

Decatur County Hospital

Accountants' Report and Financial Statements

June 30, 2007 and 2006



Decatur County Hospital

June 30, 2007 and 2006

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Decatur County Hospital
Leon, Iowa

We have audited the accompanying balance sheets of Decatur County 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 Decatur County 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 November 27, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We 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 procedures to management's discussion and analysis for 2005. We did not audit the information and express no opinion on it.

Board of Trustees
Decatur County Hospital
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Our audit was conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
November 27, 2007

Decatur County 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 Decatur County 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, cash equivalents and short-term investments increased between 2007 and 2006 by \$431,495 or 44% and decreased between 2006 and 2005 by \$26,501 or 3%.
- The Hospital's net assets increased \$1,087,735 or 22% in 2007 over 2006 and increased \$322,160 or 7% in 2006 over 2005.
- The Hospital reported operating income in 2007 of \$444,030 and operating loss in 2006 of (\$276,377). The operating income in 2007 increased by \$720,407 over the operating loss reported in 2006 and the loss in 2006 decreased by \$409,257 or 60% over the operating loss reported in 2005.
- Net nonoperating revenues increased by \$45,168 or 8% in 2007 compared to 2006 and increased by \$72,193 or 14% 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.

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

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 \$1,087,735 or 22% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 1,000,205	\$ 872,527	\$ 1,344,004
Other current assets	2,673,952	1,831,024	1,807,823
Noncurrent cash and deposits	1,652,724	2,131,064	1,727,966
Capital assets, net	3,305,344	3,230,583	3,600,138
Total assets	<u>\$ 8,632,225</u>	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>
Liabilities			
Current liabilities	\$ 1,446,784	\$ 2,030,958	\$ 2,507,814
Long-term debt	1,090,205	1,026,739	1,286,776
Total liabilities	<u>2,536,989</u>	<u>3,057,697</u>	<u>3,794,590</u>
Net Assets			
Invested in capital assets, net of related debt	1,996,317	1,938,294	2,033,056
Unrestricted	4,098,919	3,069,207	2,652,285
Total net assets	<u>6,095,236</u>	<u>5,007,501</u>	<u>4,685,341</u>
Total liabilities and net assets	<u>\$ 8,632,225</u>	<u>\$ 8,065,198</u>	<u>\$ 8,479,931</u>

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

In 2007, significant changes in the Hospital's assets were due to:

- Patient accounts receivable increased \$127,678 or 15% over 2006. The percentage of accounts receivable by financial class remained fairly consistent with the exception of the commercial class. In 2007, 44% of account receivable was in the commercial class as opposed to 34% in 2006. Gross patient revenue for the commercial class increased by \$68,125 or 3% in 2007.
- Estimated amounts due from third-party payers increased \$1,110,489.
- Internally designated assets decreased by \$478,340 or 22%.
- Net capital assets increased due to the additions to equipment, including a new ambulance and a CT Scanner.

In 2006, significant changes in the Hospital's assets were due to:

- Patient accounts receivable decreased \$471,477 or 35% due to the following:
 - The Hospital's Home Health program was discontinued on June 30, 2005, but \$92,495 of Accounts Receivable from Home Health services remained to be collected. This amount was either collected or written off before the fiscal year ended June 30, 2007.
 - Hospital net patient service revenue in 2006 increased 7% over the prior year, excluding Home Health. There was no significant difference in payer mix between the two years. During 2006, the Hospital was able to improve billing and collections processes in every financial class except self pay. Based on a comparison of the last three month's revenue for each year, which was within 3%, we estimate that a reduction of seven days in Accounts Receivable reduced total Accounts Receivable by approximately \$272,000.
 - Contractual allowances for Medicare and Medicaid increased during 2006 by \$134,315. This is due to overall decreases in Medicare and Medicaid rates from the previous year.
 - The allowance for uncollectible accounts decreased \$9,955 during 2006 due to a slight improvement in the aging of self-pay Accounts Receivable. Although the self-pay Accounts Receivable balance was higher than the previous year, the majority of it was in lower aged categories.
- Internally designated assets increased by \$403,098.
- The Hospital accumulated over \$400,000 additional cash due to a decrease in Accounts Receivable as well as a positive bottom line. This additional cash was added to internally designated assets.

Decatur County Hospital Management's Discussion and Analysis Years Ended June 30, 2007 and 2006

- Net capital assets decreased in 2006 by \$369,555, primarily due to depreciation on assets exceeding additions to building improvements and equipment.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$1,087,735 or 22% as shown in Table 2. This increase is made up of several different components and represents an increase of \$819,575 compared with the increase in net assets for 2006 of \$322,160. The Hospital's change in net assets increased from \$(159,290) in 2005 to \$322,160 in 2006.

