCREASE (DECREASE) IN CASH	382,197	(174,155)
CASH		
Beginning	1,807,285	1,981,440
Ending	\$ 2,189,482	\$ 1,807,285

See Notes to Financial Statements.

**Clarke County Public Hospital
STATEMENTS OF CASH FLOWS (continued)**

	Year ended June 30	
	2007	2006
RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating (loss)	\$ (197,060)	\$ (199,946)
Adjustments to reconcile operating (loss) to net cash provided by operating activities		
Depreciation	1,706,691	1,479,502
Changes in assets and liabilities		
(Increase) decrease in patient receivables	474,911	(454,192)
Decrease in other receivables	4,724	8,451
(Increase) decrease in inventories	29,059	(18,476)
Decrease in prepaid expenses	14,721	135,759
Increase in accounts payable, net of amounts for property and equipment	54,948	27,566
Increase in accrued employee compensation	44,598	113,481
Increase (decrease) in payroll taxes and amounts withheld from employees	13,084	(40,967)
Increase (decrease) in estimated third-party payor settlements	<u>(120,000)</u>	<u>690,000</u>
Net cash provided by operating activities	<u>\$2,025,676</u>	<u>\$1,741,178</u>
RECONCILIATION OF CASH PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET		
Per balance sheet		
Current assets, cash	\$ 492,850	\$ 310,312
Assets whose use is limited		
Designated by board for plant replacement and expansion, cash	1,176,646	1,293,301
Designated by board for special purpose, cash	463,801	147,729
Restricted for payment of long-term debt and interest, cash	<u>56,185</u>	<u>55,943</u>
Totals per statement of cash flows	<u>\$2,189,482</u>	<u>\$1,807,285</u>

Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

Measurement Focus and Basis of Accounting

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

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

Accounting Standards

Pursuant to Governmental Accounting Standards Board, GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the Hospital has elected to apply only the provisions of relevant pronouncements of the Financial Accounting Standards Board, FASB, issued on or before November 30, 1989.

Investments and Investment Income

The Hospital's investments are nonnegotiable certificates of deposit reported at cost.

The nonnegotiable certificates of deposits are nonparticipating contracts not significantly affected by impairment of the issuer's credit standing or other factors.

Investment income is reported as nonoperating gains.

Inventories

Inventories are stated at cost, based on the first-in, first-out method.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed on the straight-line method. The range of estimated useful lives applied by the Hospital is three to forty years.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Unamortized Financing Costs

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

Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of 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.

Deferred Revenue

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

Fund Equity

Fund equity is presented in the following three components:

Invested in capital assets, net of related debt

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

Restricted fund equity

Restricted fund equity consists of funds on which constraints have been externally imposed by creditors, such as through debt covenants, grantors, contributors, or laws or regulations of other governments.

Unrestricted fund equity

Unrestricted fund equity has no externally imposed restrictions on use.

Charity Care

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

Net Patient Service Revenue

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

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues, Expenses, and Changes in Fund Equity

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

Credit Policy

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

Accounting Estimates and Assumptions

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

NOTE 2 CASH AND INVESTMENTS

The Hospital's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

NOTE 3 PATIENT RECEIVABLES

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

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Medicare	\$ 453,186	\$ 993,932
Medicaid	81,262	156,442
Commercial insurance	853,664	638,190
Patients	<u>553,797</u>	<u>828,256</u>
Total patient receivables	1,941,909	2,616,820
Less allowances for contractual adjustments and bad debts	<u>(780,000)</u>	<u>(980,000)</u>
Net patient receivables	<u>\$1,161,909</u>	<u>\$1,636,820</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 NET PATIENT SERVICE REVENUE

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

Medicare and Medicaid

The Hospital is designated a Critical Access Hospital. As a Critical Access Hospital, most services related to Medicare and Medicaid beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under the programs and the appropriateness of their admission are subject to an independent review by peer review organizations. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through June 30, 2005.

