

Floyd County Memorial Hospital
Accountants' Reports and Financial Statements
June 30, 2007 and 2006



Floyd County Memorial Hospital
June 30, 2007 and 2006

Contents

Independent Accountants' Report on Financial Statements and Supplementary Information.....	1
Management's Discussion and Analysis	2
Financial Statements	
Balance Sheets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows.....	10
Notes to Financial Statements	12
Supplementary Information	
Consolidating Balance Sheets	23
Consolidating Statements of Revenues, Expenses and Changes in Net Assets	27
Schedules of Patient Service Revenues – Hospital.....	29
Schedules of Other Operating Revenues – Hospital.....	30
Schedules of Operating Expenses – Hospital	31
Schedules of Patient Receivables and Allowance for Uncollectible Accounts – Hospital	33
Schedules of Noncurrent Cash Transactions – Hospital.....	34
Schedule of Officials – Hospital – Year Ended June 30, 2007	35
Schedules of Financial and Statistical Data – Hospital	36
Schedules of Supplies and Prepaid Expense – Hospital	37
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	38
Schedule of Findings and Responses	42



Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 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 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.

Our audits were conducted for the purpose of forming an opinion on the Hospital's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The consolidating information is presented for purposes of additional analysis of the governmental financial statements rather than to present individual financial position changes in net assets and cash flows of the primary government and its component unit. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ **BKD, LLP**

Kansas City, Missouri
November 15, 2007

Floyd County Memorial Hospital

Management's Discussion and Analysis

Years Ended June 30, 2007 and 2006

Introduction

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

Financial Highlights

- Cash decreased in 2007 by \$157,639 or 6% and decreased in 2006 by \$52,196 or 2%.
- The Hospital's net assets increased in each of the past two years with a \$987,655 or 8% increase in 2007 and a \$1,048,590 or 9% increase in 2006.
- The Hospital reported operating income in both 2007 and 2006 of \$860,280 and \$1,014,044, respectively.
- Net nonoperating revenues increased by \$92,829 in 2007 compared to 2006.

Using This Annual Report

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

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

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

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

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash 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 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 \$987,655 or 8% in 2007 over 2006 as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2007	2006	2005
Assets			
Patient accounts receivable, net	\$ 2,992,541	\$ 2,450,911	\$ 2,296,115
Other current assets	3,144,012	3,574,060	3,633,242
Capital assets, net	8,320,521	7,462,786	6,978,981
Other noncurrent assets	<u>1,120,291</u>	<u>1,116,823</u>	<u>1,292,299</u>
Total assets	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>
Liabilities			
Long-term debt, including current maturities	\$ 207,951	\$ 252,366	\$ 722,348
Other current and noncurrent liabilities	<u>1,459,000</u>	<u>1,429,455</u>	<u>1,604,120</u>
Total liabilities	<u>1,666,951</u>	<u>1,681,821</u>	<u>2,326,468</u>
Net Assets			
Invested in capital assets, net of related debt	8,079,325	7,200,841	6,270,766
Unrestricted	<u>5,831,089</u>	<u>5,721,918</u>	<u>5,603,403</u>
Total net assets	<u>13,910,414</u>	<u>12,922,759</u>	<u>11,874,169</u>
Total liabilities and net assets	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>	<u>\$ 14,200,637</u>

In 2007, an excess of revenues over expenses was noted of \$987,655 and is included in the total net assets, which resulted in an increase of 8%. No major changes in services were noted.

In 2007, there was a net increase of \$857,735 in capital assets due to continuing the installation of the internal computer system and the start of the second floor remodeling on the patient rooms.

In 2007, a decrease in long-term debt of \$44,415 or 17%, is reflective of monthly payments of principal on the long-term capital lease.

In 2007, there was a decrease of \$430,048 in other current assets as a result of a decrease in total cash on hand of \$157,639. Changes to other various receivables accounted for the remainder of the decrease. The Hospital transfers cash on a monthly basis to an internally generated account for capital expenses. This transfer included an additional \$1,000,000 for 2007 for the continued investment in computers and the start of the second floor patient room renovation.

In 2006, there was a net increase of \$483,805 in capital assets due partially as a result of the completion of a major surgery remodel capital project. The payment of this project created a decrease in other noncurrent assets and other current assets.

In 2006, long-term debt of \$722,348 was paid off and a capital lease for computer hardware was approved for \$272,000. The computer hardware is the first phase of a \$1,300,000 new computer system, which will be installed over the next two years.

In 2006, an excess of net revenues over expenses was noted of \$1,048,590 and is included in total net assets, which resulted in an increase of 9%.

Operating Results and Changes in the Hospital's Net Assets

In 2007, the Hospital's net assets increased by \$987,655 or 8% as shown in Table 2. This increase is made up of several different components and represents a decrease of \$60,935 or 6% compared with the increase in net assets for 2006 of \$1,048,590.

Table 2: Operating Results and Changes in Net Assets

	2007	2006	2005
Operating Revenues			
Net patient service revenue	\$ 17,527,762	\$ 16,170,425	\$ 16,019,237
Other operating revenues	<u>456,210</u>	<u>509,842</u>	<u>476,071</u>
Total operating revenues	<u>17,983,972</u>	<u>16,680,267</u>	<u>16,495,308</u>
Operating Expenses			
Salaries and wages and employee benefits	9,159,041	8,707,695	8,479,936
Medical professional fees	3,252,194	2,568,625	2,387,882
Depreciation	811,275	685,965	635,295
Other operating expenses	<u>3,901,182</u>	<u>3,703,938</u>	<u>3,646,816</u>
Total operating expenses	<u>17,123,692</u>	<u>15,666,223</u>	<u>15,149,929</u>
Operating Income	<u>860,280</u>	<u>1,014,044</u>	<u>1,345,379</u>
Nonoperating Revenues (Expenses)			
Investment income	187,378	102,265	76,089
Contributions	3,445	16,096	7,406
Interest expense	(26,601)	(49,690)	(49,361)
Income taxes – Aesculapuis	(36,847)	(23,790)	(44,260)
Minority interest - Aesculapuis	<u>—</u>	<u>(10,335)</u>	<u>1,773</u>
Total nonoperating revenues (expenses)	<u>127,375</u>	<u>34,546</u>	<u>(8,353)</u>
Increase in Net Assets	<u>\$ 987,655</u>	<u>\$ 1,048,590</u>	<u>\$ 1,337,026</u>

Operating Income

The first component of the overall change in the Hospital's net assets is its operating income or loss, generally the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the Hospital has reported an operating income. The Hospital is a County Hospital, but cannot levy property taxes. The Floyd County Supervisors can give the Hospital an amount annually as the County's budget allows. The Hospital received no amounts from the County in 2007 and 2006.