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Revenues			
Net patient service revenue	\$ 7,979,792	\$ 6,929,718	\$ 7,266,731
Other operating revenues	192,998	377,630	320,207
Total operating revenues	<u>8,172,790</u>	<u>7,307,348</u>	<u>7,586,938</u>
Operating Expenses			
Salaries and wages and employee benefits	3,982,961	3,642,951	4,232,566
Purchased services and professional fees	1,316,442	1,515,379	1,486,254
Depreciation and amortization	462,387	431,688	461,375
Other operating expenses	1,966,970	1,993,707	2,092,377
Total operating expenses	<u>7,728,760</u>	<u>7,583,725</u>	<u>8,272,572</u>
Operating Income (Loss)	<u>444,030</u>	<u>(276,377)</u>	<u>(685,634)</u>
Nonoperating Revenues (Expenses)			
Property taxes	587,724	583,575	586,062
Interest expense	(68,929)	(71,206)	(96,505)
Interest income	119,870	77,995	28,944
Noncapital grants and gifts	5,040	8,173	7,843
Total nonoperating revenues	<u>643,705</u>	<u>598,537</u>	<u>526,344</u>
Increase (Decrease) in Net Assets	<u>\$ 1,087,735</u>	<u>\$ 322,160</u>	<u>\$ (159,290)</u>

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Operating Income/(Loss)

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, the Hospital reported operating income and in 2006 and 2005, the Hospital reported operating losses. This is consistent with the Hospital's recent operating history as the Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating income for 2007 increased by \$720,407 or 26% as compared to the operating loss in 2006. The primary components of the increased operating income are:

- The 2007 Medicare cost report resulted in an estimated settlement due to the Hospital of approximately \$576,000.
- Other operating income decreased by \$184,632 in 2007 partly due to a grant program being discontinued.
- Salaries and wages and employee benefits increased 9% or \$340,010 in 2007 due to increases in health insurance. The number of full time equivalents (FTEs) also increased from 2006 to 2007 at 83 to 94.
- Depreciation expense increased in 2007 due to the purchase of new equipment.

The operating loss for 2006 decreased by \$409,257 or 60% as compared to 2005. The primary components of the decreased operating loss are:

- Medicare audits in 2005 for the years ended June 30, 2005 and 2004 resulted in additional contractual adjustments of \$274,031 that the Hospital did not have in 2007.
- The Hospital eliminated the Leon Family Clinic as of March 31, 2005 and the Public Health/Home Health and Focus as of June 30, 2006. This resulted in the Hospital being able to reduce full time equivalents (FTEs) from 108 to 105 to 83. The reduction of FTEs resulted in a corresponding decrease of \$589,615 in salaries and wage benefits.
- The three services eliminated at the end of 2005 were reducing the Hospital's reimbursement under the critical access hospital program.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and interest expense, and grants, all of which remained relatively constant in 2007 as compared to 2006, except for the increase in interest income of \$41,875.

Decatur County Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating loss and nonoperating revenues and expenses in 2007 and 2006, discussed earlier, with one exception. The amounts due to third-party payers related to cost report settlements decreased \$414,025 in 2006 from 2005.

Capital Asset and Debt Administration

Capital Assets

At the end of 2007 and 2006, the Hospital had \$3,305,344 and \$3,230,583, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2007 and 2006, the Hospital purchased new capital assets costing \$585,249 and \$78,963, respectively.

Debt

At June 30, 2007 and 2006, the Hospital had \$1,394,986 and \$1,292,290, respectively, in loans and capital lease obligations outstanding. New debt issued in 2007 was for the lease agreement for the CT Scanner. The Hospital issued no new debt in 2006.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.446.4871.

Decatur County Hospital
Balance Sheets
June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and cash equivalents	\$ 1,202,039	\$ 379,443
Short-term investments	208,899	600,000
Patient accounts receivable, net of allowance; 2007 - \$170,200, 2006 - \$200,735	1,000,205	872,527
Estimated amounts due from third-party payers	411,000	-
Property taxes receivable	565,501	561,070
Other receivables	12,446	23,818
Supplies	200,863	180,274
Prepaid expenses	<u>73,204</u>	<u>86,419</u>
Total current assets	<u>3,674,157</u>	<u>2,703,551</u>
Noncurrent Cash and Deposits		
Internally restricted		
Board designated	<u>1,652,724</u>	<u>2,131,064</u>
Land and land improvements	161,086	161,086
Buildings and leasehold improvements	4,230,658	4,230,657
Major moveable equipment	2,608,156	2,473,661
Construction in progress	<u>25,808</u>	<u>48,101</u>
	7,025,708	6,913,505
Less accumulated depreciation	<u>3,720,364</u>	<u>3,682,922</u>
	<u>3,305,344</u>	<u>3,230,583</u>
Total Assets	<u><u>\$ 8,632,225</u></u>	<u><u>\$ 8,065,198</u></u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 304,781	\$ 265,551
Accounts payable	259,173	304,650
Accrued expenses payable to employees	317,329	200,198
Estimated amounts due to third-party payers	-	699,489
Deferred revenue for property taxes	<u>565,501</u>	<u>561,070</u>
Total current liabilities	1,446,784	2,030,958
Long-term Debt	<u>1,090,205</u>	<u>1,026,739</u>
Total liabilities	<u>2,536,989</u>	<u>3,057,697</u>
Net Assets		
Invested in capital assets, net of related debt	1,996,317	1,938,294
Unrestricted	<u>4,098,919</u>	<u>3,069,207</u>
Total net assets	<u>6,095,236</u>	<u>5,007,501</u>
Total Liabilities and Net Assets	<u>\$ 8,632,225</u>	<u>\$ 8,065,198</u>