Other

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

NOTE 5 ASSETS WHOSE USE IS LIMITED

Assets whose use is limited for payment of long-term debt and interest are as follows at June 30, 2007:

	<u>Sinking Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Total</u>
Balance , beginning	\$ 55,943	\$ 643,875	\$ 699,818
Transfers from current assets, cash	625,186	-	625,186
Interest earned	15,313	-	15,313
Payments for principal and interest	<u>(640,257)</u>	<u>-</u>	<u>(640,257)</u>
Balance , ending	<u>\$ 56,185</u>	<u>\$ 643,875</u>	<u>\$ 700,060</u>

NOTE 6 PROPERTY AND EQUIPMENT

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

	<u>June 30, 2007</u>		<u>June 30, 2006</u>	
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Cost</u>	<u>Accumulated depreciation</u>
Land	\$ 9,550	\$ -	\$ 9,550	\$ -
Land improvements	207,072	164,356	207,072	158,537
Building	11,332,590	2,995,033	8,524,438	2,457,789
Fixed equipment	3,167,391	2,084,091	2,912,882	1,945,518
Major movable equipment	5,916,462	3,452,469	5,194,713	3,023,789
Medical office building	1,105,415	507,415	1,105,415	456,684
Construction in progress	<u>-</u>	<u>-</u>	<u>116,727</u>	<u>-</u>
Totals	<u>\$21,738,480</u>	<u>\$9,203,364</u>	<u>\$18,070,797</u>	<u>\$8,042,317</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 PROPERTY AND EQUIPMENT (continued)

Construction in progress at June 30, 2006 consisted primarily of progress billings for architect and engineering fees related to the Hospital's construction project. The project included renovation of a portion of the existing Hospital. During the year ended June 30, 2007, the Hospital completed the project and capitalized costs of approximately \$3 million. The remaining amount to be paid on contracts entered into by the Hospital total \$106,864, accrued as accounts payable, construction on the balance sheets.

A summary of changes in property and equipment for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ -	\$ 9,550
Land improvements	207,072	-	-	-	207,072
Building	8,524,438	-	2,810,305	2,153	11,332,590
Fixed equipment	2,912,882	178,726	84,384	8,601	3,167,391
Major movable equipment	5,194,713	1,340,363	-	618,614	5,916,462
Medical office building	1,105,415	-	-	-	1,105,415
Construction in progress	<u>116,727</u>	<u>2,777,962</u>	<u>(2,894,689)</u>	-	-
Totals	18,070,797	4,297,051	-	629,368	21,738,480
Less accumulated depreciation	<u>(8,042,317)</u>	<u>(1,706,691)</u>	-	<u>(545,644)</u>	<u>(9,203,364)</u>
Net property and equipment	<u>\$10,028,480</u>	<u>\$2,590,360</u>	<u>\$ -</u>	<u>\$ 83,724</u>	<u>\$12,535,116</u>

A summary of changes in property and equipment for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending balance</u>
Land	\$ 9,550	\$ -	\$ -	\$ 9,550
Land improvements	189,772	19,126	1,826	207,072
Building	8,453,346	75,000	3,908	8,524,438
Fixed equipment	2,918,587	17,609	23,314	2,912,882
Major movable equipment	4,218,475	1,131,482	155,244	5,194,713
Medical office building	1,098,085	7,330	-	1,105,415
Construction in progress	-	<u>116,727</u>	-	<u>116,727</u>
Totals	16,887,815	1,367,274	184,292	18,070,797
Less accumulated depreciation	<u>(6,747,107)</u>	<u>(1,479,502)</u>	<u>(184,292)</u>	<u>(8,042,317)</u>
Net property and equipment	<u>\$10,140,708</u>	<u>\$ (112,228)</u>	<u>\$ -</u>	<u>\$10,028,480</u>

NOTE 7 LONG-TERM DEBT

Long-term debt is summarized as follows:

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Hospital Revenue Bonds, Series 2001	\$6,085,000	\$6,335,000
Notes payable, equipment	<u>1,003,567</u>	<u>291,192</u>
Less current maturities	<u>7,088,567</u>	<u>6,626,192</u>
	483,795	407,889
Long-term debt, net of current maturities	<u>\$6,604,772</u>	<u>\$6,218,303</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

Hospital Revenue Bonds, Series 2001

The Hospital has issued Hospital Revenue Bonds, Series 2001, in the original amount of \$7,235,000. The Bonds are payable solely from future revenues of the Hospital and are due serially each June 1 through 2022, at remaining interest rates ranging from 5.15% to 6.5%. At June 30, 2007, the remaining balance on these Bonds is \$6,085,000.