The operating income for 2007 decreased as compared to 2006. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$1,357,337 or 8%.
- An increase in salaries and wages and employee benefits of \$451,346 or 5%.
- An increase in other operating expenses of \$197,244 or 5%.
- An increase in nonoperating revenues/expenses of \$92,829 or 269%.

The operating income for 2006 decreased as compared to 2005. The primary components of the change in operating income are:

- An increase in net patient service revenues of \$151,188 or 1%.
- An increase in salaries and wages and employee benefits of \$227,759 or 3%.
- An increase in other operating expenses of \$57,122 or 1.6%.
- An increase in nonoperating revenues/expenses of \$42,899.
- As of July 1, 2005, the Hospital stopped providing home health services. Gross revenue for 2005 for the home health department was \$622,972.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income and interest expense. Investment income increased in 2007 as compared to 2006 while interest expense decreased. Also, between 2006 and 2007, investment income is up due to higher interest rates.

The Hospital's Cash Flows

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

Capital Asset and Debt Administration

Capital Assets

At June 30, 2007, the Hospital had \$8,320,521 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2007, the Hospital had additions of capital assets of \$1,669,010.

At June 30, 2006, the Hospital had \$7,462,786 in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2006, the Hospital had additions of capital assets of \$1,169,770.

Debt

The Hospital had a capital lease payable in the amount of \$207,951 and \$252,366 at June 30, 2007 and 2006, respectively. At June 30, 2005, the Hospital had \$722,348, in revenue capital loan notes outstanding, which were paid off in 2006. The Hospital's formal debt issuances are subject to limitations imposed by state law.

Factors Bearing on Floyd County Memorial Hospital's Future

At the time these financial statements were prepared and audited, the Hospital was aware of three existing circumstances that could significantly affect its financial health in the future:

- Facility Renovation Project. The Hospital presently has a remodeling project in progress. The scope of the project includes remodeling all patient rooms, the OB Department, Pharmacy and other areas of the second floor. The main components of the project include adding sprinklers to the whole second floor and small parts of the first floor for fire safety; upgrade the heating and cooling systems to allow for individually temperature controlled patient rooms; upgrade the patient rooms with a shower in each room and to remodel the entire OB Department. These changes should improve the Hospital's quality of care and patient satisfaction. The remodeling project is divided into three phases with completion dates for Phase I (North Wing) – November 2007, Phase II (Nurses Station Area) – May 2008 and Phase III (South Wing) – August 2008.
- Promissory Note. A long-term loan was approved for up to \$4,500,000, whose proceeds will be used to complete the purchase of the internal computer system and finish the second floor patient room remodel. The second floor remodel project is scheduled to be completed in August 2008 and the internal computer project is scheduled for completion in 2010. The proceeds of the loan will start to be transferred in October 2007 as progress payments on the above-mentioned projects are made.
- Surgeons. The Hospital and the Mason City Clinic signed an agreement whereby Mason City Clinic will maintain a general surgery practice at Floyd County Memorial Hospital with two or more Mason City Clinic physicians. Mason City Clinic is actively recruiting for a general surgeon to cover the Hospital's practice under the agreement.

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 Administrator or Chief Financial Officer by telephoning 641.228.6830.

Floyd County Memorial Hospital

Balance Sheets

June 30, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current Assets		
Cash	\$ 2,354,446	\$ 2,512,085
Patient accounts receivable, net of allowance; 2007 – \$1,555,000, 2006 – \$1,198,000	2,992,541	2,450,911
Other receivables	160,181	40,916
Supplies	524,992	520,967
Prepaid expenses	104,393	94,092
Estimated amounts due from third-party payers	<u>—</u>	<u>406,000</u>
Total current assets	<u>6,136,553</u>	<u>6,024,971</u>
Noncurrent Cash		
Internally designated for capital and other expenditures	<u>892,658</u>	<u>955,968</u>
Capital Assets, Net of Accumulated Depreciation	<u>8,320,521</u>	<u>7,462,786</u>
Other Assets		
Investments	<u>227,633</u>	<u>160,855</u>
Total Assets	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>

Liabilities and Net Assets

	<u>2007</u>	<u>2006</u>
Current Liabilities		
Current maturities of long-term debt	\$ 49,774	\$ 44,415
Accounts payable	338,489	351,118
Accrued expenses		
Vacation pay	415,493	362,072
Payroll and related deductions	306,018	262,150
Health insurance	230,000	263,000
Estimated amounts due to third-party payers	<u>169,000</u>	<u>—</u>
Total current liabilities	1,508,774	1,282,755
Minority Interest	—	191,115
Long-term Debt	<u>158,177</u>	<u>207,951</u>
Total liabilities	<u>1,666,951</u>	<u>1,681,821</u>
Net Assets		
Invested in capital assets, net of related debt	8,079,325	7,200,841
Unrestricted	<u>5,831,089</u>	<u>5,721,918</u>
Total net assets	<u>13,910,414</u>	<u>12,922,759</u>
Total Liabilities and Net Assets	<u>\$ 15,577,365</u>	<u>\$ 14,604,580</u>

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

	2007	2006
Operating Revenues		
Net patient service revenue before provision for uncollectible accounts	\$ 18,171,132	\$ 16,777,541
Less provision for uncollectible accounts	<u>643,370</u>	<u>607,116</u>
Net patient service revenue	17,527,762	16,170,425
Other revenues	<u>456,210</u>	<u>509,842</u>
Total operating revenues	<u>17,983,972</u>	<u>16,680,267</u>
Operating Expenses		
Salaries and wages	6,777,079	6,208,558
Employee benefits	2,381,962	2,499,137
Medical professional fees	3,252,194	2,568,625
Supplies and expenses	2,111,415	1,949,787
General services	871,321	894,728
Administrative services	918,446	859,423
Depreciation	<u>811,275</u>	<u>685,965</u>
Total operating expenses	<u>17,123,692</u>	<u>15,666,223</u>
Operating Income	<u>860,280</u>	<u>1,014,044</u>
Nonoperating Revenues (Expenses)		
Investment income	187,378	102,265
Contributions	3,445	16,096
Interest expense	(26,601)	(49,690)
Income taxes – Aesculapuis	(36,847)	(23,790)
Minority interest – Aesculapuis	<u>—</u>	<u>(10,335)</u>
Total nonoperating revenues (expenses)	<u>127,375</u>	<u>34,546</u>
Increase in Net Assets	987,655	1,048,590
Net Assets, Beginning of the Year	<u>12,922,759</u>	<u>11,874,169</u>
Net Assets, End of the Year	<u>\$ 13,910,414</u>	<u>\$ 12,922,759</u>