Decatur County 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	\$ 8,233,417	\$ 7,216,659
Provision for uncollectible accounts	<u>(253,625)</u>	<u>(286,941)</u>
Net patient service revenue	7,979,792	6,929,718
Other	<u>192,998</u>	<u>377,630</u>
Total operating revenues	<u>8,172,790</u>	<u>7,307,348</u>
Operating Expenses		
Salaries and wages	3,092,084	2,898,981
Employee benefits	890,877	743,970
Purchased services and professional fees	1,316,442	1,515,379
Depreciation and amortization	462,387	431,688
Supplies and other expenses	<u>1,966,970</u>	<u>1,993,707</u>
Total operating expenses	<u>7,728,760</u>	<u>7,583,725</u>
Operating Income (Loss)	<u>444,030</u>	<u>(276,377)</u>
Nonoperating Revenues (Expenses)		
Property taxes	587,724	583,575
Interest expense	(68,929)	(71,206)
Interest income	119,870	77,995
Noncapital grants and gifts	<u>5,040</u>	<u>8,173</u>
Total nonoperating revenues	<u>643,705</u>	<u>598,537</u>
Increase in Net Assets	1,087,735	322,160
Net Assets, Beginning of Year	<u>5,007,501</u>	<u>4,685,341</u>
Net Assets, End of Year	<u>\$ 6,095,236</u>	<u>\$ 5,007,501</u>

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

	<u>2007</u>	<u>2006</u>
Operating Activities		
Cash received from patients and third parties	\$ 6,741,625	\$ 6,987,260
Cash paid to employees	(3,865,830)	(3,674,922)
Cash paid to suppliers	(3,336,263)	(3,566,093)
Other receipts and payments, net	<u>244,121</u>	<u>383,920</u>
Net cash provided by (used in) operating activities	<u>(216,347)</u>	<u>130,165</u>
Non-Capital Financing Activities		
Tax appropriations	587,724	583,575
Restricted and unrestricted contributions and grants	<u>5,040</u>	<u>8,173</u>
Net cash provided by non-capital financing activities	<u>592,764</u>	<u>591,748</u>
Capital and Related Financing Activities		
Purchase of property and equipment	(197,425)	(78,963)
Cash received from sale of property and equipment	8,350	1,650
Principal payments on long-term debt	(285,128)	(274,792)
Interest payments on long-term debt	<u>(68,929)</u>	<u>(71,206)</u>
Net cash used in capital and related financing activities	<u>(543,132)</u>	<u>(423,311)</u>
Investing Activities		
Change in noncurrent cash	7,296	(35,077)
Purchases of investments	(1,561,028)	(1,535,416)
Proceeds from disposition of investments	2,272,810	20,250
Investment income	<u>119,870</u>	<u>77,995</u>
Net cash provided by (used in) investing activities	<u>838,948</u>	<u>(1,472,248)</u>
Increase (Decrease) in Cash and Cash Equivalents	672,233	(1,173,646)
Cash and Cash Equivalents, Beginning of Year	<u>610,139</u>	<u>1,783,785</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,282,372</u>	<u>\$ 610,139</u>

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

	2007	2006
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided By (Used In) Operating Activities		
Income (loss) from operations	\$ 444,030	\$ (276,377)
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	462,387	431,688
Loss on sale of assets	39,751	15,180
Decrease (increase) in		
Patient receivables	(127,678)	471,477
Other receivables	11,372	(8,801)
Supplies	(20,589)	4,876
Prepaid expenses	13,215	(42,225)
Increase (decrease) in		
Accounts payable	(45,477)	(19,657)
Accrued salaries, wages, benefits and other	117,131	(31,971)
Third-party payer settlements payable	(1,110,489)	(414,025)
	\$ (216,347)	\$ 130,165

Decatur County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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

Nature of Operations

Decatur County Hospital (Hospital) is a county public hospital organized under Chapter 347 of the Code of Iowa. The Hospital primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in the Decatur County area.

Basis of Accounting and Presentation

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

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

Use of Estimates

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

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 money market accounts.

Decatur County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Property Taxes

The Hospital received approximately 8% of its financial support from property tax revenues in the 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; natural disasters; and employee health, dental, vision, short-term disability and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

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

Supplies

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

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.

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

The following estimated useful lives are being used by the Hospital:

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

Compensated Absences

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

Net Assets

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

Net Patient Service Revenue

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

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under the Hospital's charity care policy were \$17,499 and \$8,278 for 2007 and 2006, respectively.

Decatur County Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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.

Reclassifications

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

Note 2: Net Patient Service Revenue

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

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

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

Note 3: Deposits, Investments and Interest Income

Deposits

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

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

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.

Investments

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district. The Hospital's investment policy does not limit investments on interest rate risk and credit risk. The Hospital complies with State of Iowa statutes in regards to interest rate credit risk.

At June 30, 2007 and 2006 the Hospital's deposits and investments at fair market value are as follows:

	2007	2006
Carrying value - Deposits	\$ 3,063,662	\$ 3,110,507
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,202,039	\$ 379,443
Short-term investments	208,899	600,000
Other noncurrent cash and deposits	1,652,724	2,131,064
	\$ 3,063,662	\$ 3,110,507

Interest Income

Interest income for the years ended June 30, 2007 and 2006, amounted to \$119,870 and \$77,995, respectively.