The Hospital Revenue Bonds, Series 2001, require certain funds be maintained as follows:

A Sinking Fund requiring monthly deposits in an amount equal to 1/6 of the next semiannual interest payment and 1/12 of the next annual principal payment. Future funding requirements of the Sinking Fund for the next five years total 2008 \$642,453; 2009 \$639,145; 2010 \$639,897; 2011 \$643,704; 2012 \$641,799.

A Debt Service Reserve Fund in an amount equal to the maximum annual amount of principal and interest due in any succeeding fiscal year.

The amounts set aside as assets whose use is limited for payment of long-term debt and interest meet the requirements of the Revenue Bonds at June 30, 2007.

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

Notes Payable, Equipment

The Hospital has a note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$18,767, including interest at 5.1%, with the final payment due March, 2012. At June 30, 2007, the remaining balance on this note is \$933,272.

The Hospital has a second note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,028, including interest at 4%, with the final payment due May, 2009. At June 30, 2007, the remaining balance on this note is \$21,782.

The Hospital has a third note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,014, including interest at 3.5%, with the final payment due October, 2008. At June 30, 2007, the remaining balance on this note is \$15,834.

The Hospital has a fourth note agreement to finance the purchase of certain equipment. The note requires monthly payments of \$1,224, including interest at 4%, with the final payment due October, 2009. At June 30, 2007, the remaining balance on this note is \$32,679.

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

<u>Year ending June 30</u>	<u>Revenue Bonds</u>	<u>Notes payable</u>	<u>Total Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 265,000	\$ 218,795	\$ 483,795	\$ 423,368	\$ 907,163
2009	275,000	219,592	494,592	398,753	893,345
2010	290,000	206,124	496,124	373,510	869,634
2011	310,000	211,772	521,772	347,304	869,076
2012	325,000	147,284	472,284	319,679	791,963
2013 - 2017	1,955,000	-	1,955,000	1,253,188	3,208,188
2018 - 2022	<u>2,665,000</u>	-	<u>2,665,000</u>	<u>540,800</u>	<u>3,205,800</u>
Total	6,085,000	1,003,567	7,088,567	3,656,602	10,745,169
Less current maturities	<u>265,000</u>	<u>218,795</u>	<u>483,795</u>	<u>423,368</u>	<u>907,163</u>
Total long-term debt	<u>\$5,820,000</u>	<u>\$ 784,772</u>	<u>\$6,604,772</u>	<u>\$3,233,234</u>	<u>\$ 9,838,006</u>

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 LONG-TERM DEBT (continued)

A summary of changes in long-term debt for the year ended June 30, 2007 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$6,335,000	\$ —	\$ 250,000	\$6,085,000	\$ 265,000
Notes payable	<u>291,192</u>	<u>977,059</u>	<u>264,684</u>	<u>1,003,567</u>	<u>218,795</u>
Totals	<u>\$6,626,192</u>	<u>\$ 977,059</u>	<u>\$ 514,684</u>	<u>\$7,088,567</u>	<u>\$ 483,795</u>

A summary of changes in long-term debt for the year ended June 30, 2006 follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Principal payments</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
Hospital Revenue Bonds	\$6,575,000	\$ —	\$ 240,000	\$6,335,000	\$ 250,000
Notes payable	<u>442,769</u>	<u>—</u>	<u>151,577</u>	<u>291,192</u>	<u>157,889</u>
Totals	<u>\$7,017,769</u>	<u>\$ —</u>	<u>\$ 391,577</u>	<u>\$6,626,192</u>	<u>\$ 407,889</u>

NOTE 8 MEDICAL OFFICE BUILDING

The Hospital and a medical group practice entered into a lease agreement covering a substantial portion of the medical office building. The noncancelable lease began in 1997 for a ten year period, and provides guaranteed annual rents of \$51,113, payable monthly at \$12.50 per leased square foot. The lease also grants the medical group practice options to extend the lease for an additional term of five years and to expand the space included in the agreement, at specified new rates. Other revenue for the years ended June 30, 2007 and 2006 included \$53,637 and \$54,872, respectively, received under the lease agreement.

NOTE 9 DEFINED BENEFIT PENSION PLAN

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

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$275,862, \$254,701 and \$233,335, respectively, equal to the required contributions for each year.