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

	2007	2006
Operating Activities		
Receipts from and on behalf of patients	\$ 17,561,132	\$ 16,024,629
Payments to suppliers	(7,175,973)	(6,323,190)
Payments to employees	(9,094,752)	(8,842,572)
Other receipts and payments, net	<u>326,544</u>	<u>515,909</u>
Net cash provided by operating activities	<u>1,616,951</u>	<u>1,374,776</u>
Noncapital Financing Activities		
Unrestricted contributions	<u>3,445</u>	<u>16,096</u>
Net cash provided by noncapital financing activities	<u>3,445</u>	<u>16,096</u>
Capital and Related Financing Activities		
Purchase of capital assets	(1,635,765)	(888,191)
Principal payments on long-term debt	(44,415)	(741,982)
Interest paid on long-term debt	(26,601)	(35,557)
Proceeds from sale of capital assets	<u>100</u>	<u>2,000</u>
Net cash used in capital and related financing activities	<u>(1,706,681)</u>	<u>(1,663,730)</u>
Investing Activities		
Purchase of investments	(300,000)	—
Income on investments	<u>165,336</u>	<u>109,435</u>
Net cash provided by (used in) investing activities	<u>(134,664)</u>	<u>109,435</u>
Decrease in Cash	(220,949)	(163,423)
Cash, Beginning of Year	<u>3,468,053</u>	<u>3,631,476</u>
Cash, End of Year	<u>\$ 3,247,104</u>	<u>\$ 3,468,053</u>

(Continued)

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

	2007	2006
Reconciliation of Cash to the Balance Sheets		
Cash	\$ 2,354,446	\$ 2,512,085
Noncurrent cash		
Internally designated	892,658	955,968
Total cash	\$ 3,247,104	\$ 3,468,053
 Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 860,280	\$ 1,014,044
Items not requiring (providing) cash		
Depreciation	811,275	685,965
Amortization	27,302	30,547
Gain on sale of assets	(100)	(2,000)
Changes in		
Patient and other accounts receivable, net	(660,895)	(147,239)
Supplies	(4,025)	(10,081)
Prepaid expenses	(10,301)	(30,037)
Accounts payable and accrued expenses	18,415	(175,423)
Estimated amounts due to third-party payers	575,000	9,000
Net cash provided by operating activities	\$ 1,616,951	\$ 1,374,776
 Supplemental Cash Flows Information		
Capital asset acquisitions included in accounts payable	\$ 33,245	\$ 9,579
Capital lease obligation incurred for capital asset	—	272,000

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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

Nature of Operations

The Floyd County Memorial Hospital (Hospital) is a county public hospital under Chapter 37 of the Code of Iowa. The Hospital and Health Care of Floyd County L.C. (HCFC) are collectively referred to here as the Organization. The Organization primarily earns revenues by providing health care services to patients on an inpatient and outpatient basis. The Hospital is exempt from income taxes as a political subdivision of the State of Iowa. HCFC is organized pursuant to the Iowa Limited Liability Company Act Chapter 490A.

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), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Reporting Entity

As required by accounting principles generally accepted in the United States of America, these financial statements present the Hospital and its component unit, an entity for which the Hospital is considered to be financially accountable.

The determination of financial accountability includes consideration of a number of criteria, including (1) the Hospital's ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on the Hospital, and (3) that entity's fiscal dependency on the Hospital.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Health Care of Floyd County L.C. is consolidated into the Hospital's financial statements. HCFC is a legally separate limited liability corporation that is, in substance, a part of the Hospital's operations. It is organized primarily to hold certain assets for the Hospital. HCFC owns shares of a corporation whose earnings and losses are included in the financial statements. HCFC purchased the remaining shares of the corporation in 2007.

Data of HCFC is combined with data of the Hospital for financial reporting purposes using the blending method. Transactions between the Hospital and HCFC are eliminated in preparation of the financial statements.

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.

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 includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payers 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 amounts are revised in future periods as final adjustments become known.

Supplies

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

Deposits, Investments and Investment Income

The Hospital's deposits include demand deposits and money market accounts. The Hospital also has investments in partnerships holding mobile medical equipment reported on the equity method.

Investment income includes interest income on deposits and return on other investments.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

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.

Noncurrent Cash

Noncurrent cash represents internally designated assets set aside by the Board of Commissioners for future capital improvements and other expenditures over which the Board retains control and may at its discretion subsequently use for other purposes.

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

Land improvements	15 to 20 years
Buildings, improvements and fixed equipment	20 to 40 years
Major moveable equipment, computers and furniture	3 to 7 years

Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy. Under such policy, only claims made and reported to the insurer are covered during the policy term, regardless of when the incident giving rise to the claim occurred. The cost of the coverage is accrued over the coverage period and includes both the minimum premium plus any estimated additional costs related to claims during the period. Adjustments of estimated to actual expenses after the policy terms are included in the period such adjustments are determined.

County Assistance

The Hospital operates under Iowa statutes as a County hospital and is entitled to receive a portion of the taxes levied by the County if approved by the County Supervisors. The Hospital received no support in 2007 or 2006. Such proceeds when received would be considered unrestricted as to use by the Hospital and would be used to support operations.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Risk Management

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

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

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off. Compensated absence liabilities are computed using the regular pay 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 two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets, net of related debt.

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

Note 2: Net Patient Service Revenue

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

Medicare. The Hospital is designated as a Critical Access Hospital (CAH). Under this designation, inpatient and outpatient services 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.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed based upon a cost reimbursement methodology. The Hospital is reimbursed at a tentative rate with the final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid program.

Approximately 52% and 58% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2007 and 2006, respectively.