Decatur County 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:

	<u>2007</u>	<u>2006</u>
Medicare	\$ 313,007	\$ 282,339
Medicaid	74,085	75,745
Patients and other third-party payers	<u>783,313</u>	<u>715,178</u>
	1,170,405	1,073,262
Less allowance for uncollectible accounts	<u>170,200</u>	<u>200,735</u>
	<u>\$ 1,000,205</u>	<u>\$ 872,527</u>

Note 5: Capital Assets

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

2007	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 44,272	\$ -	\$ -	\$ 44,272
Land improvements	116,814	-	-	116,814
Buildings and leasehold improvements	4,230,657	1	-	4,230,658
Major movable equipment	2,473,661	559,440	(424,945)	2,608,156
Construction in progress	<u>48,101</u>	<u>25,808</u>	<u>(48,101)</u>	<u>25,808</u>
	<u>6,913,505</u>	<u>585,249</u>	<u>(473,046)</u>	<u>7,025,708</u>
Less accumulated depreciation				
Land improvements	(52,305)	(7,494)	-	(59,799)
Buildings and leasehold improvements	(1,914,279)	(141,668)	-	(2,055,947)
Major movable equipment	<u>(1,716,338)</u>	<u>(313,225)</u>	424,945	<u>(1,604,618)</u>
	<u>(3,682,922)</u>	<u>(462,387)</u>	424,945	<u>(3,720,364)</u>
Capital assets, net	<u>\$ 3,230,583</u>	<u>\$ 122,862</u>	<u>\$ (48,101)</u>	<u>\$ 3,305,344</u>

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

2006	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 44,272	\$ -	\$ -	\$ 44,272
Land improvements	116,814	-	-	116,814
Buildings and leasehold improvements	4,214,586	16,071	-	4,230,657
Major movable equipment	2,576,924	48,848	(152,111)	2,473,661
Construction in progress	34,057	14,044	-	48,101
	<u>6,986,653</u>	<u>78,963</u>	<u>(152,111)</u>	<u>6,913,505</u>
Less accumulated depreciation				
Land improvements	(44,811)	(7,494)	-	(52,305)
Buildings and leasehold improvements	(1,772,860)	(141,419)	-	(1,914,279)
Major movable equipment	(1,568,844)	(282,775)	135,281	(1,716,338)
	<u>(3,386,515)</u>	<u>(431,688)</u>	<u>135,281</u>	<u>(3,682,922)</u>
Capital assets, net	<u>\$ 3,600,138</u>	<u>\$ (352,725)</u>	<u>\$ (16,830)</u>	<u>\$ 3,230,583</u>

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: Long-term Obligations

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

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

	2007				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Great Western Bank (A)	\$ 648,772	\$ -	\$ (56,424)	\$ 592,348	\$ 54,933
American State Bank (B)	314,953	-	(44,583)	270,370	46,775
Capital lease obligations (C)	<u>328,565</u>	<u>387,824</u>	<u>(184,121)</u>	<u>532,268</u>	<u>203,073</u>
Total long-term debt	<u>\$ 1,292,290</u>	<u>\$ 387,824</u>	<u>\$ (285,128)</u>	<u>\$ 1,394,986</u>	<u>\$ 304,781</u>
	2006				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Great Western Bank (A)	\$ 722,476	\$ -	\$ (73,704)	\$ 648,772	\$ 53,512
American State Bank (B)	357,187	-	(42,234)	314,953	44,276
Capital lease obligations (C)	<u>487,419</u>	<u>-</u>	<u>(158,854)</u>	<u>328,565</u>	<u>167,763</u>
Total long-term debt	<u>\$ 1,567,082</u>	<u>\$ -</u>	<u>\$ (274,792)</u>	<u>\$ 1,292,290</u>	<u>\$ 265,551</u>

- (A) The Great Western note payable requires monthly payments of principal and interest with interest at variable rate ranging from 5.59% to 7.95%. This note is collateralized by patient revenues. Principal and interest payments are due through August 2015.
- (B) American State Bank note payable requires monthly payments of principal and interest with interest at a rate of 5.5%. This note is collateralized by patient revenues. Principal and interest are due through July 2012.
- (C) At varying rates of imputed interest from 5.0% to 7.2% maturing through 2012 and collateralized by leased equipment. Equipment includes the following property under capital leases:

	2007	2006
Equipment	\$ 1,366,794	\$ 978,970
Less accumulated depreciation	<u>691,287</u>	<u>494,022</u>
	<u>\$ 675,507</u>	<u>\$ 484,948</u>

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

The debt service requirements as of June 30, 2007 are as follows for Great Western and American State Bank notes payable:

	Total to be Paid	Principal	Interest
2008	\$ 149,154	\$ 101,708	\$ 47,446
2009	149,153	107,678	41,475
2010	149,153	114,000	35,153
2011	149,154	120,694	28,460
2012	149,153	127,780	21,373
2013-2016	322,803	290,858	31,945
	\$ 1,068,570	\$ 862,718	\$ 205,852

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2007:

2008	\$ 233,227
2009	118,992
2010	92,561
2011	92,494
2012	69,371
Total minimum lease payments	606,645
Less amount representing interest	(74,377)
 Present value of future minimum lease payments	 \$ 532,268

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

Note 8: Operating Leases

The Hospital leases equipment under noncancelable operating leases. Future minimum lease payments at June 30, 2007, are:

2008	\$	134,943
2009		133,692
2010		104,803
2011		55,172
2012		<u>7,501</u>
Future minimum lease payments	\$	<u><u>436,111</u></u>

Rental expense for all operating leases was \$92,013 and \$22,273 for the years ended June 30, 2007 and 2006, respectively.