**Clarke County Public Hospital
NOTES TO FINANCIAL STATEMENTS**

NOTE 10 CHARITY CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The following information measures the level of charity care provided during the years ended June 30, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
Charges foregone, based on established rates	\$ <u>128,122</u>	\$ <u>46,207</u>
Equivalent percentage of charity care patients to all patients served	<u>1.0%</u>	<u>.4%</u>

NOTE 11 MALPRACTICE CLAIMS

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Coverage limits are \$1,000,000 per claim and \$3,000,000 in the aggregate.

Presently, no claims alleging malpractice have been asserted against the Hospital. However, incidents occurring through June 30, 2007 may result in the assertion of claims. Other claims may be asserted arising from services provided to patients in the past. Management is unable to estimate the ultimate cost, if any, of the resolution of such potential claims and, accordingly, no accrual has been made for them; however, management believes that these claims, if asserted, would be settled within the limits of insurance coverage.

NOTE 12 COUNTY HOSPITAL BUDGET AND BUDGETARY ACCOUNTING

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

The following is a comparison of reported amounts to the County Hospital budget:

	<u>GAAP basis</u>	<u>Budget basis adjustments</u>	<u>Budget basis</u>	<u>County Hospital budget</u>
Amount to be raised by taxation	\$ 1,120,259	\$ 165,330	\$ 1,285,589	\$ 1,243,290
Other revenues/receipts	<u>12,832,420</u>	<u>428,790</u>	<u>13,261,210</u>	<u>12,382,507</u>
	13,952,679	594,120	14,546,799	13,625,797
Expenses/expenditures	<u>12,848,375</u>	<u>2,722,105</u>	<u>15,570,480</u>	<u>16,043,853</u>
Net	1,104,304	(2,127,985)	(1,023,681)	(2,418,056)
Balance, beginning	<u>7,517,574</u>	<u>(3,393,536)</u>	<u>4,124,038</u>	<u>4,059,962</u>
Balance, ending	\$ <u>8,621,878</u>	\$ <u>(5,521,521)</u>	\$ <u>3,100,357</u>	\$ <u>1,641,906</u>

NOTE 13 RISK MANAGEMENT

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

INDEPENDENT AUDITOR'S REPORT ON THE SUPPLEMENTARY INFORMATION

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

Our report on our audits of the basic financial statements of Clarke County Public Hospital for 2007 and 2006 appears on page 4. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Denman & Company, LLP
DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 29, 2007

**Clarke County Public Hospital
ANALYSIS OF PATIENT RECEIVABLES**

<u>Age of accounts (by date of discharge)</u>	<u>Amounts</u>		<u>Percent to total</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
No discharge date (includes patients in Hospital at end of year)	\$ 141,027	\$ 176,573	7.26%	6.75%
0 - 60 days	1,239,222	1,127,050	63.81	43.07
61 - 180 days	375,477	855,779	19.34	32.70
181 - 365 days	119,732	313,811	6.17	11.99
366 and over	<u>66,451</u>	<u>143,607</u>	<u>3.42</u>	<u>5.49</u>
Totals	<u>1,941,909</u>	<u>2,616,820</u>	<u>100.00%</u>	<u>100.00%</u>
Allowances				
Contractual				
Medicare	30,000	160,000		
Medicaid	20,000	50,000		
Other	240,000	220,000		
Bad debts	<u>490,000</u>	<u>550,000</u>		
Total allowances	<u>780,000</u>	<u>980,000</u>		
Totals	<u>\$1,161,909</u>	<u>\$1,636,820</u>		
NET PATIENT SERVICE REVENUE PER CALENDAR DAY	<u>\$ 34,071</u>	<u>\$ 32,086</u>		
NUMBER OF DAYS NET PATIENT SERVICE REVENUE IN NET PATIENT RECEIVABLES	<u>34</u>	<u>51</u>		

ANALYSIS OF ALLOWANCE FOR BAD DEBTS

	<u>Amounts</u>		<u>Percent of net patient service revenue</u>	
	<u>Year ended June 30</u>		<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
BALANCE , beginning	\$ 550,000	\$ 360,000		
ADD				
Provision for bad debts	611,498	657,167	4.92%	5.61%
Recoveries of accounts previously written off	<u>153,337</u>	<u>133,270</u>	1.23	1.14
	1,314,835	1,150,437		
DEDUCT				
Accounts written off	<u>824,835</u>	<u>600,437</u>	6.63	5.13
BALANCE , ending	<u>\$ 490,000</u>	<u>\$ 550,000</u>		