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

Note 3: Deposits, Investments and Investment Income

Deposits

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

The Hospital had no bank balances exposed to custodial credit risk at June 30, 2007 and 2006. The Hospital's deposits in banks at June 30, 2007 and 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Investments

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

Summary of Carrying Value

The carrying value of deposits included in the balance sheets is as follows:

	<u>2007</u>	<u>2006</u>
Deposits	\$ <u>3,247,104</u>	\$ <u>3,468,053</u>
Included in the following balance sheet captions		
Cash	\$ 2,354,446	\$ 2,512,085
Noncurrent cash	<u>892,658</u>	<u>955,968</u>
	\$ <u>3,247,104</u>	\$ <u>3,468,053</u>

Investment Income

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

	<u>2007</u>	<u>2006</u>
Interest	\$ 247,067	\$ 154,474
Return on other investments	<u>(59,689)</u>	<u>(52,209)</u>
Total investment income	\$ <u>187,378</u>	\$ <u>102,265</u>

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

Note 4: Capital Assets

Consolidated capital assets activity for the years ended June 30, 2007 and 2006 was:

2007	Balance June 30, 2006	Additions	Retirements	Transfers	Balance June 30, 2007
Land and improvements	\$ 457,527	\$ 13,598			\$ 471,125
Building and improvements	9,364,350	92,927		\$ 36,298	9,493,575
Fixed equipment	1,600,888	22,483		—	1,623,371
Major moveable equipment	4,750,747	108,589	\$ 351,970	668,587	5,175,953
Construction in progress	<u>284,403</u>	<u>1,431,413</u>	<u>—</u>	<u>(704,885)</u>	<u>1,010,931</u>
	<u>16,457,915</u>	<u>1,669,010</u>	<u>351,970</u>	<u>—</u>	<u>17,774,955</u>
Less accumulated depreciation					
Land improvements	273,899	16,909	—	—	290,808
Building and improvements	4,274,963	273,891	—	—	4,548,854
Fixed equipment	951,580	86,842	—	—	1,038,422
Major moveable equipment	<u>3,494,687</u>	<u>433,633</u>	<u>351,970</u>	<u>—</u>	<u>3,576,350</u>
Total accumulated depreciation	<u>8,995,129</u>	<u>811,275</u>	<u>351,970</u>	<u>—</u>	<u>9,454,434</u>
Capital assets, net	<u>\$ 7,462,786</u>	<u>\$ 857,735</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 8,320,521</u>
2006	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Land and improvements	\$ 449,402	\$ 8,125			\$ 457,527
Building and improvements	8,514,699	—		\$ 849,651	9,364,350
Fixed equipment	1,553,652	47,236		—	1,600,888
Major moveable equipment	4,392,923	605,115	\$ 247,291	—	4,750,747
Construction in progress	<u>624,760</u>	<u>509,294</u>	<u>—</u>	<u>(849,651)</u>	<u>284,403</u>
	<u>15,535,436</u>	<u>1,169,770</u>	<u>247,291</u>	<u>—</u>	<u>16,457,915</u>
Less accumulated depreciation					
Land improvements	253,327	20,572	—	—	273,899
Building and improvements	4,016,317	258,646	—	—	4,274,963
Fixed equipment	861,314	90,266	—	—	951,580
Major moveable equipment	<u>3,425,497</u>	<u>316,481</u>	<u>247,291</u>	<u>—</u>	<u>3,494,687</u>
Total accumulated depreciation	<u>8,556,455</u>	<u>685,965</u>	<u>247,291</u>	<u>—</u>	<u>8,995,129</u>
Capital assets, net	<u>\$ 6,978,981</u>	<u>\$ 483,805</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 7,462,786</u>

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

Note 5: Long-term Debt

A schedule of changes in the Hospital's long-term debt for 2007 and 2006 follows:

2007	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Amounts Due Within One Year
Capital lease obligation (B)	\$ <u>252,366</u>	\$ <u>—</u>	\$ <u>44,415</u>	\$ <u>207,951</u>	\$ <u>49,774</u>

2006	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
Hospital Revenue Capital Loan Notes (A)	\$ 722,348	\$ —	\$ 722,348	\$ —	\$ —
Capital lease obligation (B)	<u>—</u>	<u>272,000</u>	<u>19,634</u>	<u>252,366</u>	<u>44,415</u>
	<u>\$ 722,348</u>	<u>\$ 272,000</u>	<u>\$ 741,982</u>	<u>\$ 252,366</u>	<u>\$ 44,415</u>

(A) Hospital Revenue Capital Loan Notes, Series 2000, were paid off during 2006.

(B) The Hospital is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital lease at June 30, 2007 and 2006, totaled \$194,933 and \$249,333, net of accumulated depreciation of \$77,067 and \$22,667, respectively. The following is a schedule by year of future minimum lease payments under the capital lease, including interest at a rate of 11.4% together with the present value of the future minimum lease payments as of June 30, 2007.

Year Ending June 30,	
2008	\$ 71,016
2009	71,016
2010	71,016
2011	<u>41,426</u>
Total minimum lease payments	254,474
Less amount representing interest	<u>46,523</u>
Present value of future minimum lease payments	<u>\$ 207,951</u>

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

Note 6: Operating Leases

Noncancellable operating leases for buildings and equipment expire in various years through 2008.

Future minimum lease payments at June 30, 2007, were:

2008	\$ <u>144,188</u>
Future minimum lease payments	\$ <u>144,188</u>

Rental expense for all operating leases totaled \$236,928 and \$238,930 for 2007 and 2006, respectively.

Note 7: Defined Benefit Pension Plan

Plan Description

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

Funding Policy

Each plan member is required to contribute 3.70% of his or her annual covered salary and the Hospital is required to contribute 5.75% of annual covered payroll for 2007 and 2006. Contribution requirements are established by State statute. The Hospital's contributions to the plan for 2007, 2006 and 2005 were \$368,613, \$354,657 and \$350,759, respectively, which equaled the required contributions for each year.

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 8: Patient Accounts Receivable

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

	2007	2006
Medicare	\$ 810,524	\$ 882,342
Medicaid	136,954	107,542
Third-party payers	1,076,506	888,941
Patients	2,166,941	1,610,793
Clinics	<u>356,616</u>	<u>159,293</u>
Total	4,547,541	3,648,911
Less allowance for uncollectible accounts	<u>1,555,000</u>	<u>1,198,000</u>
Patient accounts receivable, net	<u>\$ 2,992,541</u>	<u>\$ 2,450,911</u>

Note 9: Employee Health Insurance Claims

Liabilities include an accrual for claims that have been incurred but not reported for self-insured health insurance. Claims liabilities from asserted claims and from unasserted claims are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including relevant trend factors. Activity in the Hospital's accrued health insurance claims liability during 2007 and 2006 is summarized as follows:

	2007	2006
Balance, beginning of year	\$ 263,000	\$ 266,000
Current year claims and changes in estimates	1,399,142	1,631,287
Claim payments	<u>(1,432,142)</u>	<u>(1,634,287)</u>
Balance, end of year	<u>\$ 230,000</u>	<u>\$ 263,000</u>

Note 10: Construction in Progress

The Hospital, at June 30, 2007, had \$1,010,931 in construction in progress related to projects, including remodeling of the Hospital and a new computer system. The estimated cost to complete the various projects is \$5,599,000 to be funded by assets of the Hospital and a promissory note (*see Note 13*).