Note 9: Designated Net Assets

The Board of Trustees has designated \$1,652,724 and \$2,131,064 of net assets for capital acquisitions at June 30, 2007 and 2006, respectively. Designated funds remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Such designated funds are reflected in other noncurrent cash and investments in the accompanying balance sheets.

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.

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

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 each of the years 2007 and 2006. Contribution requirements are established by state statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$176,741, \$157,642 and \$186,736, respectively, which equaled the required contributions for each year.

Note 11: Contractual Arrangement

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority or responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2007 and 2006 were approximately \$295,700 and \$280,300, respectively. Accounts payable due to Mercy for the years ended June 30, 2007 and 2006 were \$66,000 and \$52,029, respectively.

Note 12: Budget and Budgetary Accounting

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

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

	Actual	Accrual Adjustments	Cash Basis	Budget
Amount to be raised by taxation	\$ 587,724	\$ -	\$ 587,724	\$ 587,723
Other revenues/receipts	<u>8,297,700</u>	<u>(1,226,795)</u>	<u>7,070,905</u>	<u>8,144,293</u>
	8,885,424	(1,226,795)	7,658,629	8,732,016
Expenses/disbursements	<u>7,797,689</u>	<u>(64,280)</u>	<u>7,733,409</u>	<u>10,015,668</u>
	1,087,735	(1,162,515)	(74,780)	(1,283,652)
Balance, beginning of year	<u>5,007,501</u>	<u>41,299</u>	<u>5,048,800</u>	<u>5,048,800</u>
Balance, end of year	<u>\$ 6,095,236</u>	<u>\$ (1,121,216)</u>	<u>\$ 4,974,020</u>	<u>\$ 3,765,148</u>

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

Note 13: Medicaid Review of FOCUS Program

The Hospital received notification from the Iowa Department of Human Services (DHS) that it is in violation of certain regulations in connection with its FOCUS Program and is subject to repayment for patient services previously billed. The Hospital has been working with legal counsel to review this information and a final agreement with Iowa DHS was reached subsequent to year-end. The settlement was for approximately \$178,000 to be paid in monthly installments of \$14,769 until balance is paid off. The Hospital has included a provision in the financial statements for this outcome. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Supplementary Information

Decatur County Hospital

Schedules of Patient Service Revenues

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Inpatient	Outpatient	Total	Inpatient	Outpatient
Nursing Services						
Medical and surgical	\$ 679,264	\$ 521,135	\$ 158,129	\$ 552,143	\$ 552,143	\$ -
Skilled nursing	186,572	186,572	-	220,564	220,564	-
Respite	153,818	153,818	-	97,089	97,089	-
Observation	297,094	-	297,094	317,660	-	317,660
	<u>1,316,748</u>	<u>861,525</u>	<u>455,223</u>	<u>1,187,456</u>	<u>869,796</u>	<u>317,660</u>
Other Professional Services						
Operating room	1,131,620	130,825	1,000,795	1,190,878	101,376	1,089,502
Laboratory	1,468,157	213,186	1,254,971	1,412,819	203,988	1,208,831
Central services and supplies	135,356	27,872	107,484	114,744	23,046	91,698
Emergency room	600,339	2,458	597,881	612,260	5,612	606,648
Ambulance	628,777	9,013	619,764	615,817	12,263	603,554
Electrocardiology	67,518	6,360	61,158	96,293	6,327	89,966
Radiology	1,107,590	62,530	1,045,060	1,303,901	84,156	1,219,745
CT scans	380,733	43,817	336,916	398,347	35,377	362,970
Vascular imaging	148,498	6,874	141,624	119,091	18,115	100,976
Cardiac rehabilitation	97,352	696	96,656	22,272	-	22,272
Mental health	-	-	-	2,860	2,860	-
Pharmacy	1,982,429	574,182	1,408,247	2,126,807	641,333	1,485,474
Anesthesiology	494,902	47,564	447,338	519,894	43,624	476,270
Respiratory therapy	441,006	217,477	223,529	533,304	307,982	225,322
Physical therapy	413,655	77,728	335,927	417,559	102,869	314,690
Occupational therapy	86,832	56,447	30,385	20,526	13,250	7,276
Speech therapy	29,972	11,202	18,770	33,997	22,171	11,826
Clinics	18,905	-	18,905	28,619	-	28,619
Diabetic education	10,600	-	10,600	10,194	-	10,194
	<u>9,244,241</u>	<u>1,488,231</u>	<u>7,756,010</u>	<u>9,580,182</u>	<u>1,624,349</u>	<u>7,955,833</u>
Gross Patient Service Revenue	<u>10,560,989</u>	<u>\$ 2,349,756</u>	<u>\$ 8,211,233</u>	<u>\$ 10,767,638</u>	<u>\$ 2,494,145</u>	<u>\$ 8,273,493</u>
Contractual Adjustments	<u>2,327,572</u>			<u>3,550,979</u>		
Net Patient Service Revenue before	<u>8,233,417</u>			<u>7,216,659</u>		
Provision for Uncollectible Accounts	<u>(253,625)</u>			<u>(286,941)</u>		
Net Patient Service Revenue	<u>\$ 7,979,792</u>			<u>\$ 6,929,718</u>		