Clarke County Public Hospital
PATIENT SERVICE REVENUE
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Total</u>
DAILY PATIENT SERVICES				
Medical and surgical	\$ 842,170	\$ -	\$ 842,170	\$ 782,369
Skilled care	186,200	-	186,200	262,850
Extended care	500,760	-	500,760	594,230
	<u>1,529,130</u>	<u>-</u>	<u>1,529,130</u>	<u>1,639,449</u>
OTHER NURSING SERVICE				
Observation room	-	114,920	114,920	133,587
Operating and recovery rooms	35,375	1,575,939	1,611,314	1,682,860
Emergency service	570	1,399,797	1,400,367	1,189,377
Central supply	35,111	412,808	447,919	493,016
Ambulance	<u>21,505</u>	<u>631,395</u>	<u>652,900</u>	<u>731,548</u>
	<u>92,561</u>	<u>4,134,859</u>	<u>4,227,420</u>	<u>4,230,388</u>
OTHER PROFESSIONAL SERVICES				
Laboratory	277,436	1,415,386	1,692,822	1,683,641
Cardiopulmonary	13,860	120,554	134,414	132,606
Cardiac rehabilitation	-	219,464	219,464	192,125
Respiratory therapy	-	39,402	39,402	17,936
Diagnostic imaging	212,145	2,685,216	2,897,361	2,594,423
Pharmacy	546,023	850,623	1,396,646	1,226,955
Anesthesiology	9,864	268,992	278,856	279,474
Speech therapy	8,775	19,866	28,641	21,062
Physical therapy	105,078	667,470	772,548	672,940
Occupational therapy	<u>16,356</u>	<u>17,573</u>	<u>33,929</u>	<u>29,491</u>
	<u>1,189,537</u>	<u>6,304,546</u>	<u>7,494,083</u>	<u>6,850,653</u>
Totals	<u>\$2,811,228</u>	<u>\$10,439,405</u>	13,250,633	12,720,490
Charity care charges foregone, based on established rates			(128,122)	(46,207)
Total gross patient service revenue			13,122,511	12,674,283
Provisions for contractual adjustments and bad debts			(686,651)	(962,800)
Total net patient service revenue			<u>\$12,435,860</u>	<u>\$11,711,483</u>

**Clarke County Public Hospital
PROVISIONS FOR CONTRACTUAL ADJUSTMENTS AND BAD DEBTS**

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Contractual adjustments		
Medicare and Medicaid	\$ (777,568)	\$ (529,413)
Other	852,721	835,046
Provision for bad debts	<u>611,498</u>	<u>657,167</u>
 Totals	 <u>\$ 686,651</u>	 <u>\$ 962,800</u>

OTHER REVENUE

	<u>Year ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Meals	\$ 32,117	\$ 27,684
Community fitness center fees	12,360	17,760
Medical office building		
Rental income	53,637	54,872
Other income	30,433	29,258
Miscellaneous	<u>86,908</u>	<u>84,322</u>
 Totals	 <u>\$ 215,455</u>	 <u>\$ 213,896</u>

Clarke County Public Hospital
EXPENSES
Year ended June 30, 2007, with comparative totals for 2006