Floyd County Memorial Hospital

Notes to Financial Statements

June 30, 2007 and 2006

Note 11: Budget and Budgetary Accounting

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

	Book Basis	Actual Accrual Adjustments	Cash Basis	Budget
Other revenues/receipts	\$ 18,110,826	\$ (130,310)	\$ 17,980,516	\$ 20,329,000
Expenses/disbursements	<u>17,123,171</u>	<u>1,011,516</u>	<u>18,134,687</u>	<u>20,308,000</u>
	987,655	(1,141,826)	(154,171)	21,000
Balance, beginning of year	<u>12,922,759</u>	<u>(9,293,851)</u>	<u>3,628,908</u>	<u>3,628,908</u>
Balance, end of year	<u>\$ 13,910,414</u>	<u>\$ (10,435,677)</u>	<u>\$ 3,474,737</u>	<u>\$ 3,649,908</u>

Note 12: Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each.

Note 13: Subsequent Event – Promissory Note

The Hospital signed a promissory note in September 2007 that allows for the Hospital to borrow up to \$4,500,000 at an interest rate of 6.875%, which will be used to fund construction projects. The maturity date of the note is November 2008.

Supplementary Information

Floyd County Memorial Hospital
Consolidating Balance Sheet
June 30, 2007

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 2,321,188	\$ 33,258		\$ 2,354,446
Patient accounts receivable, net of allowance of \$1,555,000	2,992,541			2,992,541
Other receivables	160,181			160,181
Supplies	524,992			524,992
Prepaid expenses	<u>104,393</u>	<u> </u>		<u>104,393</u>
Total current assets	<u>6,103,295</u>	<u>33,258</u>		<u>6,136,553</u>
Noncurrent Cash				
Internally designated for capital and other expenditures	<u>892,658</u>			<u>892,658</u>
Capital Assets, Net of Accumulated Depreciation	<u>7,765,262</u>	<u>555,259</u>		<u>8,320,521</u>
Other Assets				
Investments	<u>816,150</u>		\$ (588,517)	<u>227,633</u>
Total Assets	<u>\$15,577,365</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$15,577,365</u>

Floyd County Memorial Hospital
Consolidating Balance Sheet (Continued)
June 30, 2007

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 49,774			\$ 49,774
Accounts payable	338,489			338,489
Accrued expenses				
Vacation pay	415,493			415,493
Payroll and related deductions	306,018			306,018
Health insurance	230,000			230,000
Estimated amounts due to third-party payers	<u>169,000</u>			<u>169,000</u>
Total current liabilities	1,508,774			1,508,774
Long-term Debt	<u>158,177</u>			<u>158,177</u>
Total liabilities	<u>1,666,951</u>			<u>1,666,951</u>
Net Assets				
Invested in capital assets, net of related debt	7,524,066	\$ 555,259		8,079,325
Unrestricted	<u>6,386,348</u>	<u>33,258</u>	\$ <u>(588,517)</u>	<u>5,831,089</u>
Total net assets	<u>13,910,414</u>	<u>588,517</u>	<u>(588,517)</u>	<u>13,910,414</u>
Total Liabilities and Net Assets	<u>\$15,577,365</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$15,577,365</u>

Floyd County Memorial Hospital
Consolidating Balance Sheet
June 30, 2006

Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Assets				
Cash	\$ 2,512,085			\$ 2,512,085
Patient accounts receivable, net of allowance of \$1,198,000	2,450,911			2,450,911
Other receivables	40,916			40,916
Supplies	520,967			520,967
Prepaid expenses	94,092			94,092
Estimated amounts due from third-party payers	<u>406,000</u>			<u>406,000</u>
Total current assets	<u>6,024,971</u>			<u>6,024,971</u>
Noncurrent Cash				
Internally designated for capital and other expenditures	<u>955,968</u>			<u>955,968</u>
Capital Assets, Net of Accumulated Depreciation	<u>6,890,876</u>	\$ <u>571,910</u>		<u>7,462,786</u>
Other Assets				
Investments	<u>732,765</u>		\$ <u>(571,910)</u>	<u>160,855</u>
Total Assets	<u>\$14,604,580</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$14,604,580</u>

Floyd County Memorial Hospital
Consolidating Balance Sheet (Continued)
June 30, 2006

Liabilities and Net Assets

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Current Liabilities				
Current maturities of long-term debt	\$ 44,415			\$ 44,415
Accounts payable	351,118			351,118
Accrued expenses				
Vacation pay	362,072			362,072
Payroll and related deductions	262,150			262,150
Health insurance	<u>263,000</u>			<u>263,000</u>
Total current liabilities	1,282,755			1,282,755
Minority Interest	191,115			191,115
Long-term Debt	<u>207,951</u>			<u>207,951</u>
Total liabilities	<u>1,681,821</u>			<u>1,681,821</u>
Net Assets				
Invested in capital assets, net of related debt	6,628,931	\$ 571,910		7,200,841
Unrestricted	<u>6,293,828</u>	<u> </u>	\$ <u>(571,910)</u>	<u>5,721,918</u>
Total net assets	<u>12,922,759</u>	<u>571,910</u>	<u>(571,910)</u>	<u>12,922,759</u>
Total Liabilities and Net Assets	<u>\$14,604,580</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$ 14,604,580</u>