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

	<u>2007</u>	<u>2006</u>
Cafeteria	\$ 42,349	\$ 38,028
Laundry	1,025	1,039
Medical records	2,248	2,154
Grant revenue	-	211,777
Miscellaneous	<u>147,376</u>	<u>124,632</u>
	<u>\$ 192,998</u>	<u>\$ 377,630</u>

Decatur County Hospital

Schedules of Operating Expenses

Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 62,535	\$ 58,800	\$ 3,735	\$ 60,939	\$ 54,861	\$ 6,078
Medical and surgical	863,498	813,946	49,552	799,367	740,825	58,542
	<u>926,033</u>	<u>872,746</u>	<u>53,287</u>	<u>860,306</u>	<u>795,686</u>	<u>64,620</u>
Other Professional Services						
Operating room	234,741	169,012	65,729	241,325	166,982	74,343
Central supplies	71,259	-	71,259	60,324	-	60,324
Emergency room	216,308	209,624	6,684	204,276	180,476	23,800
Radiology	376,271	183,997	192,274	264,482	177,710	86,772
Ambulance	221,725	196,870	24,855	213,552	183,881	29,671
Ultrasound	39,085	-	39,085	35,002	-	35,002
Cardiac rehabilitation	60,991	41,115	19,876	15,844	14,150	1,694
Laboratory	441,924	141,859	300,065	446,257	138,841	307,416
Pharmacy	346,930	33,008	313,922	384,496	38,309	346,187
Social services	22,262	21,692	570	20,988	20,862	126
Home health	11,668	9,213	2,455	-	-	-
Anesthesiology	5,819	-	5,819	6,022	-	6,022
Respiratory therapy	121,171	84,506	36,665	107,037	79,954	27,083
Physical therapy	141,637	124,449	17,188	63,175	44,385	18,790
Occupational therapy	25,205	24,761	444	323	-	323
Mental health	-	-	-	139,365	79,398	59,967
Clinics	27,341	21,190	6,151	30,984	22,187	8,797
Medical records	118,074	98,382	19,692	118,469	94,787	23,682
Quality assurance	35,008	32,256	2,752	33,863	32,771	1,092
Infusion	-	-	-	448	448	-
	<u>2,517,419</u>	<u>1,391,934</u>	<u>1,125,485</u>	<u>2,386,232</u>	<u>1,275,141</u>	<u>1,111,091</u>
General Services						
Operation of plant	406,518	112,465	294,053	418,821	114,252	304,569
Laundry	10,493	10,677	(184)	27,469	14,787	12,682
Dietary	264,993	182,191	82,802	255,176	178,260	76,916
Housekeeping	115,501	94,383	21,118	106,320	86,148	20,172
	<u>797,505</u>	<u>399,716</u>	<u>397,789</u>	<u>807,786</u>	<u>393,447</u>	<u>414,339</u>
Administrative Services						
Employee Benefits	744,210	427,688	316,522	775,137	434,707	340,430
Purchased Services and Professional Fees	890,877	-	890,877	743,970	-	743,970
Depreciation and amortization	1,316,442	-	1,316,442	1,515,379	-	1,515,379
Insurance	462,387	-	462,387	431,688	-	431,688
	<u>73,887</u>	<u>-</u>	<u>73,887</u>	<u>63,227</u>	<u>-</u>	<u>63,227</u>
	<u>\$ 7,728,760</u>	<u>\$ 3,092,084</u>	<u>\$ 4,636,676</u>	<u>\$ 7,583,725</u>	<u>\$ 2,898,981</u>	<u>\$ 4,684,744</u>

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

Schedules of Patient Receivables

	Amounts		Percent to Total	
	2007	2006	2007	2006
Days since discharge				
0 – 30	\$ 967,639	\$ 771,660	63%	57%
31 – 60	231,667	207,289	15%	15%
61 – 90	140,357	135,633	9%	10%
91 – 120	61,051	81,910	4%	6%
121 and over	<u>127,991</u>	<u>151,770</u>	<u>9%</u>	<u>11%</u>
	1,528,705	1,348,262	<u>100%</u>	<u>100%</u>
Less contractual allowances	<u>358,300</u>	<u>275,000</u>		
	1,170,405	1,073,262		
Less allowance for uncollectible accounts	<u>170,200</u>	<u>200,735</u>		
	<u>\$ 1,000,205</u>	<u>\$ 872,527</u>		