	<u>2007</u>			<u>2006</u>
	<u>Salaries</u>	<u>Other</u>	<u>Total</u>	<u>Total</u>
NURSING SERVICE				
Nursing administration	\$ 95,955	\$ 626	\$ 96,581	\$ 110,123
Medical and surgical	1,485,805	587,109	2,072,914	1,979,599
Operating and recovery rooms	354,145	85,459	439,604	463,451
Emergency service	612,973	365,886	978,859	925,170
Central supply	-	128,280	128,280	137,129
Ambulance	26,981	29,446	56,427	93,068
Total nursing service	<u>2,575,859</u>	<u>1,196,806</u>	<u>3,772,665</u>	<u>3,708,540</u>
OTHER PROFESSIONAL SERVICE				
Laboratory	290,791	279,242	570,033	627,277
Cardiopulmonary	4,493	10,826	15,319	13,092
Cardiac rehabilitation	68,374	15,560	83,934	83,542
Respiratory therapy	3,712	25,411	29,123	4,781
Diagnostic imaging	260,788	342,792	603,580	624,191
Pharmacy	27,800	544,714	572,514	523,027
Anesthesiology	-	140,665	140,665	139,981
Speech therapy	-	12,896	12,896	13,550
Physical therapy	-	470,964	470,964	395,812
Occupational therapy	-	11,435	11,435	17,561
Specialty clinic	7,156	6	7,162	24,241
Medical office building	-	28,061	28,061	26,713
Health information	137,511	73,284	210,795	205,201
Quality improvement and utilization management	123,624	31,694	155,318	144,046
Total other professional service	<u>924,249</u>	<u>1,987,550</u>	<u>2,911,799</u>	<u>2,843,015</u>
GENERAL SERVICE				
Dietary	174,862	131,512	306,374	307,557
Plant operation	179,592	423,112	602,704	517,828
Environmental services	241,524	34,866	276,390	241,892
Laundry and linen	-	81,552	81,552	78,970
Total general service	<u>595,978</u>	<u>671,042</u>	<u>1,267,020</u>	<u>1,146,247</u>
FISCAL AND ADMINISTRATIVE SERVICE AND UNASSIGNED EXPENSES				
Administration	154,642	792,759	947,401	790,338
Business office	307,216	153,437	460,653	374,915
Information services	50,800	177,864	228,664	251,011
Purchasing	59,986	40,685	100,671	97,858
Community fitness center	-	11,362	11,362	15,557
FICA	-	332,630	332,630	331,696
IPERS	-	275,862	275,862	254,701
Group health, life, and disability insurance	-	650,441	650,441	636,860
Insurance	-	182,516	182,516	195,085
Total fiscal and administrative service and unassigned expenses	<u>572,644</u>	<u>2,617,556</u>	<u>3,190,200</u>	<u>2,948,021</u>
PROVISION FOR DEPRECIATION				
	<u>-</u>	<u>1,706,691</u>	<u>1,706,691</u>	<u>1,479,502</u>
Total expenses	<u>\$4,668,730</u>	<u>\$8,179,645</u>	<u>\$12,848,375</u>	<u>\$12,125,325</u>

**Clarke County Public Hospital
COMPARATIVE STATISTICS**

	Year ended June 30	
	2007	2006
PATIENT DAYS		
Adult and pediatric	1,040	995
Swing bed	532	751
Extended care	4,166	4,964
Totals	5,738	6,710
DISCHARGES		
Adult and pediatric	310	320
Swing bed	70	82
Extended care	14	10
Totals	394	412
AVERAGE LENGTH OF STAY		
Adult and pediatric	3.35	3.11
Swing bed	7.60	9.16
Extended care	297.57	496.40

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Clarke County Public Hospital
Osceola, Iowa

We have audited the financial statements of Clarke County Public Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated August 29, 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 Clarke County Public 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 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 combination of control deficiencies, that adversely affects the entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or 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 entity'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*.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Those comments are presented in Part II of the accompanying Schedule of Findings.

This report, a public record by law, is intended solely for the information and use of the Board of Trustees, management, employees and citizens of Clarke County and other parties to whom the Hospital may report. This report is not intended to be and should not be used by anyone other than these specified parties.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
August 29, 2007

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part I—Findings Related to the Financial Statements

No matters regarding significant deficiencies, material weaknesses or instances of noncompliance relative to the financial statements were reported.

**Clarke County Public Hospital
SCHEDULE OF FINDINGS
Year ended June 30, 2007**

Part II—Findings Related to Required Statutory Reporting

07-II-A CERTIFIED COUNTY HOSPITAL BUDGET

Based on a comparison of actual budget basis expenditures with County Hospital budgeted expenditures, it appears the Hospital did not exceed its County Hospital budget for the year ended June 30, 2007.

07-II-B QUESTIONABLE EXPENDITURES

No questionable expenditures of Hospital funds were noted.

07-II-C TRAVEL EXPENSES

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

07-II-D BUSINESS TRANSACTIONS

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

07-II-E BOARD MINUTES

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

07-II-F DEPOSITS AND INVESTMENTS

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