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

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 18,171,132			\$ 18,171,132
Less provision for uncollectible accounts	<u>643,370</u>			<u>643,370</u>
Net patient service revenue	17,527,762			17,527,762
Other revenues	<u>332,552</u>	\$ <u>214,161</u>	\$ <u>(90,503)</u>	<u>456,210</u>
Total operating revenues	<u>17,860,314</u>	<u>214,161</u>	<u>(90,503)</u>	<u>17,983,972</u>
Operating Expenses				
Salaries and wages	6,777,079			6,777,079
Employee benefits	2,381,962			2,381,962
Medical professional fees	3,252,194			3,252,194
Supplies and expenses	2,111,415			2,111,415
General services	887,743	57,474	(73,896)	871,321
Administrative services	895,588	22,858		918,446
Depreciation	<u>790,589</u>	<u>20,686</u>		<u>811,275</u>
Total operating expenses	<u>17,096,570</u>	<u>101,018</u>	<u>(73,896)</u>	<u>17,123,692</u>
Operating Income	<u>763,744</u>	<u>113,143</u>	<u>(16,607)</u>	<u>860,280</u>
Nonoperating Revenues (Expenses)				
Investment income	187,067	311		187,378
Contributions	3,445			3,445
Interest expense	(26,601)			(26,601)
Income taxes – Aesculapuis		(36,847)		(36,847)
Dividends paid – Aesculapuis	<u>60,000</u>		<u>(60,000)</u>	<u>—</u>
Total nonoperating revenues (expenses)	<u>223,911</u>	<u>(36,536)</u>	<u>(60,000)</u>	<u>127,375</u>
Increase in Net Assets	987,655	76,607	(76,607)	987,655
Net Assets, Beginning of the Year	12,922,759	571,910	(571,910)	12,922,759
Dividends Paid		<u>(60,000)</u>	<u>60,000</u>	<u>—</u>
Net Assets, End of the Year	<u>\$ 13,910,414</u>	<u>\$ 588,517</u>	<u>\$ (588,517)</u>	<u>\$ 13,910,414</u>

Floyd County Memorial Hospital
Consolidating Statement of Revenues, Expenses
and Changes in Net Assets (Continued)
Year Ended June 30, 2006

	Floyd County Memorial Hospital	HCFC	Eliminations	Total
Operating Revenues				
Net patient service revenue before provision for uncollectible accounts	\$ 16,777,541			\$ 16,777,541
Less provision for uncollectible accounts	<u>607,116</u>			<u>607,116</u>
Net patient service revenue	16,170,425			16,170,425
Other revenues	<u>370,524</u>	\$ <u>213,204</u>	\$ <u>(73,886)</u>	<u>509,842</u>
Total operating revenues	<u>16,540,949</u>	<u>213,204</u>	<u>(73,886)</u>	<u>16,680,267</u>
Operating Expenses				
Salaries and wages	6,208,558			6,208,558
Employee benefits	2,499,137			2,499,137
Medical professional fees	2,568,625			2,568,625
Supplies and expenses	1,949,787			1,949,787
General services	912,138	56,476	(73,886)	894,728
Administrative services	834,315	25,108		859,423
Depreciation	<u>664,748</u>	<u>21,217</u>		<u>685,965</u>
Total operating expenses	<u>15,637,308</u>	<u>102,801</u>	<u>(73,886)</u>	<u>15,666,223</u>
Operating Income	<u>903,641</u>	<u>110,403</u>	<u>—</u>	<u>1,014,044</u>
Nonoperating Revenues (Expenses)				
Investment income	102,075	190		102,265
Contributions	16,096			16,096
Interest expense	(49,690)			(49,690)
Income taxes – Aesculapuis		(23,790)		(23,790)
Dividends paid – Aesculapuis	76,468		(76,468)	—
Minority interest – Aesculapuis			(10,335)	(10,335)
Total nonoperating revenues (expenses)	<u>144,949</u>	<u>(23,600)</u>	<u>(86,803)</u>	<u>34,546</u>
Increase in Net Assets	1,048,590	86,803	(86,803)	1,048,590
Net Assets, Beginning of the Year	11,874,169	599,809	(599,809)	11,874,169
Dividends Paid		<u>(114,702)</u>	<u>114,702</u>	<u>—</u>
Net Assets, End of the Year	<u>\$ 12,922,759</u>	<u>\$ 571,910</u>	<u>\$ (571,910)</u>	<u>\$ 12,922,759</u>

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

	<u>2007</u>			<u>2006</u>		
	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>
Routine Services						
Acute nursing care	\$ 2,818,357	\$ 2,818,357		\$ 2,670,165	\$ 2,670,165	
Nursery	<u>139,006</u>	<u>139,006</u>		<u>93,193</u>	<u>93,193</u>	
	<u>2,957,363</u>	<u>2,957,363</u>		<u>2,763,358</u>	<u>2,763,358</u>	
Other Nursing Services						
Operating room	2,599,987	492,026	\$ 2,107,961	1,893,828	417,225	\$ 1,476,603
Recovery room	223,643	32,809	190,834	196,528	27,548	168,980
Delivery room	145,283	145,283		114,342	114,342	
Emergency room	<u>2,475,320</u>	<u>111,580</u>	<u>2,363,740</u>	<u>2,275,276</u>	<u>83,187</u>	<u>2,192,089</u>
	<u>5,444,233</u>	<u>781,698</u>	<u>4,662,535</u>	<u>4,479,974</u>	<u>642,302</u>	<u>3,837,672</u>
Other Professional Services						
Central service and supply	286,602	105,790	180,812	245,184	95,226	149,958
Laboratory	4,484,785	645,686	3,839,099	3,754,637	524,668	3,229,969
Blood	183,243	75,310	107,933	179,936	61,994	117,942
Radiology	1,214,827	64,065	1,150,762	1,111,267	65,982	1,045,285
Electrocardiology	600,584	40,620	559,964	535,641	42,120	493,521
Ultrasound	279,570	17,775	261,795	266,120	14,011	252,109
Nuclear medicine	169,728	4,735	164,993	151,258	9,256	142,002
CT Scan	1,861,641	269,213	1,592,428	1,660,676	224,693	1,435,983
MRI	961,809	72,689	889,120	939,156	56,477	882,679
Pharmacy	1,579,303	792,665	786,638	1,548,331	704,143	844,188
Intravenous therapy	263,589	132,866	130,723	245,671	125,310	120,361
Respiratory therapy	1,086,198	409,966	676,232	1,086,430	426,595	659,835
Physical therapy	1,478,111	441,518	1,036,593	1,616,464	476,626	1,139,838
Occupational therapy	202,880	80,996	121,884	235,641	91,795	143,846
Speech pathology	242,413	20,182	222,231	254,332	14,013	240,319
Anesthesia	277,529	40,582	236,947	234,459	33,085	201,374
Medical clinic	141,735		141,735	148,141		148,141
Rural health clinic	979,895		979,895	750,550		750,550
CRNA services	<u>626,152</u>		<u>626,152</u>	<u>37,699</u>		<u>37,699</u>
	<u>16,920,594</u>	<u>3,214,658</u>	<u>13,705,936</u>	<u>15,001,593</u>	<u>2,965,994</u>	<u>12,035,599</u>
Patient Service Revenue	25,322,190	<u>\$ 6,953,719</u>	<u>\$ 18,368,471</u>	22,244,925	<u>\$ 6,371,654</u>	<u>\$ 15,873,271</u>
Contractual Allowance	<u>(7,151,058)</u>			<u>(5,467,384)</u>		
Net Patient Service Revenue before Provision for Uncollectible Accounts	18,171,132			16,777,541		
Provision for Uncollectible Accounts	<u>(643,370)</u>			<u>(607,116)</u>		
Net Patient Service Revenue	<u>\$ 17,527,762</u>			<u>\$ 16,170,425</u>		