Allowance for Uncollectible Accounts

	2007	2006
Balance, beginning of year	\$ 200,735	\$ 210,690
Provision for year	253,625	286,941
Recoveries of accounts previously written off	<u>174,203</u>	<u>221,836</u>
	628,563	719,467
Less accounts written off	<u>458,363</u>	<u>518,732</u>
Balance, end of year	<u>\$ 170,200</u>	<u>\$ 200,735</u>

Decatur County Hospital
Schedules of Supplies and Prepaid Expenses
Years Ended June 30, 2007 and 2006

Supplies

	<u>2007</u>	<u>2006</u>
Medical/surgical	\$ 1,156	\$ 1,157
Emergency	1,689	1,690
Radiology	4,508	5,370
Laboratory	45,445	43,970
Plant operation and maintenance	27,495	23,709
Respiratory therapy	1,126	3,421
Dietary	6,874	4,974
Operating room	59,534	41,986
Pharmacy	43,592	51,005
Housekeeping	1,807	1,317
Laundry	7,637	1,675
	<u>\$ 200,863</u>	<u>\$ 180,274</u>

Prepaid Expenses

	<u>2007</u>	<u>2006</u>
Insurance	\$ 2,245	\$ 7,178
Maintenance and other	70,959	79,241
	<u>\$ 73,204</u>	<u>\$ 86,419</u>

Decatur County Hospital

Schedule of Officials

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Trustees		
Guy Clark	Chairman	2010
Gwen Simpson	Secretary	2012
Sherry Untiedt	Treasurer	2008
Delbert Lee	Member	2012
Linda Chastain	Member	2010
David Stone	Member	2012
Leon Kessel	Member	2010
Hospital Officials		
Lynn Milnes	Chief Executive Officer	
Melissa Walter	Chief Financial Officer	

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

	2007	2006
Patient Days		
Medicare	1,216	1,404
Medicaid	41	68
Private and other	1,452	1,002
	2,709	2,474
Medicare and Medicaid Percent	46.4%	59.5%
Percent of Occupancy	29.7%	27.1%
Discharges		
Medicare	228	265
Medicaid	13	30
Private and other	107	103
	348	398
Average Length of Stay Acute Days	2.91	3.09

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

Chubb – Great Northern Insurance Company

Policy No.3584-64-01 DMO, expiring June 30, 2008

Blanket building and contents	\$ 10,947,612
Loss of income and extra expense	1,700,000
Personal property in-transit	50,000
Personal property at a temporary storage site	50,000
Nuclear hazard	5,000,000
Valuable papers	Included in blanket limit
Accounts receivable	7,739,467
EDP Media/Software	Included in blanket limit
Crime (employee dishonesty, deposit forgery and credit card forgery)	250,000

Chubb – Federal Insurance Company

Policy No. (07) 7354-2144, expiring July 1, 2008

Comprehensive automobile liability	
Liability	1,000,000
Policy No. 6800-7676, expiring July 1, 2008	
Directors' and officers' liability	
Executive liability	1,000,000
Entity coverage	1,000,000
Employment practices	1,000,000
Antitrust violations	1,000,000

Midwest Medical Insurance Company

Comprehensive hospital liability, expiring June 30, 2008

Hospital professional liability, Policy No. IHP000087	1,000,000/3,000,000
General liability, Policy No. IHP000087	1,000,000/3,000,000
Employee benefits, Policy No. IHP000087	1,000,000/3,000,000
Excess liability, expiring June 30, 2008	
Excess medical liability, Policy No. IHP000087	1,000,000/3,000,000
Umbrella liability, Policy No. IHP000087	1,000,000/3,000,000



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

Board of Trustees
Decatur County Hospital
Leon, Iowa

We have audited the financial statements of Decatur County Hospital as of and for the year ended June 30, 2007, and have issued our report thereon dated November 27, 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 of 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 certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 questioned costs 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 that the significant deficiency described above is 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 to the Hospital's management in a separate letter dated November 27, 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 disbursements during the year ended June 30, 2007 did not exceed amounts budgeted.

Questionable Expenditures

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

Criteria or Specific Requirement – Management is responsible for establishing policies regarding questionable expenditures.

Condition – The Board of Trustees has not adopted written policies surrounding questionable expenditures that establish expenses considered to meet the public purpose and the required documentation for those expenditures.

Context – Written policies are not in effect.

Effect – Employees may not be aware of potential questionable expenditures and the need to document their public purpose.

Cause – Written policies are not in place.

Recommendation – Management should establish policies to inform employees of what is considered expenses that meet the public purpose and require documentation of that purpose.

Views of Responsible Officials and Planned Corrective Actions – Management concurs with the finding and recommendations. Management will perform suggested action to enact policies to conform to this requirement.

Travel Expense

No expenditures of Hospital money for travel expenses of spouses of Hospital officials 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

The Hospital is required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. The Hospital filed the unclaimed property report for the year ended June 30, 2006 in a timely manner.

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.

Publication of Bills Allowed and Salaries

Chapters 347.13 (14) of the Code of Iowa states “There shall be published quarterly in each of the official newspapers of the county as selected by Board of Supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspapers the schedule of salaries paid by job classification and category...” We noted no instances of noncompliance with this Code.