See Independent Accountants' Report

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

	2007	2006
Cafeteria	\$ 170,123	\$ 183,255
Specialty clinics	95,585	89,009
Office rental	34,421	31,324
Registration fees	8,146	4,007
Medical records transcripts	10,779	10,884
Other	13,498	52,045
	\$ 332,552	\$ 370,524

Floyd County Memorial Hospital
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Nursing Services						
Nursing administration	\$ 789,345	\$ 600,936	\$ 188,409	\$ 785,428	\$ 583,697	\$ 201,731
Routine care	2,104,629	1,507,127	597,502	2,093,283	1,422,627	670,656
Nursery	38,898	31,624	7,274	35,258	29,812	5,446
Operating room	1,378,704	389,423	989,281	771,441	297,249	474,192
Delivery room	29,038	23,681	5,357	18,963	15,538	3,425
Emergency room	<u>1,140,058</u>	<u>458,163</u>	<u>681,895</u>	<u>975,629</u>	<u>391,417</u>	<u>584,212</u>
	<u>5,480,672</u>	<u>3,010,954</u>	<u>2,469,718</u>	<u>4,680,002</u>	<u>2,740,340</u>	<u>1,939,662</u>
Other Professional Services						
Central service and supply	243,245	65,655	177,590	226,253	64,059	162,194
Laboratory	1,076,072	413,453	662,619	977,404	383,468	593,936
Radiology	738,933	432,266	306,667	741,089	398,713	342,376
Electrocardiology	118,188	53,897	64,291	110,513	46,652	63,861
Nuclear medicine	71,686		71,686	56,362		56,362
Pharmacy	660,789	67,049	593,740	670,598	73,113	597,485
Intravenous therapy	56,316		56,316	52,894		52,894
Respiratory therapy	328,719		328,719	333,226		333,226
Physical therapy	652,271		652,271	659,036		659,036
Occupational therapy	70,177		70,177	82,208		82,208
Speech pathology	180,825	144,374	36,451	160,678	124,855	35,823
CT Scan	387,024		387,024	422,684		422,684
Medical clinic	165,702	57,837	107,865	178,081	54,552	123,529
Rural health clinic	1,008,846	374,870	633,976	964,610	348,516	616,094
Sleep studies	63,425		63,425	58,200		58,200
CRNA services	<u>315,133</u>		<u>315,133</u>	<u>33,370</u>		<u>33,370</u>
	<u>6,137,351</u>	<u>1,609,401</u>	<u>4,527,950</u>	<u>5,727,206</u>	<u>1,493,928</u>	<u>4,233,278</u>

(Continued)

General Services

Floyd County Memorial Hospital
Schedules of Operating Expenses – Hospital
Years Ended June 30, 2007 and 2006

	2007			2006		
	Total	Salaries	Other	Total	Salaries	Other
Dietary	\$ 813,545	\$ 400,371	\$ 413,174	\$ 818,737	\$ 374,017	\$ 444,720
Operation of plant	555,920	109,812	446,108	577,943	106,510	471,433
Housekeeping	476,698	328,048	148,650	482,680	313,139	169,541
Laundry	<u>96,383</u>	<u>13,709</u>	<u>82,674</u>	<u>94,698</u>	<u>13,939</u>	<u>80,759</u>
	<u>1,942,546</u>	<u>851,940</u>	<u>1,090,606</u>	<u>1,974,058</u>	<u>807,605</u>	<u>1,166,453</u>
Administrative Services						
Medical records	362,001	237,173	124,828	361,005	215,447	145,558
Administration	2,075,070	926,269	1,148,801	1,922,396	814,674	1,107,722
Purchasing	108,103	77,326	30,777	110,426	77,461	32,965
Personnel	90,950	64,016	26,934	83,719	59,103	24,616
Insurance	<u>109,288</u>	<u> </u>	<u>109,288</u>	<u>113,748</u>	<u> </u>	<u>113,748</u>
	<u>2,745,412</u>	<u>1,304,784</u>	<u>1,440,628</u>	<u>2,591,294</u>	<u>1,166,685</u>	<u>1,424,609</u>
Depreciation	<u>790,589</u>		<u>790,589</u>	<u>664,748</u>		<u>664,748</u>
	<u>\$ 17,096,570</u>	<u>\$ 6,777,079</u>	<u>\$ 10,319,491</u>	<u>\$ 15,637,308</u>	<u>\$ 6,208,558</u>	<u>\$ 9,428,750</u>

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

Schedules of Patient Receivables

<u>Days Since Discharge</u>	<u>Amounts</u>		<u>Percent to Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
0-30	\$ 2,041,898	\$ 1,942,248	41.79%	47.65%
31-60	706,201	595,656	14.46	14.62
61-90	313,394	163,447	6.41	4.01
91-120	156,395	115,010	3.20	2.82
121-150	149,374	112,387	3.06	2.76
151 and over	<u>1,518,664</u>	<u>1,146,869</u>	<u>31.08</u>	<u>28.14</u>
	4,885,926	4,075,617	<u>100.00%</u>	<u>100.00%</u>
Clinic accounts receivable	<u>524,515</u>	<u>176,256</u>		
	<u>5,410,441</u>	<u>4,251,873</u>		
Less				
Contractual allowances	862,900	602,962		
Allowance for uncollectible accounts	<u>1,555,000</u>	<u>1,198,000</u>		
	<u>2,417,900</u>	<u>1,800,962</u>		
	<u>\$ 2,992,541</u>	<u>\$ 2,450,911</u>		

Allowance for Uncollectible Accounts

	<u>2007</u>	<u>2006</u>
Balance, beginning of year	\$ 1,198,000	\$ 1,109,000
Provision for year	643,370	607,116
Recoveries of accounts previously written off	<u>199,544</u>	<u>183,763</u>
	2,040,914	1,899,879
Less accounts written off	<u>485,914</u>	<u>701,879</u>
Balance, end of year	<u>\$ 1,555,000</u>	<u>\$ 1,198,000</u>

Floyd County Memorial Hospital
Schedules of Noncurrent Cash Transactions – Hospital
Years Ended June 30, 2007 and 2006

	Total
Balance, July 1, 2005	\$ 1,067,195
Deposits	787,443
Withdrawals	(898,670)
Balance, June 30, 2006	955,968
Deposits	1,884,638
Withdrawals	(1,947,948)
Balance, June 30, 2007	\$ <u>892,658</u>

Floyd County Memorial Hospital

Schedule of Officials – Hospital

Year Ended June 30, 2007

Name	Title	Term Expires
Board of Commissioners		
Larry Richards	Chairman	2007
Betty Held	Secretary	2009
Ross Enabnit	Treasurer	2009
Myrna Jakoubek	Member	2008
Mike Marth	Member	2008
Hospital Officials		
Bill Faust	Administrator	
Ronald James	Assistant Administrator – CFO	

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

	2007	2006
Patient Days (Exclusive of swing-bed)		
Medicare	1,794	1,900
Medicaid	266	182
Private and other	636	603
	<u>2,696</u>	<u>2,685</u>
Medicare and Medicaid Percent	76%	78%
Percent of Occupancy (Exclusive of swing-bed)	30%	29%
Discharges (Exclusive of swing-bed)		
Medicare	566	575
Medicaid	102	73
Private and other	224	224
	<u>892</u>	<u>872</u>
Average Length of Stay in Days	<u>3.0</u>	<u>3.1</u>

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

	2007	2006
Supplies		
Storeroom	\$ 148,091	\$ 171,016
Pharmacy	126,282	128,433
Surgery	243,684	214,237
Dietary	6,935	7,281
	\$ 524,992	\$ 520,967
 Prepaid Expense		
Insurance	\$ 36,383	\$ 29,465
Maintenance contracts	55,909	52,372
Memberships and dues	6,888	6,969
Workers' compensation insurance	5,213	5,286
	\$ 104,393	\$ 94,092



**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 Commissioners
Floyd County Memorial Hospital
Charles City, Iowa

We have audited the financial statements of Floyd County Memorial Hospital as of and for the year ended June 30, 2007 and have issued our report thereon dated November 15, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

Compliance with Certain Provisions of Iowa Law

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

Official Depository Banks

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

Certified Budget

Budget hearings were held and publications were made in accordance with Chapter 24.9 of the Code of Iowa. Hospital expenditures 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.

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 the Hospital and Hospital officials or employees other than those exempted by law; i.e., bankers on the Commission.

Commission Minutes

No transactions were found that we believe should have been approved in the Commission 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 was required to file an annual report of unclaimed property with the state treasurer in accordance with Chapter 556.11 of the Code of Iowa. We noted no instances of non-compliance with this requirement.

Disbursements for Equipment and Supplies

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

Criteria or Specific Requirement – Hospital management is responsible for having a policy for procuring equipment under bidding and contracting requirements.

Condition – The Board of Commissioners has not adopted a policy for procuring equipment under bidding and contracting requirements.

Context – A written policy is not in effect.

Effect – Requirements were not met under Chapter 347.13(3) of the Code of Iowa.

Cause – A written policy is not in place.

Recommendation – Management should establish a policy to set forth the requirements for procuring equipment under bidding and contracting requirements.

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

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

Chapter 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 the 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 ...” The Hospital has sought council in this matter and it was determined that the Hospital is not required to publish such items.

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

We also noted certain additional matters that we reported to the Hospital’s management in a separate letter dated November 15, 2007.

This report is intended solely for the information and use of the governing body, 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 15, 2007

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

Reference Number	Finding
None	



Board of Commissioners and Management
Floyd County Memorial Hospital
Charles City, Iowa

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

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

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

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

We observed the following matters that we consider to be control deficiencies, significant deficiencies or material weaknesses. Previously we made observations as a result of our 2006 audit engagement in a letter dated August 18, 2006.

Material Weaknesses

No matters are reportable.

Significant Deficiencies

No matters are reportable.

Control Deficiencies

Segregation of Duties

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Hospital's accounting department is difficult because of the limited number of personnel. We encourage you to limit, to the extent possible, performance of incompatible duties by individuals in the Hospital's accounting department.

During our audit, we observed the following individuals having incompatible duties within the financial statement reporting transaction cycles:

Purchases Cycle

- The Data Processing Clerks have the ability to issue and sign checks and also have certain recording responsibilities.

Revenue and Cash Receipts Cycle

- One Data Processing Clerk has access to assets and has the ability to record items to patient accounts.

Payroll Cycle

- The Personnel Manager and Personnel Assistant have the ability to issue and sign checks and also have recording responsibilities.

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 which 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.

Standard Accounting Policies and Procedures

There is little written documentation of accounting or data processing procedures. Internal control is strengthened by identifying and documenting accounting procedures and responsibilities of accounting personnel. This will also be important for the compliance program. We recommend that consideration be given to developing written documentation of controls and procedures to strengthen the Hospital's ability to continue to operate efficiently in the event of unexpected employee turnover. We understand the Hospital will evaluate the accounting policies and procedures to supplement the policies with those included with the new information system being implemented.

Charity Care Policy

Issues surrounding providing charity care or discounted care to the uninsured has been at the forefront of the health care industry and, as the Hospital is a governmental hospital that exists for the benefit of the community, we recommend adopting a charity care policy for those patients unable to pay for services. The utilization of such a policy will enable the Hospital to apply consistent application of discounts or write-offs to patients who fall within specific income guidelines.

Accounts Receivable

The accounts receivable balances have increased from 2006 to 2007 in part due to the implementation of a new computer system. We recommend the Hospital continually monitor the accounts receivable collection process to ensure once the system has been fully implemented that accounts receivable levels are reduced to the appropriate levels.

Corporate Compliance Program

The Hospital has a corporate compliance plan in place. We would encourage the Hospital to continue its efforts to implement the plan fully.

Capitalization Policy

We noted the Hospital's capital asset capitalization policy is currently set at \$2,000. We recommend considering increasing this limit up to \$5,000, which is the maximum limit allowed by Medicare. This would allow the Hospital to realize reimbursement from Medicare sooner and reduce the recordkeeping burden of these small capital purchases.

Risk Assessment Audit Standards

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

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

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

* * * * *

This communication is intended solely for the information and use of Management, the Board of Commissioners 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 15, 2007