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

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

/s/ **BKD, LLP**

Kansas City, Missouri
November 27, 2007

Decatur County 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 preparing financial statements in accordance with Generally Accepted Accounting Principles.</p> <p>Condition—Material audit adjustments were required to correct misstatements.</p> <p>Context—Management’s financial statement preparation procedures were such that material misstatements existed in the financial statements.</p> <p>Effect—Material misstatements in the financial statements occurred and were not prevented or detected in a timely manner.</p> <p>Cause—Closing and review procedures are not such that material misstatements are identified before issuing financial statements.</p> <p>Recommendation—Management should review financial statements monthly before issuance for accuracy and completeness in conformity with Generally Accepted Accounting Procedures.</p> <p>Views of Responsible Officials and Planned Corrective Actions—Management concurs with the findings and recommendations. Management will perform suggested evaluation and make changes within the next year.</p>



Board of Trustees and Management
Decatur County Hospital
Leon, Iowa

In planning and performing our audit of the financial statements of Decatur County Hospital (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 controls 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 22, 2006.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

Audit Adjustments

During the course of performing the audit, we identified errors and misstatements resulting in audit journal entries to adjust the financial statement amounts. These differences were not identified by management's internal controls and affected accounts receivable allowances, miscellaneous accounts receivable, due from third-party payers, investments, inventory, prepaid expenses, fixed assets and property tax revenue.

Control Deficiencies

Internal Controls

Management is responsible for establishing and maintaining effective internal control over financial reporting. Individuals within the Hospital have incompatible duties within the financial statement reporting transaction cycles. Duties in these transaction cycles are not adequately segregated to safeguard the Hospital's assets. The following are positions in which incompatible duties were identified:

- The Accounts Payable/Payroll Clerk has conflicting duties in the purchases and payroll cycles
- The Chief Financial Officer also has conflicting duties in the purchases and payroll cycles

Management has implemented certain mitigating controls for these conflicts to help reduce the likelihood of material misstatement or fraud. We recommend the Hospital review duties assigned and evaluate if duties can be segregated to further strengthen the controls in the accounting cycles.

Required Vacations for Certain Employees

Currently, there is no formal policy requiring vacations to be taken by certain employees whose positions affect some aspect of the accounting and finance functions at the Hospital. We recommend requiring mandatory one week vacations be taken by such personnel yearly, such that, another employee performs the finance or accounting related tasks in which the employee is responsible. Required vacations of finance and accounting personnel provide an added measure that may help reduce or prevent fraudulent behavior.

Charity Care Policy

The Hospital's charity care policy requires all patients receiving charity care to meet certain criteria and provide various informational documents to the Hospital. As part of our current year auditing procedures, we tested the Hospital's compliance with the charity care policy. Of the accounts tested, the required proof of income was not obtained on four of the selections and formal written approval was not obtained for one selection. We recommend management implement the procedures necessary to ensure the Hospital is compliant with the charity care policy.

Financial Statement Preparation

In connection with the audit, we drafted the audited financial statements that included the various adjustments identified during the audit process in order to accurately state the Hospital's financial position at June 30, 2007. We expect in future years, management will be able to draft the

financial statements with all the applicable receivables, accruals, and debt on a monthly basis and at year-end. We understand the Hospital experienced a change in management subsequent to year-end, which caused some difficulty in reconstructing what went on during the year when they were not present and, therefore, contributed to the fact that we had to draft the audited financial statements at year-end.

We recommend management implement procedures to produce financial statements with all related entries for receivables, accruals, debt, etc. and reduce the impact of audit adjustments proposed at year-end. We believe this can be accomplished by evaluating these items on a monthly basis and through the procedures and efforts of the new management team currently in place at the Hospital.

Other Matters

Although not considered material weaknesses, significant deficiencies or other control deficiencies in internal control over financial reporting, we observed the following matters and offer these comments and suggestions with respect to matters that came to our attention during the course of the audit of the financial statements. Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies and procedures that may exist. However, these matters are offered as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving accounting controls and the financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements if you require.

Risk Assessment Audit Standards

During the past year, the AICPA issued the Risk Assessment Suite of Standards (Statements of Auditing Standards Numbers 104 through 111). These Statements establish standards and provide guidance concerning the auditors' 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 auditors' application of the audit risk model in conducting audits by specifying a more in-depth understanding of the Hospital and its environment, including its internal control, to identify the risks of material misstatement in the financial statements and what the Hospital is doing to mitigate the risks.

These Standards will have a significant impact on the Hospital's audit once they become effective, which will be June 30, 2008.

Independent Assessment of Corporate Compliance Program

In the Office of Inspector General's (OIG) Supplemental Compliance Program Guidance for Hospitals of January 31, 2005, the OIG recommends that, "Hospitals should regularly review the implementation and execution of their compliance program elements. This review should be conducted at least annually and should include an assessment of each of the basic elements individually, as well as the overall success of the program." Furthermore, the OIG recommends that the review be conducted by individuals "independent of line management."

We understand through discussions with management and review of the corporate compliance questionnaire that the Hospital is operating under a corporate compliance program; however, an independent review evaluating the effectiveness of the program has not been performed.

We recommend a risk assessment be conducted on an annual basis, the plan be reviewed for possible revisions and updates and an independent review of the program be conducted.

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This communication is intended solely for the information and use of Management, the Board of Trustees 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
November 27, 2007